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Jin Seok Bae

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**The Effect of Democratization on Election-Oriented Economic Policy:
Evidence from South Korea**

Committee:

Raul Madrid, Supervisor

Brian Roberts

Tse-min Lin

David Kang

**The Effect of Democratization on Election-Oriented Economic Policy:
Evidence from South Korea**

by

Jin Seok Bae, B.A.; M.A.

Dissertation

Presented to the Faculty of the Graduate School of

The University of Texas at Austin

in Partial Fulfillment

of the Requirements

for the Degree of

Doctor of Philosophy

The University of Texas at Austin

December 2015

Dedicated to my wife, Eunsook Seo and my son, Kun Bae

The Effect of Democratization on Election-Oriented Economic Policy: Evidence from South Korea

Jin Seok Bae, Ph.D.

The University of Texas at Austin, 2015

Supervisor: Raul Madrid

The purpose of this study is to explore the effect of electoral politics on macroeconomic and distributive policy in East Asian “developmental states” using empirical evidence from South Korea. Based on existing theories of political budget cycles (PBCs) and distributive politics, this study examines how democratization affects the pattern and degree of political budget cycles and targeted spending. Contrary to the bureaucracy dominance thesis in developmental state theory, I argue that authoritarian leaders in Korea had incentives to manipulate macroeconomic conditions before elections to increase the ruling party’s urban representation. The incentives for PBCs and targeted spending under authoritarian rule were, of course, smaller than that under democracy, but the constraints on PBCs and targeted spending were also smaller under authoritarian rule. I find that PBCs occurred in Korea before and after democratization and that democratization did not affect the degree of PBCs in statistical terms. Based on these

findings, I conclude that the increased constraints (checks and balances) offset the increased incentives (electoral competition) after democratization. This study also pays attention to the institutional variables that shape incumbent's preference regarding tactical allocation: the N=2 Single Non-Transferable Vote (SNTV) system under authoritarian rule adopted to increase ruling party's urban representation; the five-year single term presidency under democracy that led the president's goal to focus on preempting early lame-duck status and obtaining a graceful retirement. Based on the analysis of the institutional effect on identifying target group, I demonstrate that the main target for the incumbents during the authoritarian period was swing voters in urban areas, while the main targets for the incumbents during the democratic period were both the incumbent's core support group and opposition backers.

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Chapter 1: Apolitical Developmental States?: Theoretical Discussion on Election-Oriented Economic Policy

I. INTRODUCTION

The purpose of this study is to explore the effect of electoral politics on macroeconomic and distributive policy in East Asian “developmental states” using empirical evidence from South Korea. Based on existing theories of political budget cycles (PBC) and distributive politics, this study examines how democratization affects the pattern and degree of political budget cycles and targeted spending.

Contrary to the bureaucracy dominance thesis in developmental state theory, I argue that authoritarian leaders in Korea had incentives to manipulate macro-economic conditions before elections to increase the ruling party’s urban representation. The incentives for PBCs and targeted spending under authoritarian rule were of course smaller than that under democracy, but the constraints on PBCs and targeted spending were also smaller under authoritarian rule. I find that PBCs and targeted spending occurred in Korea before and after democratization and that democratization did not affect the degree of PBCs in statistical terms. Based on these findings, I conclude that the increased constraints (checks and balances) offset the increased incentives (electoral competition) after democratization. Furthermore, I demonstrate that the main target for the incumbents during the authoritarian period was urban areas, while the main targets for

the incumbents during the democratic period were both the incumbent's core support group and opposition backers.

A common conception is that elections affect the pattern of governments' management of macroeconomic and distributive policy and vice versa. Developmental states in East Asia, however, have been regarded as "hard cases" for detecting electoral effects on macroeconomic and distributive policy (Kwon 2005), because the role of economic bureaucrats has been exclusively highlighted in developmental state theory (Johnson 1982; Kim 1987; Chu 1989, Haggard 1990). In other words, it is assumed that the bureaucrats in these countries have decided major policies based on the long-term development objectives without taking into account short-term political considerations. Because developmental states in East Asia have faced terrific challenges regarding economic management since the late 1980s, however, some scholars have cast doubt on the possibility of a "politicized" developmental state in East Asia (Pempel 1987, Kang 2002, Kwon 2005).

Based on existing studies that challenge the apolitical nature of developmental states in East Asia, I draw two sets of research questions. First I ask questions regarding the political budget cycle:

1) Can PBC occur without electoral competition, or with a low level of electoral competition?

2) Were the bureaucrats in pre-democratic developmental states autonomous and apolitical as the bureaucracy dominance thesis argues?

3) Are PBCs in these countries a new phenomenon that came into being only after democratization?

The above questions present a theoretical challenge to the conventional wisdom that PBCs require electoral competition. If empirical analyses show that electoral incentives for an incumbent to manipulate the macro-economy existed during pre-democratization period in developmental states, this would suggest greater politicization in these countries than the bureaucracy dominance thesis holds. If the degree of PBCs between pre and post-democratization period has not changed, it suggests that the increased constraints (checks and balances) offset the increased incentives (electoral competition) for political manipulation of the macro-economy after democratization.

The second group of research questions I will address here deal with distributive politics:

1) What are the main political goals and strategies of the incumbent in each period?

2) To achieve these goals, which group was the more effective target for transferring economic resources?

3) Do opposition backers, a group that has rarely been examined in studies of distributive politics, play any role in regards to targeted spending?

There has been little effort to investigate how distributive politics may be conditional upon different institutional arrangements, the political goals and strategies of the incumbent as well as specific country contexts. If we begin to figure in these factors,

numerous questions arise to help resolve the deadlock between the “core voter” and “swing voter” arguments. When comparing the distributive patterns of the pre-democratization period with those of the post-democratization period, these country-specific questions become more important because “political bias in allocating public resources is hardly separated from each country’s institutional and cultural backgrounds” (Horiuchi and Lee 2008). Without such investigations, it is almost impossible to identify the particular political challenges that confront incumbents or presidents.

This chapter presents the theoretical framework and testable hypotheses regarding the electorally motivated economic policy. First, it outlines some of the main propositions of the electoral cycles of a macro-economy, often referred to as political business cycles, and election-oriented distributive politics, referred to as targeted spending. The second section examines why these general theories regarding electoral politics and economic policy have not been applied to East Asian developmental states, focusing on the bureaucracy dominance thesis. The third section proposes an alternative theoretical framework based on a critical assessment of the above discussion in the Korean political context. The testable hypotheses for this dissertation are summarized in the fourth section, and the expected theoretical contribution of this study is presented in the last section.

II. THEORETICAL DISCUSSION

1. General Theories on Election-Oriented Economic Policy

As Tufte (1978) points out, “the single most important fact about politicians is that they are elected. The second is that they usually seek reelection.” It is beyond dispute that reelection is the most critical concern of incumbents and thus, they try to use available resources to enhance their prospects for reelection. Economic policies—both fiscal and monetary—are their main tool for achieving this goal. Given that voters’ economic welfare is one of the most influential criteria for reelection, as the economic voting theory argues (Lewis-Beck and Paldam 2000, Powell and Whitten 1993), incumbents seeking reelection have strong incentives to improve their constituents’ economic fortunes. Scholars have explored election-oriented economic policy from the incumbents’ perspective in terms of their effective resource utilization and raised the following questions: 1) when do the incumbents use their resources and 2) who are their targets. The political business cycle theory is an attempt to answer the first question, and the distributive politics theory responds to the second question.

(1) Electoral Economic Cycles: Political Business (Budget) Cycles

When incumbent politicians face the potential risk of losing power before elections, they are tempted to manipulate current macroeconomic conditions as a way to signal their competence to otherwise uninformed voters. Building on such premise, a

significant amount of research on the Political Business Cycle (henceforth PBC) has been conducted since the publication of Nordhaus's (1975) seminal work on the political determinants of macroeconomic policy.

The main logic of pure PBC theory is simple. According to Nordhaus (1975) and Tufte (1978), voters are assumed to have short memories and lack foresight. They weigh the recent past more heavily than the distant past when evaluating incumbents on the basis of macroeconomic performance. Their preferences are for both low unemployment and low inflation, a condition which, according to the Philips curve, is incompatible since there is a trade-off between the two. Unemployment and inflation are not end-goals or preference, per se, for opportunistic incumbents whose only preference is reelection. Therefore, if they can stimulate the macro-economy before elections to signal or feign their competence, they are eager to do so. In other words, incumbents have strong incentives to manipulate economic condition to improve the likelihood of their reelection as elections approach. As a result of the incumbents' electioneering, we can observe election-motivated cycles of economic expansion and contraction.

PBC Categorization: Politician's Objectives vs. Voting Behaviors

PBC theory has two branches, one pertaining to politicians' objective functions and the other to the nature of voting behavior as shown in Figure 1-1. Traditional PBC theory characterizes politicians as identical and opportunistic, and voters as myopic and naïve (Nordhaus 1975; Tufte 1978). The traditional model (the Opportunistic-Myopic

model) has been criticized for both characterizations. Hibbs (1977) first attacked the notion that politicians are purely opportunistic, arguing that partisan governments reflect policy preferences of their supporters and select policies in their favor. According to him, right-wing parties assign more value to low inflation at the expense of lower unemployment, while left-wing parties assign greater value to low unemployment to the detriment of higher inflation. Tufte (1978) also discussed the persistently divergent views of the U.S. Democrat and Republican platforms, which reflected their supporters' socioeconomic differences. However, the early Partisan model (Hibbs 1997, Tufte 1978) assumed the myopic voting behavior of the Traditional PBC model.

Other studies have criticized the traditional PBC approach that assumes voters are myopic. Within the framework of opportunistic politicians, Rogoff and Sibert (1988) and Rogoff (1990) revised the Nordhaus model to incorporate voters' rational expectations. This new model relies on asymmetric information between voters and politicians with regard to the competence of the latter. In other words, the model proposes that voters' expectations are conditional on the information made available to them at any given time. Alesina (1987) also introduced rational voting to the partisan PBC model.

Figure 1-1. Development of Political Business Cycle Theory

		Politicians	
		Opportunistic	Partisan
Voters	Myopic (Irrational)	Opportunistic-Myopic Model - Nordhaus (1975)	Partisan-Myopic Model - Hibbs (1977)
	Rational	Opportunistic-Rational Model - Rogoff & Sibert (1988)	Partisan-Rational Model - Alesina (1997)

This dissertation applies the Opportunistic-Rational model developed by Rogoff and Sibert (1988) and Rogoff (1990) for two reasons. First, Partisan models (Hibbs 1977; Alesina 1987) are not appropriate to explain developmental states in East Asia, especially Korea, because the well-defined left-right ideological divide apparent in most industrial democracies is not as clear in these countries (Block 2002, Schuknecht 1996). As a result, East Asian countries have ideologically-skewed party systems. For example, Korea’s progressive Democratic Labor Party, which would be categorized as a left party from the perspective of most industrial democracies, emerged in 2002 as the third largest party with its first representation in the National Assembly. However, the Democratic Labor Party has not had much political influence as its seat share indicates – it only won 3.3 percent of the seats in the National Assembly in 2002-2006, and 1.7 percent in 2006-2010. There are relatively few ideological differences between the incumbents and the opposition parties in Korea since the pre-democratization period. As will be discussed in the next chapter, all the major political parties have a charismatic personal leader with a

core regional base and they have not had much ideological legitimacy or substantial policy ideas even during the post-democratization period. Thus, we cannot observe significant differences in macroeconomic policies based on partisan politics in Korea.

Second, the main object of this research is to test whether PBCs exist in South Korea and to test the effect of democratization, which is closely related to an increase in information, on political business cycles. Therefore, voters' rationality problem, which cannot be fully explored by the traditional Nordhaus model is a crucial component of this study. Given that democratization has significantly alleviated the imbalance of information between voters and incumbents, the "rational model" rather than "myopic model" is more appropriate for testing the effect of democratization on the PBC.

Policy Tool for PBC

PBC theory has also been divided according to the economic policy instruments used by incumbents, namely monetary or fiscal policy. Early models of PBC were based on monetary policy as the driving force. Nordhaus (1975) presented "how incumbents might use monetary policy to manipulate the well-known inverse relationship between inflation and unemployment (i.e., the Philips curve)" (Franzese and Jusko 2006: 475) to win votes from myopic voters. Expansionary monetary policy brings about a temporary economic boost, followed by a lag, and then an increase in inflation. According to this model, voters are naïve in the sense that "they favor incumbents who preside over low inflation and high employment/growth without fully appreciating this economic

relationship and that they weigh recent outcomes more heavily in their retrospective evaluations” (Franzese and Jusko 2006: 476). Criticizing the assumption of opportunistic incumbents in Nordhaus’s model, Hibbs argued that left-wing parties systematically prefer low unemployment at the expense of higher inflation, while right-wing parties have the opposite preference.

The PBC model based on monetary policy has been criticized conceptually and empirically. First, its assumption that the president controls monetary policy is inconsistent with Central Bank Independence theory. According to Franzese (2002b), Clark (2003) and Way (2000), election cycles are more apparent when central banks are relatively dependent. However, “the notion that the president can easily use monetary policy as an electoral tool” (Drazen 2001: 3) does not fit with the institutional facts about the relationship between the president and the central bank. Drazen also pointed out that monetary policy as the driving force for electoral cycles is not a useful description in that it assumes politicians control monetary policy.

Second, empirical support for the monetary based PBC is limited or mixed. Alesina, Cohen, and Roubini (1992) found only weak evidence of a political monetary cycle in the postwar period. The same conclusion was reinforced in Alesina, Roubini, and Cohen’s (1997) study on the period 1949-1994. Faust and Irons (1999) observed that Democratic administrations have lower average inflation than Republican administrations in the first half of their terms, but inflation has risen under Democrats and fell under Republicans. Beck (1987) and Grier (1989) also discovered that there were no cycles in monetary instruments for instance reserves or the federal funds rate during an U.S.

election year. They found that passive political monetary cycles were caused by fiscal instruments.

An alternative approach is to view fiscal policy as the key driving force of pre-electoral manipulation in developed countries. Tufte (1978) showed a number of clear incidents of pre-electoral opportunistic manipulation of fiscal transfers including both social security payments and veterans' benefits. Keech and Pak (1989) detected an electoral cycle for veterans' benefits in the United States during the 1961-1978 periods. Similarly, Alesina (1987) showed that there was an electoral cycle in net transfers during the 196-1985 period, but the electoral effect disappeared when the sample incorporated periods going back to 1949. Alesina, Cohen, and Roubini (1992) as well as Alesina and Roubini (1997) also presented evidence of an opportunistic cycle in transfers, although they argued that there was no evidence of a fiscal cycle in fiscal policy except for that involving transfers. As illustrated in detail later in this chapter, recent research has found that fiscal policy is also strong in developing countries.

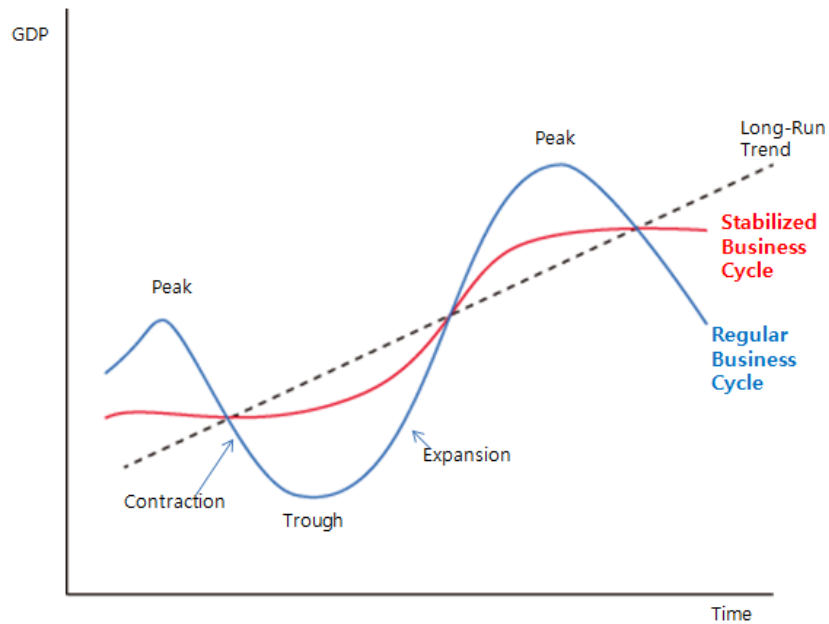
A reasonable interpretation for the above empirical results is that fiscal policy, including fiscal transfers and public spending increases, is the preferred vehicle for policy makers to boost their popularity before elections, given that the policy typically has a direct and immediate impact on voters' welfare (Schuknecht 1996). At the same time, compared with monetary policy, fiscal policy can be easily used by incumbents without interference from a monetary authority such as the central bank. Models that investigate economic manipulation through monetary policy are theoretically limited and empirically weak. By contrast, models that focus on fiscal policy manipulation provide a more

convincing theoretical and empirical framework (Drazen 2001, Franzese and Jusko 2006, Schuknecht 1996, Shi and Svenssen 2002). Thus, Drazen (2001) proposed the “Active-Fiscal and Passive-Monetary” model for the analysis of both developed and developing countries, arguing that the role of monetary policy in a political business cycle is more “passive.” Building on recent research, this study focuses on fiscal policy as an electoral tool for incumbents.

PBC from the Perspective of Economists

Stabilization, alongside allocation and distribution, is the main function of fiscal policy. Government budgets, especially the use of taxes and expenditures, can cause a fluctuation or business cycle in a country’s overall economic activity. As shown in Figure 1-2, a typical business cycle is comprised of four parts: contraction, expansion, peak and trough (blue line). The two most notable problems in the macro-economy are inflation and unemployment. The unemployment rate increases during a contraction but decreases during an expansion, while inflation tends to move in the opposite direction.

Figure 1-2. Regular Business Cycle and Stabilized Business Cycle



Most PBC literature employs the term “manipulation” when referring to fiscal policy before elections since the kinds of incumbent responses that use fiscal policy before elections are against mainstream macro-economic prescriptions. Standard Keynesian theory argues that a government should use counter-cyclical policies to lessen the impact of the business cycle as shown in the above Figure 1-2 (red line). In other words, the government should either increase spending or reduce tax rates during recessions in order to stimulate aggregate demand and partially prevent the economy from under-employing resources for prolonged periods of time. During expansions, the government must do the opposite in order to “cool off” the economy and contain inflationary pressures (Hibbs 1977).

According to the neoclassical tradition (Barro 1979, Lucas and Stokey 1983), spending programs and tax rates should be set based on long-term considerations and should not respond to business cycle movements. Thus, fiscal policy should not be used for demand management purposes. During expansion when both economic activity and tax revenues are high, the budget surplus should improve and debt should be retired, while during recessions, both economic activity and resulting deficits should be financed by issuing debt.

Taking into account both the mainstream Keynesian and neoclassicist concerns, we reach the conclusion that incumbents' use of PBC to enhance their prospects for reelection likely hurts a country' macro-economy in the long-run.

PBC from the Perspective of Political Scientists

Given that reelection is the most critical concern for politicians and political business cycles are unavoidable, political scientists should focus on the institutional, structural, and strategic context of PBC in their contributions of the analysis. The current wave of studies on PBC has shifted to understanding how PBC may be conditioned by different institutional arrangements (Alt and Lassen 2006, Brender and Drazen 2005, Clark and Hallerberg 2000, Chang 2008, Franzese 2002a, Franzese and Jusko 2006, Persson and Tabellini 2003, Shi and Svensson 2003). Specific hypotheses regarding context-dependent political economic cycles are proposed in three different trajectories. First, politicians' fiscal policy incentives with respect to electoral rules and electoral

accountability are examined (Persson and Tabellini 2003). Persson and Tabellini show that wasteful spending is smaller and tax cuts are greater in a single member district (SMD) electoral system than in a proportional representation (PR) system. Persson and Tabellini explain this with a “career concern” model of policy making by politicians. In other words, since politicians in SMD systems are more individually accountable than are politicians in PR systems where they are collectively accountable via party lists, the former have a tendency to reduce wasteful spending whereas the latter, tend to increase wasteful spending reflecting a common pool problem. Advocates of this approach argue that electoral rules determine the nature of public spending and contrast broad spending programs versus geographically targeted programs (Chang 2008, Lizzeri and Persico 2001, Persson and Tabellini 2003). Politicians in PR systems have a selective affinity with broad spending programs, such as social welfare and national public goods, while politicians in SMD systems tend to employ geographically targeted programs, such as targeted transfers and local public goods, because the two systems encourage politicians to seek different groups of supporters. The politicians’ concern in a PR system is to gain support from a larger group in the national electorate via broad spending programs, while politicians in SMD systems are more narrowly focused on a smaller electorate group in a specific region.

The final addition to the scholarship is the veto players approach (Chang 2008, Franzese 2002, Tsebelis 2002). Since electoral budget cycles imply changes in the existing budgetary structure during elections, incumbents are less capable of manipulating budgetary cycles in a multiple veto player environment. Following this line

of thought, a PR system has more veto players than a SMD system because a PR system leads to a multi-party system and a SMD system induces a two-party system, as Duverger's theorem indicates. This means that electoral cycles are less likely to occur in a PR system which has a higher number of veto players than in a SMD system with a lower number of veto players. This argument contradicts the wasteful spending theorem (Persson and Tabellini 2003). Although Chang (2008) does not explicitly draw out the contradiction between his reasoning and Persson and Tabellini's (2003), he tries to resolve this contradiction by employing Tsebelis' (2002) categorization of veto players. According to Tsebelis, there are two types of veto players: partisan veto players, which are the political parties in the ruling coalition; and institutional veto players, which are constitutionally formal organs related to policy making. Chang (2008) argues that "the incumbent's potential for changing an existing policy outcome is negatively related to the number of veto players and the ideological distances among these players." Thus, Chang argues that, in general, "the budgetary cycles take the form of higher district spending under the SMD systems and higher social welfare spending under the PR systems." He adds that the magnitude of budgetary cycles is reduced under a multiple veto player structure. He does not explain explicitly, but it can be inferred that if the ideological schism among parties in a coalition government is small, then a PR system has weak or no social welfare spending cycles. In a similar vein, if incumbents under a SMD have multiple veto players in the process of budget policy making, the SMD system has weak or no district-specific spending cycles.

These models have been widely used to analyze developed democracies, but they have rarely been applied to cases of developing or newly-democratized countries because most PBC theories assume that PBC requires electoral competition as an incentive structure for politicians. Thus, there has been a tendency to exclude developing countries in PBC analysis, given that most developing countries have low levels of electoral competition. However, there are ample reasons to examine the possibility of PBC in developing or pre-democratic countries. Intuitively, if rational incumbent politicians have both an incentive and ability to manipulate economic conditions before elections, there are no reasons for them not to do so. Empirical analyses also support this intuition. While evidence of PBC in OECD countries has been mixed (Alesina et al. 1997; Kiefer 2000), some studies on less developed countries have found empirical evidence that is consistent with the opportunistic model of PBC theories (Block 2000, 2002; Schuknecht 1996; Drazen 2001; Gonzalez 2002, Shi and Svensson 2002). In sum, since most of the PBC literature has focused on incentive structures rather than on combining incentive and constraints for PBCs, the PBC models in developing countries have not been fully explored.

(2) Election-Motivated Distributive Politics: Targeted Spending

From the incumbent's perspective, distributing transfers toward a specific region or group may be more advantageous than macroeconomic policies in bringing about

desired political effects. Put simply, particularistic goods are more efficient tools than programmatic goods in buying votes.

Targeted Spending and Electoral Institutions

Two questions can be raised here. First, what conditions are most favorable for targeted spending? Second, for electoral purposes, which groups should be targeted? We discussed the first question in the previous section, focusing on the relationship between electoral rules and the nature of public spending before elections. A PR system has a selective affinity with broad programs, such as social welfare and national public goods, while the SMD system leans toward geographically targeted programs, such as targeted transfers and local public goods (Chang 2008, Lizzeri and Persico 2001, Persson and Tabellini 2003). The above discussion is relevant to PBC theory, but the main logic can be applied generally to distributive politics.

District magnitude or the number of members of the legislature elected per district is also important with regard to this question. According to Carey and Shugart (1995), district magnitude is negatively associated with targeted spending. If legislators are elected under a multi-member system and a closed-list proportional representation system, then the president may have difficulties in helping certain regional candidates with local selective goods, while if legislators are elected under a single-member plurality system, then the president will be able to help his/her supporters' claim credit for local selective goods.

Core Supporters vs. Swing Voters

What is important for the purpose of our discussion here, however, is the second question – whom to target. The literature regarding this question divides the electorate into three groups – core supporters, swing voters, and opposition backers (Cox and McCubbins 1986, Horiuchi and Lee 2008). These groups differ in the degree of affinity between voters and parties. The literature on electoral effects and distributive patterns in resource allocation has produced two varying theoretical propositions. Some scholars have suggested that incumbents are better off allocating public expenditures to their core support group (Cox and McCubbins 1986), while others argue that targeting swing voters is better for the incumbents since this group are more likely than other groups to “swing” contingent on targeted material benefits (Dixit and Londreagan 1996). Schady (2000) discusses these competing arguments with the following function:

“Define R_i to be the change in the probability that voter i will vote for the incumbent as a result of a unit change in net transfers. R_i is therefore a measure of the “political productivity” of net transfers to different voters:

$$R_i = g(y_i, a_i) \quad - (1)$$

where y_i is income, and a_i is a time-invariant measure of the “affinity” between voter i and the incumbent. This affinity could include voter i 's perception of the incumbent's character, or the ideological proximity between voter i and the incumbent. I assume that the parameter a_i ranges from $-\infty$ to ∞ , which represent strong dislike and like for the incumbent, respectively.”

The “core supporters” model suggests that the net value of the political elasticity of the targeted transfers is greater among core electoral supporters. R_i is largest when economic resources are transferred to voters with a positive and large value of a_i . That is, the likelihood of voting for the incumbent is highest when transfers are made to loyal voters. The above explanation suggests two insights. First, this model assumes that incumbents are risk-averse since they know the core supporters’ preferences and desires quite well, while they do not know the swing voters’ and opposition backers’ preferences and desires (Schady 2000). Thus, transferring economic resources to the core voters is a safe investment, while transferring them to swing voters or opposition backers is a riskier proposition. Second, this model can be inefficient given that the likelihood of betrayal of core supporters is relatively low when they are not the beneficiaries of the transfer. In sum, the “core supporters” model predicts that incumbents favor their core electoral supporter groups. Instead of targeting voters whose affinity is less likely to be close to the incumbent, office-seeking politicians always choose to strengthen the electoral base they have cultivated over time.

The “swing voters” model argues that politicians should avoid core supporters and instead target swing voters because this is a more efficient strategy. Using Schady’s function above, the net value of R_i is largest when transfers are made to swing voters with a value of a_i close to zero. That is, the net value of political elasticity of targeted transfers is greater among swing voters. The basic assumption of this model is that the core supporters and opposition backers are less responsive to material benefits. In addition,

even though this strategy is somewhat risk-acceptant from the incumbents' perspective, swing voters are ideologically indifferent to the incumbents and more responsive to material incentives (Lindbeck and Weibull, 1987; Dixit and Londregan, 1996). Proponents of the model contend that the incumbents need not waste precious resources on rewarding core supporters who (it is assumed) share the same underlying ideological motivation and thus will vote for them anyway. Rather, the amount of transfers a region receives from the central government is expected to be positively correlated with a higher density of swing voters.

As the name implies, swing voters are typically defined as voters that swing back and forth between parties. Broadly speaking, there are two ways to identify core or swing voters in an empirical analysis. One is to use survey data with a scale that measures each voter's comparative assessment of major candidates or parties. In American politics, the Democratic standard bearer is located at one end of the scale (-100, for convenience) while the core Republican is located at the other side of the scale (+100). By contrast, swing voters usually occupy the area at or near zero on the scale. They may like or dislike both candidates equally; thus, they have a more even or balanced set of attitudes toward a candidate or a party. In this vein, swing voters often overlap with median voters. However, a median voter's group reflects the general pattern of voters' attitudes towards a candidate or a party and thus can be understood as a static concept, whereas a swing voters group that swings back and forth on different issues due to ideological indifference can be seen as a dynamic concept that describes voters' behavioral patterns.

The second way of identifying core or swing voters is to use aggregate voter returns from previous elections (Schady 2002, Dahlberg and Johanson 2002, Hiskey 2003, Calvo and Murillo 2004, Magaloni 2006, Magaloni, Diaz-Cayeros and Estevez 2006). As Selb (2009) points out, “because ex ante information such as forecasts based on pre-election polls are usually not available for all the districts of a given electoral system, there is virtually no alternative to using ex post measures.” Thus, swing voters are usually inferred from the margin of victory, assuming that “tight electoral races would signal a greater density of swing voters” (Diaz-Cayeros 2008: 132). Although this measure is not perfect,¹ it is the most widely used approach in empirical analyses.

Much effort has gone into testing the validity of these two competing models, but the empirical evidence has diverged. Some studies including those by Stein and Bickers (1994), Shady (2000), Dahlberg and Johansson (2002), Denmark (2000), and Stokes (2005) find empirical support for the “swing” hypothesis, while others including Ansolabehere and Snyder (2003), Hiskey (2003), and Diaz-Cayeros, Estevez, and Magaloni (2008) report evidence that validate the “core” model. These two competing models each has a solid logic. Political parties in the “swing” model are motivated by short-term considerations to expand their electoral base at election time, while parties in the “core” model are motivated by long-term concerns to maintain their electoral coalitions with core supporters over time. As a result, parties in the both models face a strategic dilemma. When they try to expand their electoral base by attending to groups

¹ For further discussion on the imperfect proxies, see Stokes (2005), Diaz-Cayeros (2008), Diaz-Cayeros, Estevez, and Magaloni (2008).

outside the core, parties may risk losing the loyalty of their core supporters. By contrast, if they focus on attending to the core, parties may risk losing elections in the short term in order to strengthen their electoral base in the long term. Given the zero-sum relationship between these two models, the decisions of political parties regarding targeted spending depend on the strategy that political leaders set based on their political objectives. An interesting finding from this line of research is that there has been little effort to investigate how these two competing theories may be conditional upon different institutional arrangements and political objectives of the incumbents under certain conditions. This will be discussed in detail in a later section of this chapter.

2. Hard Cases for Election-Motivated Economic Policy: East Asian Developmental States

(1) Bureaucratic Dominance Thesis

The developmental state theory has been a dominant approach to explaining the remarkable economic success of East Asia's newly-industrialized countries (NICs). Johnson (1982), the pioneer of the concept of developmental state, defines the developmental state as a "plan-rational" as opposed to a "market-rational" state in which the state's "orientation is developmental rather than regulatory." In these countries, economic success did not stem from free market policies as the neo-classical economists have argued. According to Amsden (1989), Korea is the prototype case of a "guided

market economy” in which market rationality has been constrained by the priority of the state’s ends. The state has been a key player in this process. The role of the state goes far beyond the prescription of neo-classical economists. In addition to providing fundamentals and regulating the market for fair competition, the state has performed a strategic role in “taming domestic and international forces and harnessing them to national economic interest” (Onis 1991).

A central component of the developmental state model is strategic industrial policy. From the perspective of neo-classical economics, the NICs have few comparative advantages. The survival strategy that the NICs have adopted is export-oriented industrialization. The states choose which industry to develop for the sake of future competitiveness in the world market and select who will enter the industry. Using various policy instruments, the NICs have established incentives to promote exports and barriers to protect targeted industries. In order to realize their goals, they often pick “winners,” and they even “make winners.” They often intervene in price setting by deliberately distorting prices to induce the private sector to make decisions that serve the government’s goals. Policy instruments that these states employ range from credits to incentives, import and export controls, control of foreign exchange, subsidies, and so on. Based on Johnson’s (1982) analysis, Amsden (1989) and Wade (1990) explored East Asian industrial policy and proposed a “governed market” or “guided market” theory that characterizes these states’ actions. As the remarkable economic growth in the developmental states shows, the state-led industrial policies have yielded positive outcomes. As a result of successful industrial policies, the East Asian NICs have been

highly competitive in the world markets and have adapted themselves with flexibility to exogenous changes in economic environments.

How can developmental states intervene successfully in industrial policy? Scholars have responded to the above question using the concepts of “state capacity” and “state autonomy” (Johnson 1982, Evans, Rueschemeyer and Skocpol 1985, Wade 1990, Amsden 1989, Haggard 1990, Deyo 1987). Although “state capacity” and “state autonomy” have been defined in various ways in different theoretical and empirical contexts, they are defined here as follows: “State capacity” is the ability to administer programs and extract resources (Skocpol 1985). According to Johnson (1987), state capacity depends largely on the policy instruments of a government. “State autonomy” simply means that the state can achieve “relative independence or insulation from the demanding clamors of special interests (whether class, regional or sectoral) and that it both can and does override these interests in the putative national interest” (Leftwich 1995: 408).

The relationship between a state’s autonomy and its capacity has been rather ambiguously defined. As Crone (1988) notes, sometimes capacity is equated with autonomy, and sometimes the terms are explained separately. Regarding this ambiguity, it should be noted that “autonomy” in many cases does not mean isolation. As Evans (1995) points out, the reality is more like “embedded autonomy.” That is, state bureaucracies have become embedded “in a progressively dense web of ties with both non-state and other state actors (internal and external) through which the state has been able to coordinate the economy and implement developmental objects” (Evans 1992).

Going back to the case of developmental states, proponents of this line of thought argue that state intervention that has been effective in implementing strategic industrial policy has resulted in an unusually high degree of bureaucratic autonomy and public-private cooperation. In the Korean case, a competent bureaucracy should cooperate with big business corporations or the so-called “chaebol” to encourage the corporations to invest in targeted industries to meet the state’s long term goals, using various policy instruments. At the same time, an autonomous bureaucracy should favor the long-term national interest over individual or collective private interests. Therefore, the developmental states’ successful industrialization has been ascribed to the strong and competent bureaucratic dominance over the parochial interests of the private sector (Johnson 1982, Evans, Rueschemeyer and Skocpol 1985, Wade 1990, Amsden 1989, Haggard 1990, Deyo 1987).

From a comparative perspective, therefore, the coexistence of an unusually high degree of bureaucratic autonomy and public-private cooperation in the East Asian developmental states is a rare and unique phenomenon. How did the bureaucracy attain autonomy? Why does the bureaucracy not seek rent as is very common in other contexts, regardless of its close relationship with the private sector such as the *chaebol*?

Johnson (1987) proposes an answer to the first question. First, political leaders (presidents) are concerned that politicians will politicize policy formation if they become involved in the process because politicians will seek popular support to ensure their political survival for a short period of time by attempting to manipulate economy. To avoid this problem, political leaders depoliticize economic policymaking process by

delegating their policymaking power to the hands of economic bureaucrats. Second, economic bureaucrats are qualified elites, employed through an extremely meritocratic form of recruitment. Furthermore, compared with other politicians, they have more expertise in their committed fields. The president or political leaders, then, can monitor and check up on the mini-sized economic bureaucracy.

Johnson's explanation, however, is somewhat biased towards the president's point of view--that is, Johnson's president or political leader is too altruistic. Given that the president is also a politician, the assumption that all politicians, except the president, are opportunistic seems unrealistic.

The second question is related to the inherent tension between autonomy and accountability in a bureaucratic system and how this tension can be alleviated. According to the developmental state literature, developmental states have implemented several mechanisms to deal with the fact that power granted to bureaucratic elites may be misused in the absence of an external monitoring and a check-and-balance system (Johnson 1982; 1987, Evans 1989; 1995, Wade 1989, Amsden 1990, Onis 1991). First, pilot agencies, such as the Economic Planning Board (EPB) in Korea and the Ministry of International Trade and Industry (MITI) in Japan, constituted by an extremely small number of elite bureaucrats were established in adherence to international standards (Onis 1991). The small size of the pilot agency helps to consolidate the elite position of economic bureaucrats in society, on the one hand, while allowing the president to easily exercise control over them (Evans 1995). Second, the implicit political division of labor between politicians and bureaucrats alleviates the tension between autonomy and

accountability in a bureaucratic system. As Johnson (1982: 20-21) points out, “politicians reign while bureaucrats rule.” Thus, an elite bureaucracy “makes most major decisions, drafts virtually all legislation, controls the national budget, and is the source of all major policy innovations in the system,” while politicians “provide the space for bureaucrats to rule by holding off special interest claimants who might deflect the state from its main developmental priorities, and ... legitimate and ratify the decision taken by bureaucrats.” Third, certain elements of civil society restrain the bureaucrats’ power to an extent in spite of the inherent weakness of civil society in the East Asian context. Amsden (1990), for example, demonstrated the relatively strong influence of hyperactive student movements in Korea in checking the abuses of bureaucratic and governmental powers.

To sum up, bureaucratic dominance theorists conclude that economic bureaucrats in the East Asian developmental states have been able to make main decisions based on long-term development objectives without taking into account short-term political considerations or pressures from politicians as well as the private sector. Therefore, the ability of developmental states, especially Korea, to achieve successful industrialization has been ascribed to strong and competent bureaucratic dominance over the parochial interests of the private sector.

(2) Demise of Developmental States?

As the twentieth century drew to a close, developmental states in East Asia faced tremendous challenges regarding economic management. In short, Japan faced a decade-

long slump, while South Korea suffered from a financial crisis and Taiwan experienced a recession. According to various scholars, two factors, by and large, have explained this drastic downturn (Moon 1999, Cheng and Krause 1991). First, democratization introduced electoral competition in Korea and Taiwan and altered the countries' macroeconomic policy priorities from growth promotion to growth plus redistribution, as the previously neglected segments of society began to voice their demands and needs. Second, globalization has eroded the ability of governments to strategically intervene in the economic domain for the purposes of achieving international competitiveness. The weakening of developmental states is related to, but nonetheless separate from, democratization and globalization. Although the shocks are critical for understanding the decline of the developmental state (Kim 1993), Korea experienced these three phenomena—democratization, globalization, and the decline of the developmental state—concomitantly from the mid-1980s to the mid-1990s.

Critiques of the developmental state literature, especially those that focus on the “bureaucracy dominance” thesis, can be divided into two positions for convenience. The first position suggests that bureaucratic dominance in developmental states has been undermined, but not entirely eliminated, by external challenges, such as globalization, or internal challenges, such as democratization. The second position stipulates that bureaucracy dominance is an illusion regardless of challenges.

The first position argues that developmental states have declined as a consequence of external and internal challenges. In the case of Japan, a growing number of scholars acknowledge the decline of the developmental state which had once enjoyed a

miraculous economic development. By the 1980s, Pempel (1987) claimed that Japanese policy making was far more complex and less coherent than two decades earlier. According to him, the hegemonic powers of the bureaucracy decreased while the influence of the ruling LDP increased. In a similar vein, Callon (1995) argued that MITI's industrial policy regime collapsed as the Japanese economy transformed from a "catch-up" follower to a "caught-up" economic superpower in the period of 1975-1985. Simply put, the advantage of the latecomer (Gerschenkron 1962) has expired. As a result, the paradigm of coherence and cooperation that had marked the relationship between MITI and private companies was replaced by competition and conflict.

In the case of Korea, democratization and globalization simultaneously eroded the developmental state. Electoral politics is said to be a negative side-effect that democratization has introduced to macroeconomic policy-making decisions in a developmental state (Cheng and Krause 1991, Moon and Kim 1995, Kim and Mo 1999). In other words, without the assurance of long-term tenure, politicians in new democracies have little incentive to implement a long-term vision of policy-making (Chu 1989, Kim and Mo 1999). The autonomous and competent bureaucracy insulated from political influence was regarded as a positive characteristic during the previous developmental period. By contrast, the risk of losing power that democratization has introduced has eroded the autonomy of bureaucrats from political interference.

As noted above, the first approach falls within the boundaries of Johnson's argument and focuses mainly on the degree of bureaucratic dominance in different policy sectors or in different external environments. The second position, by contrast, casts

doubt on the existence of bureaucracy dominance itself. However, the most provocative challenge to the bureaucracy dominance thesis comes from rational choice approaches. Ramseyer and Rosenbluth (1993) directly subvert Johnson's thesis, arguing that Japanese bureaucrats are nothing more than the agents of ruling Liberal Democratic Party (LDP) politicians. Whereas Callon (1995), Calder (1988) and Pempel (1982) claimed that bureaucracy was dominant during Japan's high-economic growth period but gradually lost prominence afterward, according to Ramseyer and Rosenbluth, bureaucracy dominance did not exist even before the 1970s.

Ramseyer and Rosenbluth employ a "principal-agent" model in explaining Japanese policy making. According to them, political actors are principals while bureaucrats are agents. These two actors compete in a political market to maximize their self-interests as rational actors. The principal (LDP) delegates power to the agent (bureaucrats) who make and carry out policies that adhere to the principal's aims and strategies. Bureaucrats seem to be dominant, taking the initiative in making policy and drafting legislation, because they have more knowledge and expertise in their fields. In reality, however, they are just allowed to do so by the principal. The principal (LDP) can monitor and control their actions, and even punish bureaucrats if they act inconsistently with its interests. Sanctions are a vital condition for the principal to ensure that the agent complies with the conditions of the contract. The principal has various tools for control. Those include veto power over the bureaucrats' policy proposals and legislation, and control over the bureaucrats' careers through promotions and postings even post-retirement. In this sense,

according to Ramseyer and Rosenbluth, Japanese bureaucrats are never dominant. Rather they are just the agents of LDP politicians.

Ramseyer and Rosenbluth's theoretical explanation is supported by McCubbins and Noble's (1995) empirical study that examines differences in policy making in the U.S. and Japan. McCubbins and Noble emphasize the distinction between the "abdication" of authority by politicians to bureaucrats and "managed delegation." According to Johnson (1982), bureaucratic dominance is the abdication of authority. However, as McCubbins and Noble point out, politicians delegate the authority to bureaucrats and they can control, manage, and withdraw authority in any case. Whereas politicians reign while bureaucrats rule under Johnson's bureaucratic dominance thesis, politicians reign and rule in terms of the rational choice approach.

Another challenge to the conventional bureaucracy dominance thesis is Kang's (2002) study. He criticizes the bureaucracy dominance thesis by citing numerous corruption cases in Korea where money and political considerations dominated policy making. Kang (p.172) argues that "politics drove policy choice even at the height of Park Chung Hee's rule, bureaucrats were not independent of political interference in setting policy, and business and political elites wrestled with each other over who would reap the rents to be had." He argues that money politics was more pervasive in Korea than the conventional wisdom allows. According to Kang, the reality of corruption and politicization of bureaucrats was concealed or was dismissed out of hand because economic growth was so spectacular.

Kang's research is regarded as a direct challenge to the conventional bureaucracy dominance thesis in that it shows that the politicization of the bureaucracy was widespread at the height of the developmental state in Korea. However, Kang also observes that democracy boosted the role of money politics after 1987. In other words, the bureaucracy was certainly politicized during the pre-democratization period but, politicization of the bureaucracy was aggravated by democratization. This argument is comparable to the "decline of developmental states" thesis that the bureaucracy was neutral and depoliticized during the pre-democratization period but politicized after democratization. It is also different from Ramseyer and Rosenbluth (1993) and McCubbins and Noble (1995) who criticize Johnson's bureaucracy dominance thesis regardless of the time period.

(3) No Electoral Politics in Developmental States?

So far in this chapter, I have examined the possibility of the existence of a "politicized" developmental state in East Asia against the critics that suggest the otherwise. Very few studies, however, have focused on the PBC in East Asian developmental states (An 2002, Kwon 2005). As noted earlier, this is because conventional wisdom has long given credence to the "bureaucratic dominance" theory in explaining the political economy of these countries. Moreover, most of the literature on both the developmental state and PBC has treated electoral effects on economic policy as

inconsequential because these countries seemed to have relatively low levels of electoral competition under authoritarianism.

However, it should be noted that these countries typically had periodical elections even under authoritarian regimes, unlike most authoritarian countries in Latin America. In these countries under authoritarianism, elections had been viewed as “the principal means of obtaining and exercising political authority” (Levitsky and Way 2002) although democratic rules were widely and often violated by authoritarian incumbents in the form of electoral fraud, political repression, and manipulating the rules of representation and so on (Case 1996, Joseph 1998, Schedler 2002a, Schedler 2002b). In recent studies, these types of political regimes are referred to and classified as “electoral authoritarianism” or “competitive authoritarianism.” Although these regimes have low levels of electoral competition, the incumbents have regularly tried to “distort and control the electoral process in order to minimize the risk of defeat” (Schedler 2002a). Given that authoritarian governments in the East Asian countries did have elections and were under pressure to perform economically (Yap 2005), we can speculate that the authoritarian incumbents had greater incentives for PBC than conventional theories hold. Furthermore, since the characteristics of developmental states have changed due to the spread of democratization and globalization, there are reasons to reexamine the effects of electoral politics on economic policy before and after the democratization era.

3. Alternative Theoretical Explanation to General Theory on Election-Oriented Economic Policy

This section outlines alternative approaches to a general theory of election-oriented economic policy. Based on the theoretical discussion presented in the previous section of this chapter, I propose alternative approaches to Political Budget Cycles and Distributive Politics in relation to the democratization effect on the election-oriented economic policy and its subsequent institutional changes.

(1) Alternative Approach to Political Budget Cycles

Before proposing an alternative approach to the application of PBC theory to developmental states in East Asia, I will first identify the key questions at hand:

- Can PBC occur without electoral competition or with a low level of electoral competition?
- As the bureaucracy dominance thesis argues, were bureaucrats in pre-democratic developmental states actually autonomous and apolitical?
- Are the PBCs in these countries a new phenomenon that came into being only after democratization?

As I discussed in Section 1, applications of PBC models have focused mostly on developed democracies rather than on developing countries or newly democratized

countries. This is because most PBC theories assume that PBC requires sufficient electoral competition to create the appropriate incentive structure for politicians. Moreover, mainstream PBC theories implicitly assume an executive has full discretion over a nation's fiscal policy, neglecting the impact of check-and-balance mechanisms, such as that practiced by the legislature in the budget process. The check-and-balance role can also be played by civil society which may monitor the budget through the media during an election campaign. Recent studies have begun to challenge the above assumptions. While empirical evidence of PBC in OECD countries has been mixed (Alesina et al. 1997, Kiefer 2000), studies on less developed countries, which have a low level of electoral competition, have found empirical evidence that is consistent with the opportunistic model of PBC theories (Shi and Svensson 2002, Block 2000).

The above findings cast doubt on the existing theoretical framework which has focused exclusively on the incentive structure for PBCs. Alternatively, we can derive a PBC function as $P_i = f(I_i, C_i)$, where P_i is the individual politician's action for PBCs; I_i is the incentive for PBCs; and C_i indicating the constraint in maneuvering PBCs (checks and balances). If $I_i > C_i$, we can expect that incumbents will try to manipulate economic conditions. Otherwise, the likelihood of PBC will decrease. Simply put, the magnitude of difference between incentives and constraints will determine the likelihood of PBC.

This framework will allow us to detect the existence of PBCs in developing countries or newly democratized countries that have low levels of electoral competition. Following this framework, we expect that PBC can occur in a political environment with a low level of electoral competition under non-democracy only if incentives for PBC are

greater than constraints. Indeed, the incentives for PBC under non-democracy are smaller than under democracy, but the constraints on PBC under non-democracy are also smaller than under democracy. The main constraint on PBC is a strong legislature. Exercising fiscal control through budget review and overseeing executive activities and law-making, are the most important responsibilities of the legislature. However, the legislature's power to exert fiscal control under authoritarian rule is generally very restricted, and as a result, they are often labeled "rubber stamp" Legislatures. As will be discussed in Chapter 2, authoritarian leaders in Korea tried every possible means to diminish the power of the legislature including its power to conduct budget reviews. Authoritarian leaders in some Latin American countries such as Argentina and Chile even abolished the legislature. In addition to the legislative body, free press and civil society associations that monitor the activities of administrative organs and the council also constrain the political manipulation of economy. Free press in particular alleviates the asymmetric information between voters and politicians and therefore can play a significant role.

With this model, we can test whether there have been PBCs in the case of developmental states in the East Asian countries which have been regarded as "hard" cases for detecting PBC. This study predicts that PBCs existed under authoritarian rule and that democratization did not have a significant impact on PBCs because the increased constraints (checks and balances) offset the increased incentives (electoral competition) after democratization.

(2) Identification of Target Groups

As we have seen in Section 1, the “swing voters” model and the “core supporters” model used to explain an incumbent’s target spending both have a solid logic behind them. Furthermore, scholars have tested and found empirical data that validate both competing models. In order to break this deadlock, we need to evaluate how these two competing theories may be dependent on the different institutional arrangements and political objectives an incumbent faces.

One of this dissertation’s main goals is to analyze and compare patterns of targeted spending between authoritarianism and democracy using South Korea as a case-study. Therefore, the objectives of an incumbent in control of an authoritarian regime who allows regular elections must be understood before delving into the targeted spending analysis. According to recent studies, elections under authoritarian regimes have various objectives (Joseph 1999, Bratton and van de Walle 1997, Gandhi and Przeworski 2006, Magaloni 2006). Elections in an autocratic regime function as a means to regularize the share of power among ruling party politicians. In addition, elections disseminate public information about the regime’s dominance so as to discourage defections from and challenges to the ruling party. By holding regular elections that guarantee a landslide win for the ruling party every time, the ruling party generates a public image of invincibility. In turn, the elections provide information to the regime about supporters and opponents. Thus, for a hegemonic-party regime, an election is used for gathering information about the extent of citizens’ support and its geographical

distribution. Lastly, elections serve the pragmatic goal of trapping the opposition within the existing system so that it will not resort to a violent means of protest. By selectively co-opting its opponents through elections, an autocracy prevents its opponents from forming a unified front and rebelling against the regime.

Drawing from previous research, we can speculate that an autocratic regime would employ varying election strategies depending on the regime's objectives. In an autocratic regime, elections are often tampered with through the manipulation of electoral rules, gerrymandering, and electoral fraud, and therefore, the regime rarely loses power in elections. There are many reasons an autocratic regime holds elections, but there are mainly two advantages it could gain from election results. If the purpose of the authoritarian regime to hold an election is to intimidate the opposition by showing its superiority through a landslide victory, the regime would discriminate against the opposition in allocating material expenditures. This could weaken and eventually eliminate the opposition. Counter-intuitively, however, this could also motivate the opposition to unify and consolidate. If, on the other hand, the purpose is to coopt the opposition, the regime would concentrate material expenditures on swing voters and opposition backers.

In addition, the degree of core supporters' loyalty also influences an autocratic regime's targeted spending decisions. Early studies on targeted spending assumed that partisan loyalty is exogenous to the decision to channel resources to core supporters. According to Cox and McCubbins (1986: 380), "core support groups will be totally unresponsive to material benefit." However, as Cox and McCubbins (1986: 382)

acknowledge, “it seems irrational in the long-run for any group to be totally unresponsive to redistributions of welfare.” According to a study that analyzed redistributive politics in Mexico between 1970-1988, “poor voters in vast areas of the developing world not only respond more to transfers than to ideology, but their partisan loyalties are significantly more responsive to these transfers than to symbolic appeals” (Diaz-Cayeros, Estevez, and Magaloni 2008: p.7). Under conditions of “high electoral volatility or where a party’s base of support is likely to fade away unless the party delivers benefits to keep them loyal,” (p.42) the ruling PRI delivered more transfers to their core support groups.

Core supporter’s loyalty in Korea during the autocratic era was stronger than in Mexico. As we will see in Chapter 2, the *yeochon-yado* phenomenon (support for the ruling party in rural areas and for the opposition in urban areas) during this period was almost unbreakable. The ruling Democratic Republican Party (DRP), witnessing the rapid urbanization of the country, recognized that it was necessary for its political future to build up support in urban areas. The authoritarian presidents Park Chung Hee and Chun Doo Hwan feared mass protests in the cities such as Seoul and Busan, and wanted more support from urban voters in coopting the opposition within the existing system. Moreover, the presidents associated the cities with modernity and thus felt that winning urban support was crucial to their legitimacy. Under such political circumstances, the N=2 Single Non-Transferable Vote (SNTV) system was adopted so that the ruling party could win the second seat in urban areas. As a result, the authoritarian regime in Korea thought it necessary to concentrate its distributive transfers on urban areas. The regime calculated that even if the core support from rural areas might be weakened due to the

greater expenditures allocated to urban areas, the N=2 SNTV system would buffer the negative short-term electoral effects. Box 1-1 summarizes main arguments of this study about targeted spending under authoritarian rule.

Box 1-1. Summary of Main Arguments about Targeted Spending under Authoritarian Rule

1. Presidents were mostly concerned about National Assembly elections in allocating transfers because presidential elections under authoritarian rule were just political rituals with no competition.
2. The political goal of presidents was to increase urban representation due to electoral pressures stemming from increasing urbanization, escalating mass protests in urban areas, and the authoritarian leaders' obsession with modernity.
3. Urban areas under SMD before the adoption of N=2 SNTV were low support areas (Region L), for the ruling DRP, with a wide electoral margin between the 1st place winner (opposition) and the 2nd place finisher (DRP) in urban areas. DRP candidates had a very low possibility of being elected under SMD.
4. To win more seats in urban areas, Park Chung Hee adopted the N=2 SNTV electoral system. Under this system, the DRP had a very strong likelihood of winning the 2nd seat in each district.
5. The new system (N=2 SNTV) transformed the rival's turf (Region L, urban areas) into a swing voters region with narrow electoral margins. There was often only a small vote margin between the ruling party and independent candidates in the competition for the seat awarded to the second place finisher.
6. Under the N=2 SNTV, rural areas remained strongholds (Region H) of the ruling party which typically carried them by wide electoral margins. This wide electoral margin meant that the ruling party would gain little from concentrating resources in rural areas since they were likely to finish in first place regardless.
7. As a result, both the electoral margin and political support for the ruling party should be negatively correlated with total transfers.

The political interests and objectives of an incumbent president have changed significantly after the democratization. Even though the president is still the predominant actor in distributive politics, the five-year single term presidency introduced with the democratization greatly influences the president's identification of target groups for allocation of transfers. The incumbent president and the ruling party's candidate in the next presidential elections both want to channel resources to core supporters but for different reasons. The incumbent president will adopt a risk-averse "core supporters" strategy to protect himself/herself during the latter part of term and after retirement. By contrast, the ruling party's and the ruling party candidate's short-term goal is to unify the core supporters in order to win the next election. The simple majority rule in presidential elections in Korea motivated the ruling party and its presidential candidate to focus on unifying their core support group. While wide electoral margin the ruling party reached up in its stronghold, did not increase its seats under the N=2 SNTV, it did help ensure its victory in simple majority presidential elections. As the elections since democratization results indicate, it has been nearly impossible for the presidential candidate to win without concentrated support from the core group. (See Table 2-4.) As a result, targeted spending for the core support groups has been the first priority of presidents and ruling parties since democratization.

Intuitively speaking, however, a president who has a single-term limit or who has already served his/her second term is less concerned with winning another election than an incumbent or the ruling party's candidate. This may lead to a divergence in targeted spending strategy between the president and the ruling party. A president whose political

priority is set on securing graceful retirement and preventing early lame-duck status may invest in the opposition for insurance in order to forestall potential political retaliation once he or she steps down. During his/her term, fierce resistance from opposition backers may hinder the smooth operation of the government. Because of strong regional rivalries in Korea, presidents often adopt a campaign strategy that focus on using regional rivalries to unify the core supporters group and gain electoral advantages. Such a strategy, however, causes problems by also motivating opposition backers group to unify and hinder the smooth operation of the government after the elections. This means that the president had an ample reason to consider the opposition backers for targeted spending to ensure smooth presidency and/or graceful retirement. This strategy is not a rational choice in the short-term from the perspective of the ruling party or the ruling party's candidate because those allocations of resources rarely transform into political support in the next election. Moreover, it sometimes led to a conflict between the president and the ruling party's candidate, but the president has always had predominance in budget allocation, so his/her preferred spending strategy has prevailed. Box 1-2 summarizes main arguments of this study about targeted spending under democracy.

Box 1-2. Summary of Main Arguments about Targeted Spending under Democracy

1. Presidential elections are more important than legislative elections in analyzing targeted spending after democratization because presidential elections under democracy are competitive and the president is the dominant actor in budget allocation. (Empirical analysis in Chapter 4 indicates that having a National Assembly member from the ruling party has an impact on the distribution of transfers.)

2. Because presidents in South Korea are limited to a single five-year term, the president has three main goals: 1) Retaining influence throughout his/her term in order to preempt early lame-duck status; 2) Obtaining a graceful retirement that prevents political retaliation after s/he leaves office; and 3) Ensuring the smooth operation of government by obtaining cooperation from rivals during his/her term.

3. President's first target for spending are his/her core supporters who are crucial to ensuring that the president continues to have influence throughout his term and who can defend him from any potential political problems after retirement. Regarding core support group, the incumbent president and the ruling party's candidate in the next political elections share the same political goal.

4. The president's second most important target are opposition backers. The president targets them in order to try to get them to cooperate during his/her term and to persuade them not to seek political retribution after his/her retirement. This strategy, however, is not a rational choice in the short-term from the perspective of the ruling party or the ruling party's candidate in the next elections because those allocations of resources rarely transform into political support in the next election.

5. As a result, the relationship between the political support of ruling party and total transfers would be a U-shaped curve. In this case, the coefficient of the squared term of the ruling party's vote share should be positive ($\beta_2 > 0$). β_1 should be negative because core voters would get more resources rather than opposition backers in this case.

The existing "swing voters" and "core supporters" models, as shown above, do not fully address this conflict in political objectives. This dissertation thus adopts an approach that would demonstrate that target identification may vary according to changing institutional arrangements and incumbent's political objectives in each period investigated here.

III. TESTABLE HYPOTHESES

1. PBC in Developmental States Hypothesis

PBCs occurred in developmental states.

The bureaucracy dominance thesis as applied to developmental state theory maintains that there were few, if any, PBCs—short-term manipulations of economic policies for political gains—in developmental states because macroeconomic management by autonomous and competent bureaucrats was implemented on the basis of purely long-term goals. However, as Pempel (1999) suggests, the assumption about apolitical bureaucrats in developmental states needs to be tested empirically. In addition, a recent empirical study shows that governments in less-democratic NICs are more sensitive to their economic performance than what existing theories suggest (Yap, 2005). Although these states are considered to be authoritarian, even an authoritarian regime may not be able to avoid bargaining with its citizens when economic conditions are weak or less-than-optimal. Citizens may also act rationally and strategically choose to withdraw resources including labor or production investment during periods of economic hardship. Considering these factors and observations, we have theoretical reasons to suspect that manipulation of the economy before elections may occur even in a developmental state. In sum, to avoid impressionistic assertions about autonomous

bureaucrats and pure long-term vision of policy-making in developmental states, I will test the above hypothesis.

2. Democratization's Effect on PBC Hypothesis

The degree of PBCs in Korea did not change after democratization because the increased constraints offset the increased incentives for manipulation.

“The demise of developmental states” thesis has focused on the challenges developmental states have faced in changed internal and external environments (Weiss and Hobson 1995, Cheng and Krause 1991, Moon and Kim 1995). This approach suggests that democratization eroded the institutional characteristics of developmental states, which implies that after democratization political and economic institutional configurations became much more susceptible to PBC.

While this line of thought contends that PBC emerged as a result of democratization and especially because of increased electoral competition, my research challenges the conventional assumption that PBC requires electoral competition as the necessary condition for expansionary policies during election periods. It suggests that PBC hinges not on just incentives (electoral competition) but also on constraints (checks and balances). The constraints of PBC include the check-and-balance activities of a viable opposition party, an independent central bank, free press, and civil associations, etc. Within this framework, we can revise PBCs' function as $P_i = f(I_i, C_i)$, where P_i is an individual politician's action for PBCs; I_i , incentive for PBCs; and C_i , constraint in

maneuvering the PBCs (checks-and-balances). If $I_i > C_i$, we can expect that incumbents will try to manipulate economic conditions. Otherwise, the likelihood of PBC will decrease. Simply put, the magnitude of difference between incentives and constraints will determine the likelihood of PBC occurrence. This research predicts that the increased constraints (checks and balances) offset the increased incentives (electoral competition) for PBC after democratization. In conclusion, I propose that democratization might have not changed the degree of PBCs in spite of widespread concerns about the negative consequences of democratization on economic policy. I will test the above hypothesis by examining whether democratization has affected the prevalence of PBCs in Korea.

3. Inversely Proportional Relationship Hypothesis

The swing voters group in urban areas with low incumbent party support and narrow electoral margin under the N=2SNTV received more benefits during the pre-democratization period. The relationship between government transfers and electoral margin/ incumbent party support has an inversely proportional relationship

The swing voter groups are equated with margin of victory in a recent election based on the existing measure for identifying swing voter group (Dahlberg and Johanson 2002, Diaz-Cayeros, Estevez, and Magaloni 2008). While swing voter group under the SMD system conventionally coincides with the medium support group (Region M) with a narrower electoral margin, Region M is not always aligned with the swing voter group. From the perspective of the ruling DRP, urban areas under the SMD were low support areas (Region L), with wider electoral margin measured by the difference of vote share

between 1st place winner (opposition) and 2nd place finisher (DRP). DRP candidates had very low possibility to be elected under the SMD. To win the second place in opposition strongholds in urban areas, Park Chung Hee adopted the N=2 SNTV. The new system (N=2 SNTV) transformed his rival's turf (Region L, urban areas) with wider electoral margin into swing voters group with narrower electoral margin (but still Region L). As a result, the DRP candidate had medium or high possibility to be elected as the 2nd place winner under the N=2 SNTV. Table 1-1 summarizes the ruling party's perspective regarding the change of electoral system.

Table 1-1. The Ruling DRP's Perspective regarding the Change of Electoral System

	SMD (~1971)		N=2 SNTV (1973~87)	
	Rural Area	Urban Area	Rural Area	Urban Area
Support for Ruling Party	High (Region H)	Low (Region L)	High (Region H)	Low (Region L)
Competitiveness	Low	Low	High (Competition for 2 nd seat among oppositions and independents)	High (Competition for 2 nd seat among ruling party, the 3 rd party and independents)
Electoral Margin	Wide (1 st - 2 nd)	Wide (2 nd - 1 st)	Wide (1 st - 3 rd)	Narrow (2 nd - 3 rd)
Possibility to Win	High (1 st seat)	Low (1 st seat)	High (1 st , at least 2 nd seat)	Medium (2 nd seat)

If the Lindbeck-Weibull and Dixit-Londregan prediction is correct, the total transfers tended to be delivered to swing provinces. However, my analysis suggests a diverging result in that the swing provinces that received more benefits from the central government was Region L with the least support rather than Region M with evenly divided political support to incumbent. We can speculate that the DRP, which seeks to increase urban representation, will most likely provide greater economic support to the urban districts to maximize the likelihood of winning the second seat under the N=2 SNTV system.

4. U-Shaped Curve Hypothesis

Both the incumbent's own turf and the rival's turf have received a larger benefit package under SMD during the post-democratization period. As a result, the relationship between government transfers and incumbent party support has resembled a U-shaped curve.

The incumbent president in democratic Korea has two objectives when designing distributive policies. First, the president seeks to strengthen core supporters' loyalty as noted by Cox and McCubbins (1986). Therefore, an incumbent president's priority is to allocate a larger amount of resources to his own region to prevent his successor in the ruling party from discrediting the incumbent in the next administration. To ensure a graceful retirement and prevent early lame-duck status, the president may therefore devise a risk-averse strategy targeting the high support group (Region H). Another objective of the incumbent president, however, is to pacify the opposition in a rival

region to ensure a smooth presidency. Given the strong presence of political regionalism, the incumbent has a strong incentive to distribute relatively more resources to the rival party's region – Region L – to achieve “blame avoidance” (Balla, Lawrence, Maltzman, and Sigelman 2002). This strategy is not a rational choice in the short-term from the perspective of the ruling party or the ruling party candidate because those allocations of resources rarely transform into political support in the next election. However, it might be impossible for an incumbent president to ensure an uninterrupted and smooth administrative operation of his government without material benefits being allocated to the rival party's region.

Table 1-2 summarizes main hypotheses and theoretical expectation.

Table 1-2. Hypotheses and Theoretical Expectation

Hypotheses	Variable	My Expected Effect	Existing Explanations
1. PBC	Fiscal expansion	+ (pre- and post-democratization period)	n/a + Bureaucracy Dominance Thesis Kwon (post-democratization)
2. Democratization effect on PBC	Democratization	+ → +	n/a → + ? → + "Demise of Developmental States" Thesis Kwon
3. Distributive pattern under SNTV (Non-Democracy)	Electoral support	Inversely proportional relationship	n/a Revised Dixit-Landreagan, Kwon (Swing voters)
4. Distributive pattern under SMD (Democracy)	Electoral support	U-shaped curve	U-shaped curve Horiuchi and Lee

IV. EXPECTED THEORETICAL CONTRIBUTION

Hypotheses 1 and 2 pose a theoretical challenge to the conventional wisdom that PBC requires electoral competition as the necessary condition for expansionary policies during election periods. As discussed in the Testable Hypotheses section, my research suggests that the PBC hinges not only on incentives (electoral competition) but also on constraints (check-and-balance). Given that the difference between incentives and constraints determines the likelihood of PBC, we can postulate that the increased constraints after democratization have counterbalanced the increased incentives for PBCs in Third Wave Democracies. This tradeoff in incentives and constraints may help solve the apparent contradiction between the mixed empirical results in analyses of developed democracies and the consistent results in analyses of developing or non-democratic countries.

Second, regarding hypothesis 2, the evidence of this research suggests that the degree of manipulation during the pre-democratization period might have been at least as great as the degree of manipulation during the post-democratization period. Macroeconomic policies under a democratizing government are not likely to be as inconsistent and inflationary as some of the democratization literature suggests. The likely explanation is that any increase in incentives for manipulation after democratization may be offset by increased constraints.

Third, hypotheses 1, 2, 3 and 4 imply that electoral incentives for incumbents to manipulate the economy existed during the pre-democratization period in developmental states. That is, greater politicization occurred in developmental states than the bureaucracy dominance thesis suggests. Although my findings may not directly disconfirm the

developmental states thesis, this study provides a “revisionist” view of bureaucracy dominance thesis.

Fourth, hypotheses 3 and 4 suggest that taking into account the incumbents’ political goals in a given situation and the institutional configuration they face would help bridge the gap between “core supporter” theory and “swing voters” theory.

Finally, regarding hypothesis 3, resource allocations that were focused on the urban areas facilitated the “crisis of success” in developmental states. Even though developmental states deserve credit for the rapid economic growth that fueled urbanization, city dwellers, the main beneficiaries of rapid economic growth, became increasingly critical of authoritarian rule over time. As a result, they started to side with the opposition parties (Kim 2000). The developmental state, ironically, lost electoral support from the urban population in spite of disproportionate and active material support poured into the area by the government. This was the “crisis of success.”

V. RESEARCH DESIGN

I have chosen South Korea for an in-depth case study for several reasons. First, Korea presents a hard case for detecting political manipulation of the macro-economy (Kwon 2005). South Korea provides a useful environment to test the developmental states presumption that “politicians merely reign, whereas the bureaucrats actually rule” (Johnson 1982), and to see whether the bureaucracy in these countries has been contaminated by politicians’ strategic use of policy tools. Second, South Korea possesses the necessary conditions for PBCs: presidential systems and fixed timing for elections. Some empirical analyses suggest that

governments in parliamentary system such as Japan opportunistically manipulate the timing of elections rather than the economy (Ito 1990). Therefore, the fixed timing of elections under South Korean presidential systems allows us to avoid the complicated question of whether elections cause PBCs or whether economic expansions trigger elections. Also, South Korea has experienced relatively manageable and stable economic conditions. Whereas economic instability in Latin America has constrained the macroeconomic policy options of incumbents (Remmer 1993), South Korea, by contrast, has had favorable conditions for examining what kinds of macroeconomic policy options incumbents chose to adopt for the purpose of reelection. Third, South Korea was part of the third wave of democratization. Its democratic opening and subsequent consolidation have produced new incentive and constraint structures for PBCs. Thus, I expect that South Korea can provide a useful case study for analyzing the effect of democratization on PBCs.

South Korea also provides a suitable case to study targeted spending. First, the country's pattern of bloc voting based on strong regionalism makes it easier to identify which group should be targeted from the perspective of incumbents. Given the general limitations of information about voters' behavior, incumbents in Korea have a "fairly high level of certainty about voters' behavior in his own or his rival's region" (Horiuchi and Lee 2008: p.868) without a survey of the potential electorate. Second, the N=2 Single Non-Transferable Vote (SNTV) system introduced during the pre-democratization period and the Single Member District (SMD) system introduced during the post-democratization period in Korea enable me to study the effect of institutional changes on targeted spending. There has been little effort to investigate how targeted spending may be conditional upon different institutional

arrangements. The varying electoral institutions in Korea provide a good opportunity to do so.

To explore how democratization changes incumbent politician's preferences on manipulating macroeconomic policy and targeted spending, this study compares the specific institutional and political conditions Korean presidents faced during the pre-and post-democratization period. It examines how PBCs and targeted spending worked as an effective political strategy in each period.

I employ several sets of statistical tests to obtain empirical evidence from South Korea. The purpose of the first test is to see whether PBCs occurred in a developmental state. The second test examines whether there has been a significant difference in pre-electoral economic manipulation during the non-democratic and the democratic period. In this test, the dichotomous democracy variable becomes the main independent variable. To see whether we observe time-varying effects, I use: 1) a dataset divided into two periods; 2) an interaction term that measures the timing of elections and democracy; 3) a Chow-type Wald test; and 4) a moving regression analysis. To take into account the problem of serial correlation of error terms, I employ the ARIMA (Auto-Regressive Integrated Moving Average) model as the basic time series regression model for the above two tests. The third test is to compare the distributive pattern of government spending between the two periods. The basic model is the System Generalized Method of Moments (GMM) for dynamic panel data model.

VI. ORGANIZATION OF DISSERTATION

The rest of the dissertation unfolds as follows. Chapter 2 provides some historical background on PBCs and target spending in South Korea, focusing on the incentive and constraint sides of election-oriented macroeconomic policy. It shows that authoritarian leaders in Korea faced few constraints and had incentives to intervene in the country's macroeconomic conditions before elections mainly to increase the ruling party's urban representation. After democratization, incumbent presidents had even greater incentives for PBC and targeted spending than did the previous authoritarian leaders. At the same time, however, the structural constraints imposed on the president's ability to manipulate the macro-economic conditions for political purposes also increased. The increased constraints (greater checks and balances) offset the increased incentives (greater electoral competition) after democratization.

Chapter 3 presents empirical analyses of the degree of politicization of macroeconomic policy in developmental states and the effects of democratization on PBCs. This chapter provides two key empirical findings regarding the effects of elections on fiscal policy. First, there is strong evidence of expansionary fiscal policy before elections and contractionary fiscal policy after elections. Second, democratization did not affect the degree of PBCs in statistical terms. These findings suggest that the pattern and degree of manipulation of economy before elections showed no significance differences before (1970-1987) and after (1988-2000) democratization.

Chapter 4 explores how distributive policies changed in Korea due to democratization. First, I examine the relationship between the incumbent party's electoral support (and electoral margin) and transfers from the central government to provinces during

the pre-democratization period (1976 to 1988). Then I present statistical findings showing that spending was focused on both the incumbent's own turf and rival areas in the democratic period (1988 to 2008).

Chapter 5 summarizes the main findings and arguments of this study and discusses their theoretical implications.

Chapter 2. Contextual Approach to Political Budget Cycles and Target Spending in Korea: *Incentive and Constraint Structures*

The purpose of this chapter is to examine how democratization in South Korea changed the incentives and constraints underlying election-induced macroeconomic policy. The main assumption of this chapter is that the magnitude of the difference between incentives and constraints will determine the likelihood of political budget cycles and targeted spending as discussed in the previous chapter.

This chapter asks whether and in what way authoritarian leaders in Korea had incentives to manipulate macroeconomic conditions before elections and to distort their official goals of “even development across the regions” in allocating transfers. To answer the question, this chapter discusses the challenges authoritarian leaders faced, and then explores the political strategies they employed to help overcome these difficulties and ensure their regime’s survival. It shows that authoritarian leaders were motivated to target spending to urban areas because of increasing urbanization, escalating mass protests in urban areas, and the authoritarian leaders’ obsession with modernity. It also discusses how authoritarian presidents loosened their constraints on macroeconomic policy by weakening the ability of the legislature to oversee the allocation of the budget.

This chapter also explores how democratization changed the incentive structure of presidents, focusing on the impact of increased electoral competitiveness, regional realignments, and divided government. I also examine whether and in what way the Korean president, as the dominant actor in allocating public resources, has had different political preferences from the candidate next in line from the ruling party, specifically with regard to targeting political groups for tactical spending. I speculate that a five-year single term president would have been motivated to target both his/her core support groups as well as backers of the opposition. This chapter also discusses the increased incentives for PBC and

targeted spending due to escalating electoral pressure after democratization, but at the same time it pays attention to the increased constraints on the president's ability to manipulate economy. I will examine how the National Assembly has been granted greater control over the budget making process during the democratization period by boosting its organizational capacity and financial authority.

The chapter is organized as follows. Sections 1 and 2 explore the electoral politics of the pre- and post-democratization periods respectively, focusing on the incentives that presidents had to engage in political budget cycles and targeted spending during each period. Section 3 examines the constraints on election-oriented economic policy during the authoritarian period and the effect that democratization had on these checks and balances, focusing specifically on legislative-executive relations. I conclude this chapter with a discussion about how increased constraints offset the increased incentives after democratization.

I. ELECTORAL POLITICS: PRE-DEMOCRATIZATION PERIOD (1972-1987)

South Korea was under a military dictatorship led by Park Chung Hee (1961-1979) and his successor, Chun Doo Hwan (1979-1987), for twenty five years before a democratic transition began in 1987. Even though South Korea during this period achieved remarkable economic development, administrations under Park Chung Hee and Chun Doo Hwan were never free from accusations surrounding their legitimacy, which was marred by the military coup d'état that they used to come to power. One of the important political cleavages in this period was democratic-authoritarian cleavage, which was translated into a voting behavior pattern described as *yeochon-yado*, which emphasized the strength of the ruling party in rural areas and greater support for the opposing party in urban areas. Upon finishing his first two

four-year presidential terms, Park Chung Hee was successfully sworn in for his third term in 1971 which was made possible by a 1969 amendment to the Korean constitution. After just one year, Park Chung Hee declared the *Yushin* Constitution (Revitalizing Reforms Constitution) in 1972 and substantially undermined the competitiveness of presidential elections by enforcing repressive rule. In turn, the importance of National Assembly elections became even more apparent, and the introduction of a new election system altered the dynamics of electoral politics (Mo and Brady 1999).

(1) Political Challenges to the Park Regime

Well aware of his vulnerability due to the fact that the legitimacy of his regime had been undermined by his military coup d'état, Park Chung Hee pursued economic development as the foremost priority on his national agenda. Even though the South Korean economy got back on track, lack of public trust surrounding his regime legitimacy remained, particularly in urban areas such as Seoul where a concentrated population of students, academics, or the so-called middle class group resided were the locus of anti-Park Chung Hee forces. Park Chung Hee found it especially discomfoting and upsetting that residents of those areas that stood to reap the most benefits from his economic development policy were the strongest opponents of his policies. As his second presidential term neared the end, in 1969, Park Chung Hee pushed for an amendment to the constitution that limited presidents to two consecutive terms (four years for each term). Park Chung Hee tried to convince the public that in the next four more years with him serving as the president, he could achieve the final goals of his economic development policy.

Park Chung Hee barely won a third term in 1971 with 51% of votes. In the National Assembly election held in the same year, Park's ruling Democratic Republican Party (DRP) also succeeded in winning a majority. However, Park Chung Hee was aware that the victories

in the presidential and National Assembly elections in 1971 were closer than they should have been, considering the overwhelming amount of organizational manpower and illegal political funds he had poured into the campaigns as well as efforts at gerrymandering favorable to his ruling party.

The percentage of seats in rural districts held by Park Chung Hee's ruling DRP decreased from 94.1% in the 1967 election to 71.1% in the 1971 election. Only 17.9% of the seats in urban districts belonged to the DRP (See Table 2-2). If one takes into consideration that urbanization had decreased the number of voters in the rural areas and increased the number of voters in the urban areas, the future of Park Chung Hee and his DRP was grim (Lee 1999).

Therefore, Park Chung Hee could not be satisfied with winning a third term. Upon his inauguration for the third presidential term, Park secretly executed a strategy to secure a life-long seizure of power for himself. In 1972, Park Chung Hee declared martial law and imposed the *Yushin* Constitution (Revitalizing Reforms Constitution). Under the *Yushin* Constitution, the National Conference for Unification (NCU), an electoral college led by Park Chung Hee, would elect the president instead of the citizens. The *Yushin* Constitution further strengthened Park Chung Hee's control over the political system by allowing him to appoint one-third of the National Assembly members and organize the so-called *Yujonghoe*, or the Friends of Government association, and to declare emergency decrees and martial laws. Park Chung Hee established personal dominance over the legislative system by creating and manipulating the *Yujonghoe*. Another main feature of the *Yushin* system was the change of the National Assembly Election Laws from the M=1 Single Member District (SMD) system to the M=2 Single Non-Transferable Vote (SNTV) system. After the establishment of the Republic of Korea in 1948, eight National Assembly elections were held under M=1 plurality rule until the adoption of M=2 SNTV in 1972.

Even though Park tried to justify the *Yushin* Constitution on the grounds of national security and economic development, it was in practice a political device to enable Park Chung Hee to hold onto power permanently.

(2) Limitation of Existing Electoral System

There may rise two questions concerning Park's declaration of *Yushin* system. First, why did Park Chung Hee maintain National Assembly elections? If one only looks at the repressive nature of the *Yushin* system, abolishing National Assembly elections may appear to be a logical step for Park at that time. Second, why did he abandon the SMD and adopt the N=2 SNTV instead? The SMD system would seem to have provided an equally stable system as the N=2 SNTV for Park's control over the National Assembly, considering the previous practices of gerrymandering and the organizational manpower and financial resources available to the DRP.

The reasons behind Park Chung Hee's decision to maintain National Assembly elections while enforcing a repressive rule under the *Yushin* system are as follows. First, as Joseph (1999), Bratton and Van de Walle (1997) explain, autocratic regimes often need to adopt the façade of elections in order to deceive international donors of foreign aid. That is the reason why politicians in some of the poorest single-party autocracies in Africa accepted multi-party elections. Park was well aware of the potential for international backlash. Abolishing the National Assembly elections while changing the presidential elections to an indirect electoral system and eliminating the limits on the presidential terms would invite criticism abroad. Because he relied on credits from Western countries to promote export-oriented industrialization, Park Chung Hee was understandably concerned about potential criticism from the international community regarding the abolishment of the National Assembly elections. Human rights disputes in the 1970s, as a result of Park Chung Hee's

repressive measures to silence criticism and to put down student protests, seriously strained U.S.-South Korean relations (Kim 2011). In reality, the human rights dispute between South Korea and the United States centered on congressional hearings during the Ford administration. The Carter administration in the late 1970s imposed pressure on Park Chung Hee by linking South Korea's human rights problems and withdrawal of the U.S. forces from the Korean peninsula. To avoid the backlash from international community, Park had an ample reason to maintain National Assembly elections.

At home, it was also necessary to maintain the opposition party through elections, albeit ones with limited competition. As Gandhi and Przeworski (2006) point out, dictators protect themselves by providing particular groups of the potential opposition with a place in the legislature. By selectively co-opting the opposition, the dictator "prevents its opponents from forming a unified front to rebel against the regime" (Magaloni 2006). As Park Chung Hee tightened his grip on political society, the anti-Park movement grew both in numbers and in intensity, especially in Seoul.

Without the presence of the opposition party, it was difficult to measure the degree and scope of the anti-Park resistance as well as to absorb anti-Park forces into the system. Therefore, the presence of a somewhat compliant opposition party was necessary for Park Chung Hee and his system from a long-term perspective, which in turn necessitated the National Assembly elections. As explained below, Park could expect that a new electoral system for the National Assembly election would serve to divide the opposition between the "loyal opposition" and radical activists.

Then what was the reason behind Park Chung Hee's decision to change the previous SMD election system? First, there was an increase in electoral pressure. The conversion ratio of vote share to seat share continuously decreased under the SMD system. Because the SMD system is based on plurality, it tends to be more favorable to major parties. As Rae (1967) explains, large parties' advantage in seat allocation is thought to be greater in districts of

lower magnitude. Furthermore, under the SMD system in South Korea, the conversion rate, which switches votes to seats, worked to the advantage of the ruling party. The problem, as can be seen in Table 2-1, was that the conversion rate for Park Chung Hee's DRP continued to fall (2.0 in the 1963 election, 1.5 in the 1967 election, 1.2 in the 1971 election). Additionally, the primary opposition party called the New Democratic Party (NDP) was mobilized in opposition to the DRP, and the NDP managed to win 42.5% of seats in the 1971 National Assembly election. The NDP's successful take-off in the 1971 election acted as a significant threat to Park Chung Hee's DRP. If the SMD system were maintained, it was predicted that it would be difficult for the DRP to secure a stable majority of votes in the forthcoming election. Moreover, Park Chung Hee's perceived sense of threat was heightened because he barely won reelection in the 1971 presidential election with 51.2% of the vote.

Table 2-1. SMD' Effect of Conversion Ratio

	Ruling Party			Opposition Party		
	Seats(%)	Votes(%)	Conversion ratio	Seats(%)	Votes(%)	Conversion ratio
1963	67.2	33.5	2.0	20.6	20.1	1.0
1967	77.9	50.6	1.5	21.4	32.7	0.7
1971	56.2	48.8	1.2	42.5	44.4	1.0

Source: National Election Commission, <http://info.nec.go.kr/>

Second, an increase in the urban population due to economic development accelerated the *yeochon-yado* phenomenon (i.e., support for the ruling party in rural areas and for the opposition party in urban areas), and this was perceived to be a fatal blow to the support base of the DRP from a long-term perspective. As can be observed in Table 2-2, the percentage of urban district seats won by the DRP was 46.7% in the 1963 election, but it decreased to 23.3% in the 1967 election. In 1971, the percentage did not even reach 18%. On the other hand, the percentage of urban district seats held by the opposition party was 53.3% in the

1963 election, but it increased to 76.7% in the 1967 election. In the 1971 election, it was over 82%. Urbanization due to economic development was irreversible. The economic development that began in the early 1960s brought a rapid increase in the urban population due to the influx of rural residents to urban areas in search of better employment opportunities and higher living-standards. This demographic change was rather obvious: in the 1960s, the ratio of urban population living in cities with more than 50,000 residents to the total population was only 28%, but it increased to 40% by the 1970s. The population of Seoul was 2.4 million in 1960, and it doubled in 1970, reaching 5.4 million. By the early 1980s, about 10 million people were living in Seoul. While the number of voters in Seoul was 3,794,959 in 1967, it increased by 34% in four years, reaching up to 5,089,969 in the 1971 election. As the number of urban voters increased dramatically, the ruling DRP's preferences with regard to electoral districting began to diverge from the opposition. The ruling DRP preferred to respect the existing municipal boundaries in determining seats rather than ensuring that each district had the same population. The declining population in rural areas would lead to a decrease in the number of seats in rural areas and an increase in the number of seats in urban areas under the "equal population" system, which would hurt the ruling party. Therefore, the DRP preferred to respect existing administrative boundaries in allocating seats. As a result of negotiations, however, the number of electoral districts in Seoul increased from 14 in 1967 to 19 in 1971. Park and his ruling DRP could not avoid the trend of drastic urbanization. If one takes all these facts into consideration, the prospects for Park Chung Hee and DRP were not bright in the long run.

Table 2-2. National Assembly Seat Ratio (Urban vs Rural area)

Election Year	Ruling Party		Opposition Party	
	Urban Area	Rural Area	Urban Area	Rural Area
1963	46.7%	75.2%	53.3%	24.8%
1967	23.3%	94.1%	76.7%	5.9%
1971	17.9%	71.1%	82.1%	28.9%
1973	47.1%	50.9%	44.1%	49.1%

Source: National Election Commission, <http://info.nec.go.kr/>

(3) Expected outcome of N=2 SNTV

What were the potential political impacts expected by Park Chung Hee if the N=2 SNTV system were implemented? Let us consider the *Yujonghoe*, one of the main mechanisms of the *Yushin* Constitution. If the *Yujonghoe* system that allowed the president to designate one-third of the National Assembly were safely implemented, was there a need to abolish the SMD and adopt the N=2 SNTV system instead? The N=2 SNTV would not have been an appropriate choice if Park intended to increase only the number of seats in the National Assembly (Lee 1999, Mo and Brady 1999).

Park Chung Hee's motivation for N=2 SNTV must have been something other than electoral benefits for seat maximization because Park was willing to pay a high price for the new system (Lee 1999). First, under the N=2 SNTV system, the reduction in the number of rural districts was greater than the increase in the number of urban districts. There were 117 rural districts in the 8th National Assembly Election, which was held using the SMD system, whereas there were 55 districts with 110 seats in the 9th National Assembly Election, which used the N=2 SNTV system. By contrast, there were 36 urban districts in the 8th National Assembly Election under the SMD system, whereas there were 16 districts with 32 seats in

the 9th National Assembly Election, which was conducted under the N=2 SNTV system. Since the DRP decided to nominate one candidate per district under the N=2 SNTV system, the maximum number of seats it could gain from the rural areas was 55. The maximum number of seats it could win in urban areas, assuming that DRP candidates finished at least in second place in all urban districts, was 16. This means that the total number of seats of the ruling DRP under the N=2 SNTV might be smaller than that of the DRP under the SMD. Given that the number of the urban seats was less than one-third of the rural seats, it is a plausible scenario.

In the 1963, 1967, and 1971 elections, the DRP respectively produced 11, 23, and 32 runners-up in urban areas. (See Table 2-3) Thus, the new M=2 SNTV system served the DRP by electing the first two vote-getters, instead of one, in a district. In fact, the DRP under the new system won 15 of the 32 urban seats (47.1 percent) in the 1973 election. It was a definite improvement over the previous election in 1971, in which the DRP had won only 17.9 percent of urban district seats. As expected, most DRP candidates, 13 out of 16, were elected as runners-up under the new system. However, the DRP's gain in urban areas under the N=2 SNTV was less than the opposition's gain in rural areas. The opposition won an average of 49.1 percent of rural seats under SNTV. Given that the number of rural districts outnumbered the number of urban districts by about three times in the previous elections, the opposition's gain in the rural area under the new system was a great improvement.

Table 2-3. Numbers of Election Rankings in the Urban and Rural Area during Pre-Democratization Period

	Ruling Party								Opposition Party							
	1963		1967		1971		1973 (M=2)		1963		1967		1971		1973(M=2)	
	1st	2nd	1st	2nd	1st	2nd	1st	2nd	1st	2nd	1st	2nd	1st	2nd	1st	2nd
Seoul	2	7	1	13	1	18	3	4	12	7	13	1	18	1	5	3
Busan	6	1	2	5	2	6	1	3	1	6	5	2	6	2	3	1
Incheon	1	1	0	2	2	1	0	1	1	1	2	0	1	2	1	0
Daejeon	0	1	0	1	1	1	1	0	1	0	1	0	1	1	0	0
Gwangju	1	1	1	1	0	2	0	1	1	1	1	1	2	0	1	0
Daegu	4	0	3	1	1	4	2	0	0	4	1	3	4	1	0	1
Urban subtotal	14	11	7	23	7	32	7	9	16	19	23	7	32	7	10	5
Rural	74	25	95	6	79	35	36	21	27	76	6	95	35	79	18	21
Total	88	36	102	29	86	67	43	30	43	95	29	102	67	86	28	26

There is another reason why Park Chung Hee's motivation for N=2 SNTV must have been something other than electoral benefits. This is the fact that the DRP did not intend to win a majority in the district-level elections by adopting the SNTV because one-third of the Assembly was to be appointed by the president (Lee 1999, Lee, S.M 2004). Thus, the DRP needed only to secure one-sixth of the district seats in order to maintain a majority, and it would not be difficult to secure one-sixth of the district seats under the SMD system.

The most plausible interpretation of President Park's intentions in adopting the SNTV was to increase the DRP's urban representation in order to enhance the legitimacy of his regime (Choi 1973, Lee 1999, Mo and Brady 1999). As Korea achieved rapid economic development, it was desirable for the ruling party to establish an image of modernity by building urban support. The DRP tried to enhance urban representation at the cost of reducing the number of seats it held in rural areas, while still maintaining a majority. The DRP's nomination policy also supports this argument. The DRP had a policy of nominating one candidate per district in most cases regardless of its overwhelming dominance in the rural areas, while the opposition New Democratic Party nominated two candidates per district in the urban areas.

Another reason for Park Chung Hee's implementing the N=2 SNTV was to undermine opposition forces by instigating a competition among the opposition parties. In essence, the N=2 SNTV was more favorable to a multi-party system than was the SMD (Duverger 1980). Furthermore, allowing independent or third-party candidates to run in elections, which was previously prohibited, intensified the competition among the opposition forces. The opposition forces, which were relatively weaker at coordinating between different candidates in comparison to the ruling party, soon lost momentum. Candidates who lost the bid for the opposition party nomination entered elections as independent candidates, and the appearance of a number of independents certainly took votes away from existing opposition parties. In fact, the number of independent candidates in the 1973 election was about 34 percent of the total, and they won 19 of the 146 seats in the elections.

The N=2 SNTV system was also expected to facilitate cooperation between the ruling DRP and the New Democratic Party (NDP), the primary opposition party. For example, DRP and NDP candidates consciously averted confrontation with each other despite apparent differences in party platforms. This was because the candidates representing the same district would share the same interest of securing reelection based on their ability to bring in more funds from the central government. Furthermore, DRP and NDP candidates would even collaborate as a coalition against the Democratic Unification Party (DUP), another opposition party, and other independent candidates during the campaign period (Lee 1999). The “alliance” between the ruling DRP and the primary opposition party, NDP, as well as the intensified competition within the opposition forces, contributed significantly to governing stability and the continued rule of Park Chung Hee administration. In this regard, the N=2 SNTV worked as an important mechanism for Park Chung Hee to manage the opposition forces.

(4) Urban bias:

Urban areas, in particular, capitals have been thought of as politically more relevant than rural areas (Ades and Glaeser 1995; Bates 1981; Lipton 1977). From the perspective of dictators, capitals are even more dangerous as protestors possess proximity to the seat of power (Wallace 2013). These concerns shaped Park Chung Hee’s choice of N=2 SNTV system. It is indubitable that the primary motivation behind Park Chung Hee’s adoption of the N=2 SNTV was to increase urban representation. Then why had Park Chung Hee become so focused on urban representation? As Choi (1973) illustrates, urban areas in South Korea have been the very epitome of modernity and modern values. As such, in times of political turpitude or turbulence, leaders have always looked at the urban areas first for both cause and solution. During the Park Chung Hee regime, the DRP’s legitimacy was undermined by its lack of support in the urban areas. This, in turn, led to the DRP’s adoption of the N=2 SNTV as a way to increase its urban representation. For Park Chung Hee, who tried to secure his

regime's legitimacy through economic development and modernization, the significance of urban areas, especially Seoul, was unquestionable. Park tried to get the urban areas to support him based on his performance in terms of economic development or modernization; however, the results did not live up to his expectations. In the presidential election of 1963 right after the coup d'état, Park Chung Hee won by only 160,000 votes. In the 1967 presidential election, he won in a landslide with a margin of one million votes. This easy victory after four years could be perceived as evidence that his economic development policy had finally had made an impact on the society. However, even in the 1967 election, the vote share for Park Chung Hee in Seoul was a mere 47%, significantly lower than the nation-wide vote share for Park, which was 55%. This became a worrisome issue for Park Chung Hee. Park had expected that he would win in Seoul, and expressed deep disappointment at the result of the 1967 presidential election vote share in the city (Gab-je Cho 2001).

Another interpretation for Park Chung Hee's "obsession" with urban representation is his fear that the anti-*Yushin* mass movements would strengthen in urban areas (Hwang 2013). In fact, the Park Chung Hee regime was established partly in order to eliminate the instability caused by mass movements in urban areas. Park Chung Hee organized and carried out a military coup d'état called the May 16 Coup to render powerless the explosive nature of mass movements after the April 19 Revolution, which were identified as "anarchic."² During his terms, Park Chung Hee faced the anti-*Yushin* mass resistance across the urban areas. After his inauguration, such mass movements in the urban areas became a huge concern for Park Chung Hee. Student protests in Seoul in opposition to the normalization of the Korea-Japan relations advocated by Park Chung Hee in mid-1960s were one such urban mass movement. Tae-il Jeon's suicide by setting himself on fire was a significant incident for the Korean workers' rights activism. Labor disputes, which numbered 165 in 1970, increased by more than ten-fold, reaching 1,656 in 1971. The mass movement against the 1971 constitutional

² Park Chung Hee, who was a martial law commander in Pusan at the time of the April 19 Revolution, later recounted his fear as follows: "I was very afraid of the mass. When the public is mobilized to create instability, only military forces can calm the environment. I witnessed that during the April 19 Revolution. I donned the military uniforms, walked in front of the mass, and told them to 'Let's all proclaim manse.' And that's how I was barely able to calm them down" (Gab-je Cho, 2001).

amendment presented the biggest challenge for Park who sought to extend his presidency to a third term.

(5) Conclusion: Electoral Interest of DRP under N=2 SNTV

As can be seen above, it did not prove difficult for the DRP to have one candidate elected into office in the rural areas under the N=2 SNTV system. Problems arose when the DRP tried to place its candidate in second place in urban areas. Urban voters became swing voters. If DRP candidates in the urban areas did not win second place, the very purpose behind the adoption of the N=2 SNTV became meaningless. The DRP thus had strong incentives to concentrate a considerable amount of available resources in urban areas in order to increase its vote share in these areas.

There is an argument that the adoption of the SNTV system undermined the competitiveness of elections altogether. Advocates of such an argument emphasize that the N=2 SNTV system contributed to weakening the competitive environment since districts regularly elected one ruling candidate and one opposition candidate. This, however, is far from the truth. Competitiveness is properly measured through the difference in vote share between first- and second-place winners for the SMD and between second- and third-place winners for the N=2 SNTV. A larger difference in vote share indicates less competitiveness in district elections. In the 1971 election, the competitiveness measure for Seoul was 22.8% under SMD. However, under the N=2 SNTV system, the competitiveness measure for Seoul was 9.9% in the 1973 election. A larger difference in vote share at the district election during the 1971 election under the SMD demonstrates that the district elections were more competitive under the N=2 SNTV system than under SMD. This is so because the N=2 SNTV system encouraged independent candidates to run for office and consequently made the district election more competitive.

II. ELECTORAL POLITICS: POST DEMOCRATIZATION PERIOD (1987-PRESENT)

South Korea has regularly held free and competitive elections to elect presidents and lawmakers to the National Assembly since the democratic transition began in 1987, after two and one half decades under military authoritarian rule. Elections became “the only game in town” (Przeworski 1991). From the perspective of the minimalist definition of democracy set forth by Schumpeter, Korean politics definitely has been consolidated since that time. Korea also passed the so-called “two turnovers test” (Huntington 1993), which represents a major milestone for democracy. In 1997, after 10 years of democracy, Kim Dae Jung, a life-long opposition leader, was elected as the president. Ten years later in 2007, Lee Myung-bak and his conservative party, the Grand National Party (GNP), retook the presidency and the National Assembly again.

(1) Main Characteristics of the Electoral politics in Korea after democratization

Return of electoral competitiveness

It is not an exaggeration to state that before democratization, any result or outcome of presidential elections, which were without exception conducted in an indirect election system, was predetermined before the actual voting. Both Park Chung Hee and Chun Doo Hwan were elected into office with almost 100% of the vote. On the other hand, the five presidential elections that were conducted by direct popular vote after Korea’s democratization in 1987 all were extremely competitive, producing outcomes with a narrow margin of victory. Most of the winners did not win a majority of the vote. Roh Tae Woo won only 36.6% votes in the 1987 election; Kim Young Sam earned 42% in the 1992 election; Kim Dae Jung won 40.3% in the 2002 election; and Roh Moo Hyun earned 48.9% of the vote in the 2007 election. In the 2012 election, current President Park Geun-hye was elected into

office with 51.5% of the vote, making her the only president who received a majority of the vote. However, the difference in the vote shares between the winner and runner-up in the 2012 election was only 3.5%. The 1997 and 2002 elections produced 1.6% and 2.3% margins of votes respectively. Except for the 2007 election, it was difficult for anyone to predict the outcome of presidential elections before the tallying of the returns. Electoral competitiveness, which had disappeared during the authoritarian regime, was restored, and Korea was introduced to so-called “institutionalized uncertainty” (Przeworski 1991), a key point of democracy.

Realignment of Regionalism

Regionalism was also prevalent under the authoritarian Park and Chun regime. As discussed, the dominant voting pattern under military rule was the urban-rural cleavage (*yeochon-yado*), reflecting the strong anti-authoritarian sentiment among the urban middle class (Cho 1998). Kim Young Sam and Kim Dae Jung, who were prominent opposition leaders from different regions, cooperated against the authoritarian regime. As a result, anti-authoritarian votes were not concentrated in specific regions except for urban areas such as Seoul.

The urban-rural cleavage began losing power after the democratic transition in 1987, but another form of regionalism has served as a critical factor in terms of shaping voting patterns in South Korea (Cho 1998; Choi 1993; Moon 2005). All the major political parties have a core regional base and they draw heavy support from their respective region with the help of charismatic personal leaders. Since the democratization began in 1987, “four regionally-based political groups and their changing alignments have had a dominant influence on Korean party politics” (Wang 2012: 138). The military incumbents, Chun Doo Hwan, and his successor, Roh Tae Woo, had their support base in north Gyeongsang and Daegu. Kim Dae Jung and Kim Young Sam established their support bases in their home

regions, Jeolla and Gwangju (the Honam region), and south Gyongsang and Busan (the Youngnam region), respectively. Kim Jong Pil, a number two man of the Park Chung Hee military regime, had a stronghold in Chungchong. Kim Dae Jung, Kim Young Sam, and Kim Jong Pil were known as the “three Kims. (Im 2012)”

The four main political factions that were created upon the democratic transition did not have major ideological differences except for their positions on the military regime (Kang 2010). Political factions and parties were based on regionalism, which did not have ideological legitimacy or substantial policy ideas (Kim 2000). Regionalism, along with the personal charisma of political leaders, created and intensified political competition. Therefore, political parties tended to rely more on their leaders than on their policy platforms or organizations. As a result, political parties were often used as a tool that politicians would create and abolish when preparing for national elections (Steinberg & Shin 2006).

Table 2-4. Presidential Candidates' Vote Shares during the Post-Democratization Period (%)

	1987 Election			1992 Election			1997 Election			2002 Election		
	RTW	KYS	Margin	KYS	KDJ	Margin	KDJ	LHC	Margin	RMH	LHC	Margin
Seoul	29.43	28.64	0.80	35.99	37.31	1.32	44.30	40.40	33.90	51.00	44.70	6.30
Busan	31.65	55.18	23.53	72.65	12.41	60.24	15.10	52.60	37.50	29.60	66.30	36.60
Daegu	69.80	23.97	45.83	58.86	7.73	51.13	12.40	71.70	59.30	18.50	77.10	58.60
Incheon	38.74	29.53	9.21	36.76	31.32	5.44	38.00	35.90	2.10	49.50	44.30	5.20
Gwangju	4.77	0.51	4.26	2.11	95.12	93.01	96.30	1.70	94.60	94.70	3.60	91.10
Daejeon	25.34	21.66	3.68	34.69	28.33	6.36	44.40	28.80	15.60	54.70	39.50	15.20
Ulsan							15.20	50.70	35.50	35.00	52.40	17.50
Gyeonggi	40.66	27.02	13.64	35.80	31.50	4.30	38.70	35.00	3.70	50.30	43.90	6.40
Gangwon	57.94	25.50	32.43	40.79	15.24	25.54	23.30	42.40	19.10	40.90	51.80	10.80
Chungbuk	45.67	27.50	18.18	37.53	25.55	11.98	36.70	30.20	6.50	49.80	42.40	7.40
Chungnam	25.50	15.62	9.88	36.15	27.94	8.21	47.20	23.00	24.20	51.40	40.60	10.80
Jeonbuk	13.71	1.46	12.25	5.61	88.01	82.40	90.70	4.50	86.20	90.70	6.10	84.60
Jeonnam	7.96	1.12	6.83	4.15	91.07	86.92	92.90	3.10	89.80	92.20	4.60	87.60
Gyeongbuk	64.83	27.51	37.32	63.57	9.45	54.12	13.40	60.60	47.20	21.30	72.20	50.90
Gyeongnam	40.38	50.27	9.90	71.46	9.13	62.34	10.80	54.00	43.20	26.70	66.60	39.90
Jeju	48.47	26.08	22.39	39.32	32.38	6.94	39.80	35.90	3.90	55.30	39.40	15.90

Source: National Election Commission

RTW = Roh Tae Woo, KYS = Kim Young Sam, KDJ = Kim Dae Jung, LHC = Lee Hoi Chang, RMH = Roh Moo Hyun

Table 2-5. Seat Shares (%) of Parties in the National Assembly by Region

Year	party	Seoul Gyeonggi	Chungchong	Youngnam	Honam	Other
1992	DLP	47	57	75	5	47
	DP	42	9	0	95	0
1996	NKP	56	11	67	3	75
	NCNP	31	0	0	97	0
	ULD	5	86	13	0	13
2000	GNP	41	17	98	0	33
	MDP	58	33	0	86	58
	ULD	1	46	0	0	0
2004	GNP	30	4	88	0	55
	Uri	70	79	6	81	45
2008	GNP	73	4	68	0	27
	UDP	23	33	3	81	45
	LFP	0	58	0	0	0

Source: National Election Commission

Regionalism has been one of the most powerful factors that influenced voters' decisions. Politicians started to take regionalism into account and tried to utilize a geographically-concentrated mobilization strategy as a tool to winning an office. Political regionalism and distributive policies are closely related in this regard.

Divided Government and Reverting to Majority

After democratization, electoral competitiveness was restored. It brought about the emergence of divided government after the 1988 National Assembly elections for the first time since the democratic breakthrough in 1987. From this moment onward, divided government has become a sign of normalcy rather than an exception.

Out of the six National Assembly elections that took place after the country's democratization, four elections gave rise to divided government. (Table 2-6) Among the two

National Assembly elections in which the ruling parties won the majority of votes, the Uri Party received 152 seats out of 299 seats in the 2004 election. However, when it was discovered right after the election that it violated election laws, the Uri Party lost three seats and this led to divided government once again. The GNP's victory in the Eighteenth National Assembly Election in 2008 is the only instance when the ruling party won the majority. Even in this instance, the ruling party won 153 out of 299 seats, barely topping 50%. (See Table 2-6.)

Table 2-6. Number of Ruling Party's Seats in the National Assembly Elections

	Year	Ruling Party	Seats	Total Seats	
13rd	1988	DJP	125	299	Divided Government
14th	1992	DLP	149	299	Divided Government
15th	1996	NKP	139	299	Divided Government
16th	2000	NMDP	115	299	Divided Government
17th	2004	Uri	152	299	
18th	2008	GNP	153	299	

Source: National Election Commission

In fact, divided government is not an uncommon phenomenon in Western democracy (Fiorina 1992, Laver and Shepsle 1991, Alesina and Rosenthal 1995). From the perspective of a president, this could pose a problem in governing the country since it is difficult for the minor ruling party to provide legislative support. However, there is no way to overturn the voters' decision once it is confirmed via election results. In the case of a new democracy such as Korea, however, this was not entirely true. Presidents were not constrained by election results or representatives' formal party affiliations; they did not have much of a problem forging majorities in the National Assembly. As discussed above, divided government can be created via general elections, but a minority ruling party can become a strong majority through various means. During the Roh Tae Woo and Kim Young Sam (1993-1998)

administrations, the ruling party led by the presidents was able to gain a majority of national assembly seats for much of their presidential terms by merging with opposition parties, recruiting national assemblymen from other parties, and/or co-opting legislators without any party affiliations.

In 1990, the Democratic Justice Party led by Roh Tae Woo, the Reunification Democratic Party led by Kim Young Sam, and the New Democratic Republican Party led by Kim Jong Pil merged to form the Democratic Liberal Party (DLP) in order to win the legislative majority. By doing so, they successfully launched a two-party system. The DLP played the role of a grand conservative coalition by uniting the moderates among civilian activists and military bureaucrats. Noteworthy is the fact that the Party for Peace and Democracy (PPD) led by Kim Dae Jung was excluded from the alliance. In the Fifteenth National Assembly Election in 1996, when Kim Young Sam's NKP became the minority ruling party, Kim Young Sam admitted the opposition party members into his NKP within two months and managed to turn his party back into a majority ruling party. Likewise, when Kim Dae Jung was elected into the presidential office in 1997, he made an alliance with the United Liberal Democrats (ULD) led by Kim Jong Pil, recruited and admitted opposition party members into his party, and succeeded in changing his party from being a minority to the majority ruling party.

In most of the National Assembly elections, the ruling party failed to receive a majority of the vote. However, presidents were able to change the status of their parties from a minority to the majority ruling party through various means outlined above. The president employed the Prosecutors and National Tax Offices to uncover dirt on opposition and non-partisan assembly members, and it pressured them to join the ruling party. By doing so, the inherent problem of political decision-making process arising from the oppositional legislative majorities that could hinder institutional efficacy and political stability in any presidential system, was settled.

(2) Janus Faces of Korean Presidency: Imperial but Fragile Presidency

The Korean presidency is oftentimes called an “imperial presidency.” At the same time, the Korean presidency is very fragile because it possesses characteristics stemming from the institutional arrangement of the constitution such as single-term limits and complicated election timing.

Imperial presidency

The “Imperial presidency,” a term describing unbridled presidential power, emerged as one of the most serious obstacles to the consolidation of democracy in Korea (Croissant 2003, Im 2004). Excessive use and abuse of presidential powers is not uncommon, especially in a fledgling and nascent democracy, including that of Korea (O’Donnell 1994, 1998). Korea’s constitutional structure bestows power in the hands of a single person, the president. As in other presidential systems, the Korean president wears two hats as both the head of state and head of the executive branch.

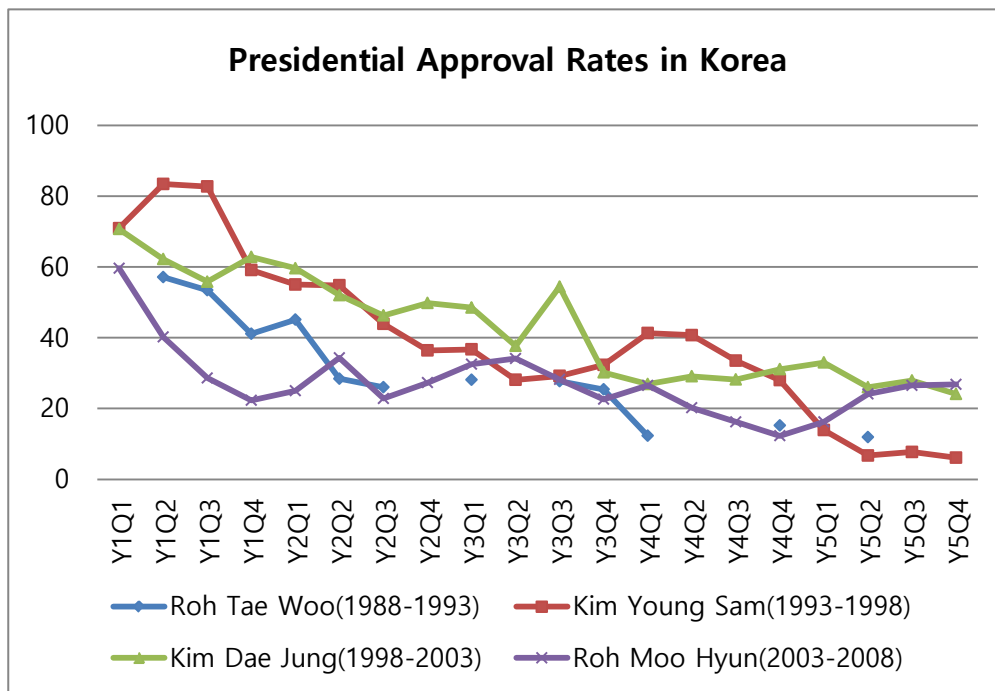
However, the “imperial presidency” in Korea is not a legally fixed concept (Im 2004). The President’s power is based mostly on external sources rather than the constitutional provisions that outline a president’s formal responsibilities, functions, and duties. It is derived from the very fact that the country’s president holds the top position in a highly disciplined, efficient ruling party and is the leader of a regional voting base. The president automatically assumes the position as the head of the political party that elects him/her to presidency, thereby granting him/her the power to select candidates for National Assembly elections and to finance their electoral campaigns. By using non-statutory political power and his/her

partisan, regional base, a president can extend his/her influence over the legislature. The extension of a president's power makes the Korean presidency into an imperial presidency.

Because of these characteristics, a Korean president has wielded unrivaled influence over distributive policy, especially budget allocation, before and even after the country's democratization. The budget is highly centralized in Korea so much that the budget compilation process is completely dominated by the Presidential Office, and the Ministry of Strategy and Finance (Park 2004, Horiuchi and Lee 2008). Furthermore, a president's power is rarely marred by any challenges or restrictions from the National Assembly during the budgetary review process. Control and influence of the executive branch over the legislature is firmly rooted, as the National Assembly seldom makes modifications or corrections to the executive's budget proposal. The relation between the presidential/executive branch and the National Assembly will be discussed further with a specific focus on this budget process.

Fragile Presidency

Figure 2-1. Presidential Approval Rates in Korea



Source: Gallup Korea, <http://www.gallup.co.kr/>

As seen from the Figure 2-1, four presidents who came into the office after the country’s democratization started losing support during the middle of their administrations and faced lame-duck phenomena early on. Kim Young Sam’s approval rate, which was over 80% at the start of his administration, fell to a single digit percentage of 6.1% at the end of his five-year term. Other presidents showed a similar trend. During the early stage of their administrations, their approval rates were around 60-70% due to the honeymoon effect; two years into the presidential term, approval rating of the presidents all fell below 50%. Kim Dae Jung recorded an approval rating of 54% after being recognized for his contribution to the improvement of South Korea-North Korea relations during his third year in office, but it soon

plummeted to 30%. No president won over 30% of approval rating during the fifth year of his term. What then caused the “imperial presidency” to turn into a fragile presidency all of a sudden?

a. Five-year terms and single-term limit

One important institutional characteristic of the Korean presidential system is the five-year term and single-term limit. The constitution not only concentrates power in the hands of the president, but also limits the term of presidency to the five-year single term. The President’s single-term limit was negotiated through a compromise among the leading players in the making of the 1987 constitution. Ironically, three leading players in that decision – Roh Tae Woo, Kim Young Sam, and Kim Dae Jung – were all elected into the presidential office under this very constitution on which they had helped to reach compromises. According to Im (2004), “The 1987 constitution has been known as the constitution of, by and for two Kims and Roh Tae Woo.”

The five-year, single-term limit has been criticized for being ineffective and lacking in accountability and reliability. In the first place, the single, five-year term made the president vulnerable to the lame-duck phenomenon, thus diminishing his authority (Kihl 2013). Every president’s approval rating plummeted at the end of his term. One possible explanation for this is that government officials and bureaucrats were no longer bound to show loyalty to the president in the later part of his/her term unlike during the earlier part. Single-term limits also placed the president under heavy criticism and attacks from the opposition parties who were no longer afraid of the president’s power by the end of his/her term.

b. Non-concurrent election timing

The 1987 introduction of the five-year-term presidency which was not always compatible to the four-year-term National Assembly membership, made the time span between elections short and irregular. As a result, the securing of democratic accountability through ‘regular’ elections was rendered impossible.

From the president’s perspective, the fact that his/her ruling party suffers a defeat more often during a midterm election than during a simultaneous election presents a more severe problem because this increases the likelihood that a divided government will emerge (Conley and Borrelli 2004, Gershtenson 2006). In Korea, at least one or two National Assembly elections occur during a president’s five-year term. As we have already seen, a divided government was disadvantageous for the ruling party. Therefore, the president’s authority may be weakened due to an inter-party conflict if the president’s ruling party loses the majority in an election held during the president’s term.

Independent of the electoral outcome, frequent and irregular elections make it difficult to achieve the kind of democratic accountability guaranteed by regular elections. Moreover, the elections discourage governments from setting long-term goals and addressing collective and nation-wide interests. Instead, they make them focus on shortsighted policies that would attract potential voters.

c. President’s exit from ruling party

A president’s withdrawal from his/her party can be seen as the ‘last stop’ in the lame-duck phenomenon. That is, a president withdrawing from his/her party due to pressure imposed by the press and the ruling party cannot be beneficial to securing political accountability, especially when we consider that this withdrawal is comparable to an involuntary expulsion. In Korea, such withdrawals became a common practice since the introduction of the five-year term, with the former presidents Roh Tae Woo, Kim Young

Sam, Kim Dae Jung, and Roh Moo Hyun all withdrawing from their parties during their term in office. The explanation behind this is simple. “Neither the ruling party’s presidential candidate nor its legislators had strong incentive to cooperate with a lame-duck president.” (Haggard 2000)

Table 2-7. President’s withdrawal from ruling party and Non-Party Governance (1987-2008)

President	Period	Days
Roh Tae Woo	Sep.9. 1992 - Feb.25. 1993	160
Kim Young Sam	Nov.7. 1997 - Feb.25.1998	110
Kim Dae Jung	May 6. 2002 - Feb.25.2003	295
Roh Moo Hyun	Feb.28. 2007 - Feb.25.2008	362

Source: Park 2013

The first president to withdraw from his party during his term, an unthinkable event during the authoritarian or pre-democratization period, was Roh Tae Woo. President Roh withdrew from the DLP with the agenda of ‘eliminating government interference in elections’ in September 1992, five-years into his term in office. In reality, however, the conflict between the president and the then-head of the DLP, Kim Young Sam, and allegations of corruption led to the withdrawal. Behind the scene, Kim Young Sam was pushing the president about succession. Kim also walked the same path and withdrew from the ruling party near the end of his presidency. In November 1997, five years into office, President Kim expressed his harsh disapproval of politics in Korea and withdrew from his party. Again, what really led to this was the pressure imposed by his son Kim Hyun Chul’s arrest and the conflict with Lee Hoe Chang, then the presidential candidate of the NKP, who openly demanded the president’s withdrawal in October 1997.

Former President Kim Dae Jung also followed this ‘tradition’ and withdrew from the ruling party in May 2002, also five years into his term, as a gesture of apology for his three sons’ corruption allegations. Although presidential candidate Roh Moo Hyun’s party never openly demanded the president’s withdrawal, it was anticipated. After President Roh was defeated during local elections, voices from within the minority party demanding withdrawal increased. In February, 2007, five-years into his term, President Roh also withdrew.

d. Political Retribution

Finally, political retribution has also been a characteristic of Korean politics, especially since democratization. Koreans believe that they have not had any successful presidents. All presidents since democratization in 1987 have been involved in political scandals at the end of their terms or after stepping down from office. It is not surprising, then, that graceful retirement is of crucial interest to an incumbent president in Korea. Two former presidents, Chun Doo Hwan and Roh Tae Woo, were arrested by the Kim Young Sam administration on charges of corruption and participation in military coups in the process of seizing political power. Presidents Kim Young Sam and Kim Dae Jung, were not themselves charged, but suffered the imprisonment of their family members and political attendants, who were involved in corruption scandals either during or after their terms. Another President, Roh Moo Hyun, committed suicide after his term, while he was being investigated under the Lee Myung-bak’s administration. Oftentimes, a change of power has led to belittlement of policies advanced by the previous administration. For example, the Sun Shine policy had been praised as one of the most important achievements of Presidents Kim Dae Jung and Roh Moo Hyun; however, after the right-wing party took over, the policy was criticized as a failure that only helped sustain the North Korean regime. The fear of an ungraceful retirement, which became common among former presidents after democratization, has led

the ruling party and presidents to try to take care of the political opposition, even during their terms.

(3) Conclusion: Political Interest of “Imperial but Fragile” President

The five-year single term president’s incentives cannot perfectly match with that of the candidate next in line or the members of the ruling party because the president does not pursue reelection. PBC takes as its premise an incumbent politician’s desire for reelection (Alesian 1987). This is also the case for election-oriented targeted spending. In other words, incumbent politicians with the absolute goal of reelection can employ a risk-acceptant strategy. This is the reason why politicians seeking office can adopt the "swing voter" strategy even though it is somewhat risk-acceptant (Lindbeck and Weibull, 1987; Dixit and Londregan, 1996). Swing voters are ideologically indifferent to the incumbent and more responsive to material incentives. In other words, there is no reason for them to protect a weakening president who will step down after five years. Rather, it is those “swing voters” who cause the decline in the presidential approval rate. From experience, swing voters who withdraw their support in mid-term cannot be the target of a five-year single term president. It is true that core supporters are less responsive to material benefits than swing voters are (Cox and McCubbins 1986). Therefore a 5-year single term president must avoid risk since he/she knows the core supporters' preference and desires (Schady 2000).

If a five-year single term president cannot avoid risk, then he/she has to at least diversify it. That is why a president ‘targets’ political backers of his/her political rivals as an insurance measure against early lame-duck status due to the institutional arrangements, pressure to withdraw from his/her party, the fear of an ungraceful retirement and political retribution. The logic behind this is that instead of being accused of unfairness by concentrating all his/her political resources on the core support groups, such ‘insurance’ will allow a president to preempt blame that would befall on him/her (Balla et al. 2002).

To summarize, a five-year single term president in Korea since democratization would have the dual incentive to target both his/her core support group (for risk-avoidance) and opposition backers (for risk-diversification).

III. CHECKS AND BALANCES: LEGISLATIVE-EXECUTIVE RELATIONS

(1) Constitutional and Legal Constraints

The Constitutions of *Yushin* and the Fifth Republic under Park Chung Hee and Chun Doo Hwan guaranteed the presidents' predominance over the National Assembly. Although Korean presidents continued to dominate the National Assembly after democratization, presidential authority over the legislature before and after the democratization is significantly different. Under authoritarian rule, the legislative-executive relations were much more lopsided toward the latter.

Dissolution of the National Assembly

One notable difference between a parliamentary system and a presidential system is whether the head of the executive has the right to dissolve the legislature (Linz 1994, Shugart and Carey 1992). Under a parliamentary system, the prime minister is authorized to dissolve the Assembly whereas under a presidential system the president does not typically have the authority to dissolve the National Assembly because this would undermine the separation of powers. Although the Constitution of Korea established a presidential system, it nevertheless granted the power to dissolve the National Assembly to the authoritarian president during the pre-democratization period. The president had the right to dissolve the National Assembly whenever the leader considered it necessary for national security reasons. In case of serious turmoil, the president could exercise emergency measures

covering the entire range of national affairs. Under the constitution of the authoritarian regime, the president enjoyed unquestionable predominance over the National Assembly. The mere fact that the constitution granted the authority to dissolve the National Assembly to the executive power signified that the authority of the National Assembly was seriously undermined since the power to guarantee a National Assemblyman's term is an indicator of the independence and autonomy of the National Assembly.

Park Chung Hee dissolved the National Assembly twice and and Chun Doo Hwan did it once. The Fifth National Assembly was illegally dissolved by Park as a result of his military coup in 1961. The Eighth National Assembly was disbanded with the emergence of the Fourth Republic under the name of the *Yushin* Constitution. The Tenth National Assembly was illegally closed by a military coup led by General Chun Doo Hwan in 1980 after Park Chung Hee's assassination in 1979. Because the president's authority to dissolve the National Assembly was legally protected by the constitution even though he gained power through an anti-constitutional military coup d'état, the National Assembly was, in essence, under the president's influence. The national constitution of the Sixth Republic, which was enacted in 1987 during the democratization process, abolished this right and guaranteed the National Assemblymen's office terms. By doing so, this new constitution provided an institutional framework that secured the independence of the National Assembly.

Formation of the National Assembly: President's Appointment

A president's right to form a part of National Assembly through the appointment of Proportional Representation (PR) members also supports the argument that the National Assembly was under the influence of the president. As discussed in the previous section, under President Park Chung Hee's *Yushin* Constitution, one-third of the National Assemblymen were, in practice, appointed by the president through *Yujonghoe* ("Friends of Government Association), not by the voters. This *Yujonghoe* system went against the basic

characteristics of a presidential system that emphasizes the importance of a functioning check and balances among the three branches of government. During the Fifth Republic under the Chun Doo Hwan regime, the *Yujonghoe* system was abolished. However, the president's predominance over the National Assembly still continued in some other forms. In the National Assembly elections conducted in the N=2 SNTV system, two-thirds of PR seats were assigned to the majority party. This was lopsidedly advantageous to the ruling party. In fact, many of the officers who participated in the military coup d'état led by Chun Doo Hwan in 1979 had a chance of joining the National Assembly through this system. The PR system, which was designed to maintain professionalism and expertise of the National Assembly, was downgraded to a system easily abused for placing the president's aides in the National Assembly. This was actually in stark contrast to its intended purpose and failed to provide and protect a check and balance system between the National Assembly and the executive power.

Election law regarding the allocation of PR seats was amended after democratization and took effect with the Fourteenth National Assembly in 1992. From the Fourteenth to the Sixteenth National Assembly Elections, the PR seats, 46 to 62 out of 299 seats, were assigned to each party according to the number of seats won in the SMD system. Since the Seventeenth National Assembly Election in 2000, the "one-man, two-votes" rule in which voters cast one vote for a candidate in each district (under the SMD system) and another for the political party (under the PR system) was adopted. The new PR system increased the political representativeness. As a result, for the first time in the Korean politics, the Democratic Labor Party (DLP), which can be defined as a truly leftist party in the Western sense, was able to enter the National Assembly. Although the DLP won only two seats in the SMD election, it became a third-place party with ten seats in total by winning eight more PR seats through the newly adopted electoral rule.

After democratization, the president lost the authority to appoint PR members which comprised of one-third of the total seats. Instead, the PR members of the National Assembly were elected by the public votes. As a result, in terms of legislature formation, the independence and autonomy of the National Assembly have drastically improved. While the PR system in Korea still remains questionable in terms of political representativeness, the legitimacy of the PR system under democracy has improved significantly in comparison to under the authoritarian rule.

Parliamentary Inspection of Government Office

While parliamentary inspection of government office was the main tool for the National Assembly to check and balance the executive branch under the separation of powers, it was abolished in 1972 when the *Yushin* Constitution was introduced. The meaning behind a parliamentary inspection of government office is as follows. First, the National Assembly prevents government's arbitrary use of its authority by exposing or rectifying any wrongdoings of the executive branch through inspection of government offices. Second, the National Assembly gathers information they need for legislative activities and budget assessments through the inspections. Third, the National Assembly plays the role of a representative body by suggesting new policy alternatives or incorporating them into legislative bills or budget. Fourth, inspection of government offices gives the public access to a tremendous amount of information and data across diverse areas of government affairs. Therefore, the abolition of the parliamentary inspection of government offices led the National Assembly to essentially give up its role of checking and balancing the executive under the authoritarian rule.

After democratization, the Thirteenth National Assembly reestablished the parliamentary inspection of government offices, an effective way for the National Assembly to exercise its authority and check the unilateral actions of the executive. The inspection still

has some limitations and room for improvement in terms of effectiveness, such as the little time allowed for the inspection, overestimation of the number of the subjected government offices, excessive demands from the Assembly for supporting documents, and lack of scrutiny on the part of the inspected agencies. In order to resolve these problems, measures including the introduction of a year-round parliamentary inspection or cooperation with the Board of Audit and Inspection have been proposed. The restoration of the parliamentary inspection of government offices has made it possible for the National Assembly to check and balance the executive in spite of the above mentioned limitations. Given that the parliamentary inspection of government offices is usually conducted in September, just prior to the National Assembly's annual budget review session in October, the inspection has been recognized as a prerequisite for effective fiscal control by the legislative branch.

Length of Legislative Sessions

Under authoritarian rule, the length of legislative sessions was legally restricted. While there was no restriction imposed on the year-round legislative sessions before the *Yushin* Constitution, the number of days per year during which the National Assembly was in session, including plenary sessions and special sessions, was limited to one hundred and fifty days under the *Yushin* Constitution. This restriction contributed to limiting the National Assembly's influence and independence since there were no sound reasons behind it other than to undermine the activities of the National Assembly. Legislative sessions, which increased by ten days after democratization in 1987, changed to a year-round system with the abolition of the relevant clause during the Seventeenth National Assembly in 2000. This has allowed legislative activities to be conducted 365 days a year.

In conclusion, Korea's authoritarian regimes undermined the authority of the National Assembly to check and balance executive power by imposing institutional restrictions with the aim of expanding the president's power. Presidential authority to dissolve the National Assembly and to appoint PR members, the abolition of parliamentary inspection of government offices, and the restriction on the legislative sessions, were the institutional tools used to significantly undermine the independence and autonomy of the National Assembly. However, after democratization, the main institutional obstacles to the National Assembly's exercise of its authority were abolished.

(2) Law-Making

Constitutional or legal restrictions on the role of the National Assembly imposed under the authoritarian rule had a significant impact on law making activities, regarded as one of the key functions of the National Assembly. There are two indicators that demonstrate this. The first indicator is the proportion of the bills introduced by the National Assembly members relative to the number of bills actually passed. Under the constitution of Korea adopted since 1948, both the members of the National Assembly and the executive branch can introduce legislative bills. As the far right column of Table 2-8 shows, the proportion of bills introduced by National Assembly members during the authoritarian rule was only 3% in the Tenth National Assembly, and 29.7% in the Twelfth National Assembly. In other words, it can be inferred that legislation was heavily concentrated around the bills introduced by the executive branch.

During the early period after democratization, no significant change occurred in the proportion of the bills introduced by the legislature. In the Thirteenth National Assembly, the first assembly since the democratization, the proportion of the bills introduced by the National Assembly was 34.8%, but it fell down to 18.1% in the Fourteenth National

Assembly. Subsequently, however, it increased to 40% in the Fifteenth National Assembly, 54.5% in the Sixteenth National Assembly, and reached the 70% range in the Seventeenth and Eighteenth National Assemblies. This fact demonstrates the initiative of National Assembly members in law making activities since democratic consolidation.

Another indicator showing the legislative-executive relations is the passage rate of government-sponsored bills. From the Eighth to Twelfth National Assemblies, which were under the authoritarian rule, the passage rate of government-sponsored bills was over 90% on average. In contrast, the passage rate of legislator-sponsored bills was only around 40% on average except for during the Tenth National Assembly, which was dissolved by General Chun's military coup d'état in 1979. The fact that among ten government-sponsored bills, nine of them were passed made it hard for the National Assembly not to be labeled as a "rubber stamp" institution.

Table 2-8. Executive-Legislative Relations in Law Making

	National Assemblies	Government-Sponsored Bills	Passage	Passage Rate	Legislator-Sponsored Bills	Passage	Passage Rate	Total Bills	Legislature Proportion
			(A)	%		(B)	%	(C)	% (B/C)
Authoritarian	8th ('71-'72)	35	33	94.3	14	7	50.0	40	17.5
	9th ('73-'79)	479	460	96.0	154	84	54.5	544	15.4
	10th ('79-'80)	125	98	78.4	5	3	60.0	101	3.0
	11th ('81-'85)	287	257	89.5	204	84	41.2	341	24.6
	12th ('85-'88)	168	156	92.9	211	66	31.3	222	29.7
Democratic	13th ('88-'92)	368	321	87.2	570	171	30.0	492	34.8
	14th ('92-'96)	581	537	92.4	321	119	37.1	656	18.1
	15th ('96-'00)	807	659	81.7	1144	461	40.3	1,120	41.2
	16th ('00-'04)	595	431	72.4	1912	517	27.0	948	54.5
	17th ('04-'08)	1102	563	51.1	6387	1352	21.2	1,915	70.6
	18th ('08-'12)	1693	690	40.8	12220	1663	13.6	2,353	70.7

Source: National Assembly Secretariat <http://korea.assembly.go.kr/secretary/>

In the early period after the country's democratization, there was no significant change in the passage rate of government-sponsored bills. During the Thirteenth and Fifteenth National Assemblies, the passage rate was around 80-90%, which was not much different from the passage rate during authoritarian rule. The passage rate fell to 72.4% during the Sixteenth National Assembly, 51.1% in the Seventeenth National Assembly and 40.8% in the Eighteenth National Assembly. In other words, under authoritarian rule, over 90% of the bills introduced by the government were passed in the National Assembly. However, its proportion fell to around 40% with democratic consolidation and it can be interpreted that the National Assembly has properly played its role as a veto power in the legislative process.

There are two factors that help explain how the National Assembly came to play an important role in checking and balancing the power of the executive branch in legislation. First, after democratization, the emergence of divided government worked to restrict the unilateral power and influence of the executive branch over legislation. Second, democratic consolidation greatly improved the professionalism of the National Assembly with regard to legislation. During authoritarian rule and the early period of democracy, the expertise and information-gathering capacity of the executive branch was superior to that of the National Assembly, which led to the dependency of the National Assembly on the executive power in the legislative process. The creation of the National Assembly Research Services (NARS) in 2005 contributed to the improvement of the legislative expertise of the National Assembly. Modeled after the Congressional Research Service (CRS) in the U.S., NARS was established to assist and support the National Assembly's legislative expertise from a nonpartisan point of view. The main function of the NARS is to support the National Assembly in checking and

balancing the executive branch.³ It can be inferred that the decrease in the passage rate of government-sponsored bills in the Seventeenth National Assembly by 20% is related to the legislative support provided by the newly-established NARS.

In conclusion, the legislative capacity of the National Assembly was significantly inferior to that of the executive branch during authoritarian rule. A comparison between the passage rate of legislator-sponsored bills and that of government-sponsored bills clearly indicates the superiority of the executive branch. Legislative-executive relations, which showed no significant difference in the areas of law-making during the early period of democracy, has been transformed as Korean democracy has become consolidated. Divided government and the improvement of the National Assembly's legislative expertise after the establishment of NARS have contributed significantly to this development.

(3) Fiscal Control: Budget Review

Fiscal control through budget review, together with the oversight of executive activities and law-making, is one of the most important responsibilities of the National Assembly. As might be expected, the National Assembly's fiscal control was very restricted under authoritarian rule. Although these restrictions were actually removed after democratization, studies conducted in the early 2000s conclude that there has not been significant changes in the fiscal control of the National Assembly since the country's democratization (Park 2003, Shin 2003). This section will review some of the challenges facing the National Assembly's fiscal control that were highlighted by previous studies and it will seek to evaluate the changing environments and institutional reforms that have occurred during these past ten years.

³ "When NARS discovers any violations of laws by the executive administration or identifies cases where laws, regulations, systems, or administrative affairs require improvement, it reports the results of the related research and analysis to the relevant standing committees" (NARS 2013).

Institutional perspective

As a result of political developments, budgetary institutions have experienced reforms and changes. However, budget actors and processes have remained intact. As in most other countries, “the budget process [in Korea] involves both the executive and legislative branches of government and follows the typical budget stages of executive preparation, legislative review, execution and audit, and program evaluation” (Jung and Clark 2010). The budgetary process in the National Assembly begins once the executive submits its budget proposal to the legislature. The budgetary process in the National Assembly can be divided into three stages: (1) each standing committee’s preliminary review, (2) comprehensive review by the (Special) Committee on the Budget and Accounts (CBA), and (3) final approval in the plenary session.

Park Chung Hee and Chun Doo Hwan, who came into power through military coup d’états, attempted to strengthen the control of the executive branch and to weaken the power of the National Assembly over budget review. To the authoritarian leaders, the legislature’s active involvement in the budget process was presumed to be detrimental to fiscal discipline. According to Von Hagen (1992), many economists also have been skeptical of legislative participation in budgeting, because they thought that weak legislatures have selective affinity with fiscal discipline. Not surprisingly, a decline in influence of the legislature over budget policy occurred in most developed countries as a result of this skepticism (Coombes 1976, Schick 2002). In developmental states in East Asia, particularly in Korea, this trend was particularly pronounced. Top leaders in these countries trusted and relied on economic technocrats who were insulated from external pressures, rather than on politicians who were vulnerable to the election results. Based on this orientation of authoritarian leaders in Korea, the government and the ruling party pre-determined the budget

through the party-government policy consultation system and tried to pass the budget with minimal revision by the National Assembly (National Assembly Secretariat 2008, Kim 1993).

As a result, during authoritarian rule, systemic attempts were undertaken to undermine the National Assembly's influence over budget review. First, the status of the CBA responsible for conducting budget assessment within the National Assembly was undermined. Park Chung Hee transformed the CBA, which had been one of standing committees, into a temporary Special Committee after the military coup d'état in 1961. It was organized on an ad hoc basis whenever a budget came on the legislature's agenda, and then it was dissolved soon after the final budgetary approval. Second, President Chun Doo Hwan abolished preliminary review of the budget by each standing committee and attempted to pass the budget reviewed instead by the temporary special CBA in the plenary session. The National Assembly's budget process, which had involved the standing committee and the CBA, was changed so that the only Special CBA would review the proposal. This decision was influenced by the public opinion that the budget review system of the standing committee was representative only of the viewpoint of each government agency. Abolition of the standing committee's authorization over the pre-assessment was, on the surface, an effort to dismantle the strategic alliance between the standing committee and the executive branch agencies and to govern the National Assembly based on the notion of development and efficiency. However, it eventually led to the weakening of the National Assembly's capacity to check and balance executive power. In the end, the budget revision was left in the hands of the special CBA, which was convened on a temporary basis without any assistance or information from the legislative bodies. This thereby created a system in which any actions of the executive branch could be carried out without much counter-balancing in the legislative. Third, the length of budget review by the National Assembly was reduced. Immediately after his inauguration, Park Chung Hee changed the deadline for the submission of budget

proposal by the executive to the National Assembly from 120 days prior to the start of the fiscal year to 90 days prior. It can be inferred that this was reflective of political efforts to undermine the capacity of the National Assembly to conduct an effective budget review. Lastly, as discussed previously, the abolition of the parliamentary inspection of government offices had a negative impact on the National Assembly's budget review. Since the executive branch controlled the budget-related data and information, abolition of the inspection led to the weakening of the National Assembly's ability to access that data and information. As a result, the National Assembly's budget review became a merely perfunctory procedure.

After democratization, most of the measures that undermined the National Assembly's authority over the budget review were rectified. The parliamentary inspection of government offices was restored in the Thirteenth National Assembly which served as the de facto first National Assembly after democratization in 1987. The inspection usually began around September and reviewed activities of government institutions and agencies including budget implementation. Information gathered from this process was used in the budget review that usually began in October. Preliminary review by the standing committee was also reinstated after democratization.

However, it took quite a long time to restore a permanent (as opposed to a temporary and irregular) CBA due to the ruling party's resistance. There was a significant difference in perceptions between the representatives of the ruling and opposition parties on whether or not the CBA should be permanent in order to strengthen the authority of the National Assembly vis-à-vis the executive branch. For the ruling party, minimizing the problems within the boundaries of the current system took priority, while the opposition party focused on making the CBA permanent. The different preferences stemmed in part from the fact that the ruling party was able to incorporate its interests in the budget formulation process through party-government consultation, whereas the opposition party could participate in the budget process only through the budget review by the National Assembly. In other words, from the

perspective of the opposition party, a permanent CBA would have provided an opportunity to be more involved in the budget appropriation and assessment process. After a long debate, the CBA was finally made permanent after the Sixteenth National Assembly in 2000.

Institutional Reforms

Aside from normalizing the National Assembly's fiscal control by abolishing the aforementioned restrictions, institutional reforms were also enacted to increase the National Assembly's capacity to check and balance the executive branch that had previously dominated the budget process.

a. NABO

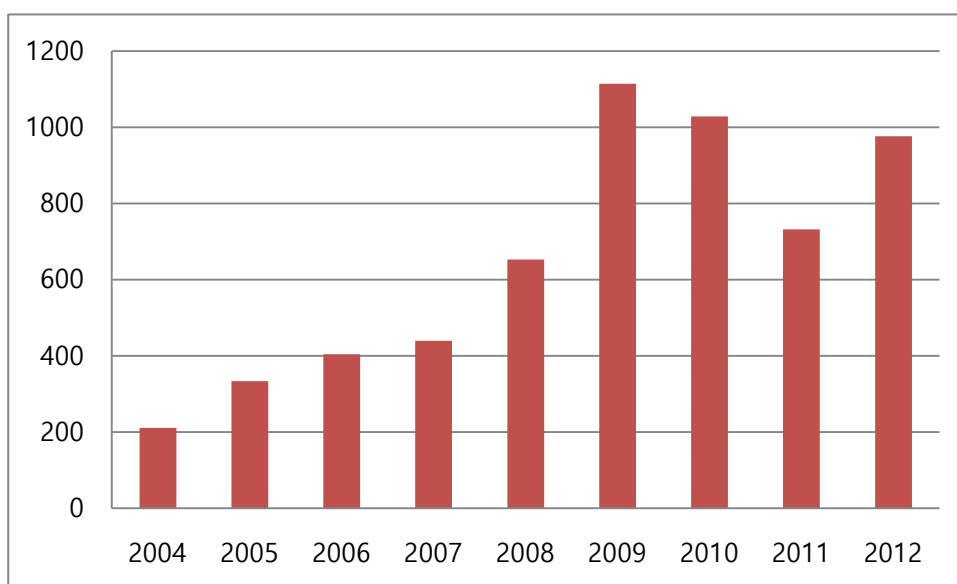
The most noteworthy reform was the establishment of the National Assembly Budget Office (NABO) in 2004. The NABO was established in order to assist the National Assembly members in compiling and analyzing data and information on fiscal policy and the budget. Modeled after the Congressional Budget Office (CBO) of the United States, the NABO was established as a nonpartisan legislative support agency. As of 2012, the NABO consisted of 125 experts--it is the second largest budget-related government support agency after the CBO of the U.S., which has around 250 experts (OECD 2012).

Before the establishment of the NABO, the executive branch controlled access to information which made the National Assembly depend entirely on the executive for any information including revenue and expenditure forecasts. This dependency prevented the Assembly from properly conducting budget reviews. With the establishment of the NABO, however, the National Assembly members could get professional support with the budget review.

As observed in Figure 2-2 below, the number of cases in which individual National Assembly members asked the NABO for expert support with budget-related issues has

dramatically increased since the 2004. In 2004, the year the NABO was founded, such requests amounted to 221 cases, but they doubled to 439 in 2007 and then reached over a thousand cases annually in 2009 and 2010.

Figure 2-2. Number of Cases of Professional Support from NABO



Source: National Assembly Budget Office

The influence of the NABO is demonstrated by an analysis of reductions and increases that derived from the budget review in the National Assembly. Table 2-9 below shows the rate of reduction or increases that stemmed from NABO recommendations on individual items in the Nineteenth National Assembly's budget proposal. From 2009 to 2012, the total amount the government cut from the budget following NABO's recommendations was 21.9 % in 2009, 15.2 % in 2010, 20.0% in 2011 and 22.2% in 2012. This is 20.3% on average during this period. By contrast, the government increased an average of only 3.3% on individual budget items as a result of recommendations by NABO. This means that the NABO typically provided information and recommendations that called for reductions rather than increases in the budget review by the National Assembly. In other words, the NABO's

activities prevented unrestricted budget expansion that could result from a coalition between line ministries in the executive and the National Assembly's standing committees.

Table 2-9. Budget Amendment by the National Assembly and Contribution of the NABO

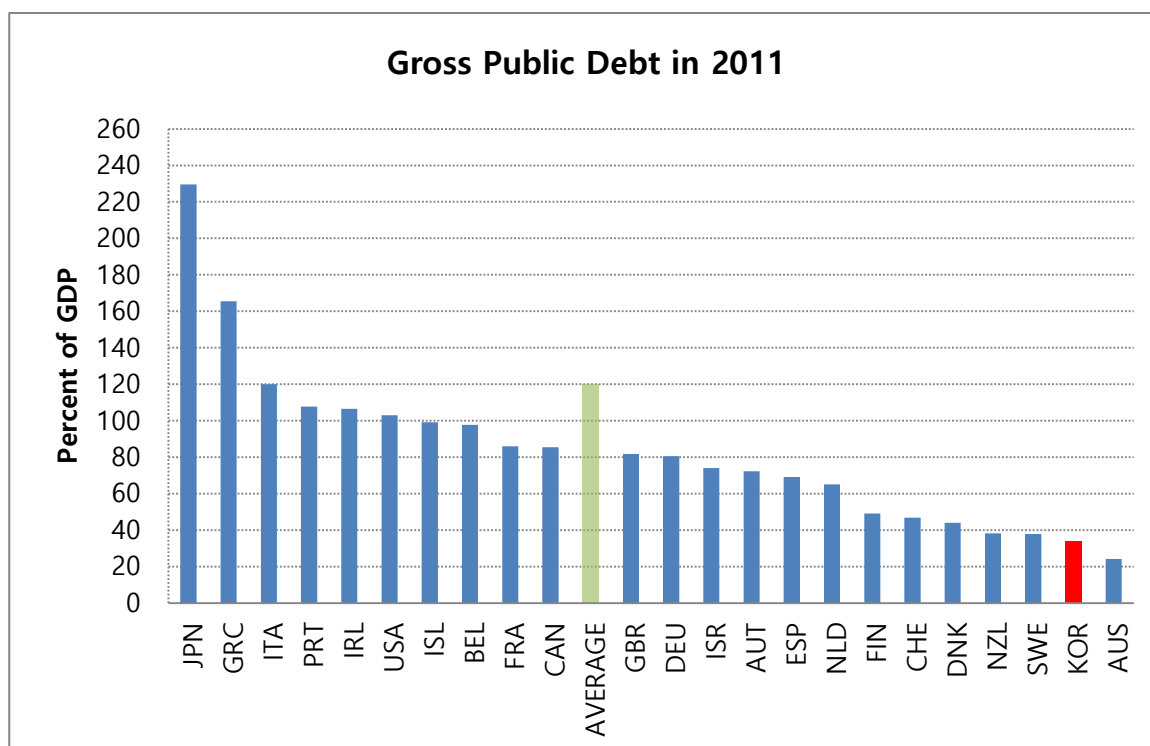
Year	Gov. Budget Proposal	Amendment by National Assembly			NABO's Contribution to Final Amendm		
		Decrease	Increase	Total Amendment	Decrease	Increase	Total Amendment
		(a)	(b)	(a +b)	(c)	(d)	(c +d)
2009	248,336,839	4,094,194	3,955,376	8,049,570	896,840 21.9%	4,860 0.1%	901,700 11.2%
2010	253,354,507	2,769,416	4,049,236	6,818,652	421,310 15.2%	12,079 0.3%	433,389 6.4%
2011	264,462,918	3,132,915	1,960,304	5,093,219	627,897 20.0%	161,636 8.2%	789,553 15.5%
2012	283,215,152	4,525,848	3,998,033	8,523,881	1,006,588 22.2%	285,769 7.1%	1,292,357 15.2%
Total	1,049,369,416	14,522,373	13,962,949	28,485,322	2,952,635 20.3%	464,344 3.3%	3,416,979 12.0%

Source: Shin 2014

According to Jae Wan Park (2013) who had served as the Minister of Strategy and Finance, the NABO played a significant role in securing fiscal discipline in Korea. Advanced countries implemented an expansionist policy immediately after the 2008 global financial crisis and, as a result, greatly impaired their fiscal discipline. Compared to them, Korea implemented a relative prudent fiscal policy to maintain fiscal soundness. Gross public debt in the OECD countries rose on average from 74.3% of GDP in 2008 to 108.5% in 2009 and 120% of GDP in 2011. By contrast, in Korea, the ratio of gross public debt to GDP remained steady with a slight increase from 30.7% in 2008 to 34.8% in 2009. In the latter half of 2011, Korea maintained its debt ratio in the 30% range and has the second lowest ratio of gross public debt after Austria (See Figure 2-3). Park (2013) observed that the NABO's professionalism and expertise has helped maintain fiscal discipline by suppressing the

expansionist desires of line ministries in the executive and the standing committee in the National Assembly.

Figure 2-3. Gross Public Debt in OECD Countries



Source: OECD

b. Control of Public Funds

Another institutional reform that has greatly improved the National Assembly's capacity was the measure that gave it control over all public funds and special accounts. Public funds were managed at the discretion of the executive branch before 2000, with no role for the National Assembly. In general, special accounts were managed separately from general revenue and expenditures (Ha 1997, Ko 2000, Nam and Jones 2003). Public funds are used to finance a project if it necessitates long-term financing or administrative discretion over expenditures. Government offices prefer to use public funds which are relatively more

flexible and do not require detailed supporting documents. Financial operation details were not reported to the National Assembly and the use of public funds did not require the National Assembly's approval. As a result of Korea's budget reforms of 2002, the National Assembly gained control of public funds regardless of whether the funded projects were financed by the general fund or special funds in the form of earmarked revenues (Lienert and Jung 2004). The National Assembly's control over all public funds and its authority to review the use of public funds signify an improvement in public accountability.

c. Accounting and Budgeting System

The expansion of the National Assembly's authority over budget-related matters led to reforms in the accounting and budgeting system. The purpose of budgetary reforms under the Kim Dae Jung and Roh Moo Hyun administrations had been to install a transparent, efficient, and results-based budget process that would ensure the accountability of government agencies and individuals responsible for budget-related affairs (Ha 2004). In order to achieve this, the following fiscal reforms were introduced. First, a medium-term expenditure framework (National Fiscal Management Plan) and multi-layered budgeting were developed. Second, a top-down budgeting strategy was introduced. Third, a performance management system was introduced. Fourth, a digital budget information system—this included a shift from a line-item budget to a program budget structure and the use of accrual accounting—was implemented. These reforms, adopted as part of the National Financial Management Law in January 2007, granted the Assembly access to information that was previously monopolized by the executive branch. It also restricted regulations and codes that had been left under the discretion of the executive branch.

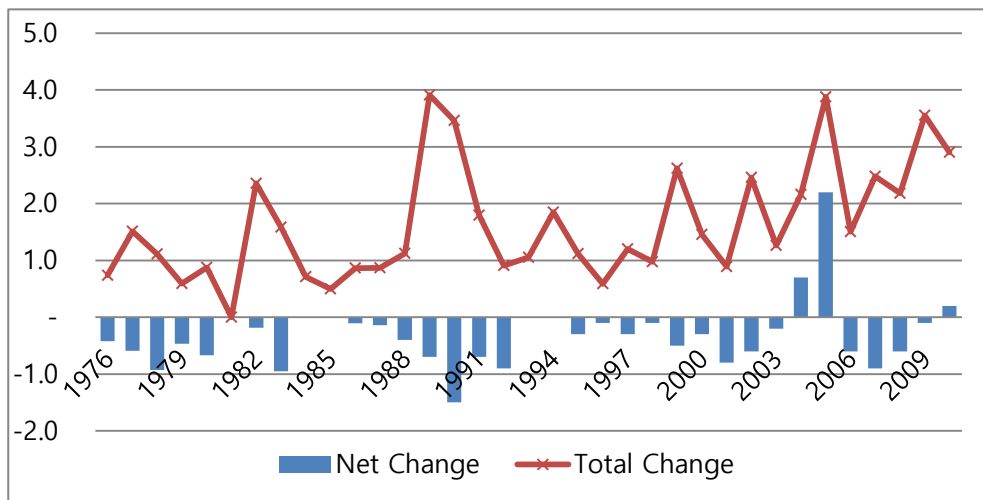
(4) International Comparison

Regarding the above reform measures, two points need be emphasized here. First, it is interesting to note that the need to implement policy reforms had surfaced at the outset of the democratization period, but the actual reforms were delayed due to the strong resistance of the executive branch, in particular from the bureaucrats. What changed in the 2000s that rendered the budget system reforms possible? According to Von Hagen (2007), financial crisis acted as a facilitator of these reforms. This explanation can easily be applied to the case of Korea. During the financial crisis of 1997, Korea had to rely on financial assistance and rescue loans from the International Monetary Fund (IMF), which were issued in November 1997. The IMF's restructuring requirements demanded that Korea reform its fiscal, monetary, and government policies, which might not have been possible without external pressure. Even with the utmost efforts by the National Assembly to reform the budgetary system, it usually faced fierce opposition and resistance from the executive branch. However, during the financial crisis, public opinion was easily mobilized in support of the reforms, thereby minimizing resistance to the budgetary system reforms.

Second, budget-related policy reforms played an important role in helping the National Assembly check the executive branch. According to Streb et al. (2009), PBCs should be larger in countries with few legislative checks and balances or with low observance of the rule of law. For their veto powers to be effective, the legislature also needs oversight and enforcement capacity to insure that the executive complies with the approved budget law. In this respect, the National Financial Management Law, which included all the budgetary system reforms, was crucial for the National Assembly's efforts to check the executive branch.

Amendment Authority

Figure 2-4. Amendment of Budget by the National Assembly



Source: National Assembly Budget Office

Another important point that merits our attention is the amendment authority of the National Assembly. Many studies have argued that the National Assembly's capacity to review the budget has not changed significantly since democratization because it has limited powers to make amendments (Park 2003, Shin 2004). For them, the most apparent evidence of the fact that the National Assembly is not properly playing its role in the budget review is the number of budget amendments. As can be seen in Figure 2-4, the amendment rate of the National Assembly in the budget draft proposed by the executive branch is low. From 1976 to 1987, which were periods under the authoritarian leadership, the net change by the National Assembly within the total budget was 0.4% on average, and it fell to 0.3% after democratization (1988-2010). If one looks at the total change, which includes budget increases and decreases, the trend is somewhat different. The average level of total change during the pre-democratization period was 1.0%, and it increased to 2.2% after democratization. This increase in total change was basically the only noteworthy change.

Because of this limited role by the National Assembly in amending the budget, criticisms such as that “the National Assembly thus far has failed to exercise considerably increased policy leverage over budget matters relative to the executive” (Park 2003: p.520) have gained a firm ground.

Table 2-10. International Comparison of Legislative Influence

	With no changes	With minor changes only	With significant changes
Australia	X		
Austria		X	
Canada	X		
Czech Republic			X
Denmark			X
Finland		X	
France		X	
Germany		X	
Greece	X		
Hungary			X
Iceland		X	
Ireland		X	
Italy		X	
Japan	X		
Korea		X	
Mexico		X	
The Netherlands		X	
New Zealand	X		
Norway		X	
Poland		X	
Portugal		X	
Spain		X	
Sweden		X	
Switzerland		X	
Turkey		X	
United Kingdom	X		
United States			X
Total	6	17	4
Percent of total	22%	63%	15%

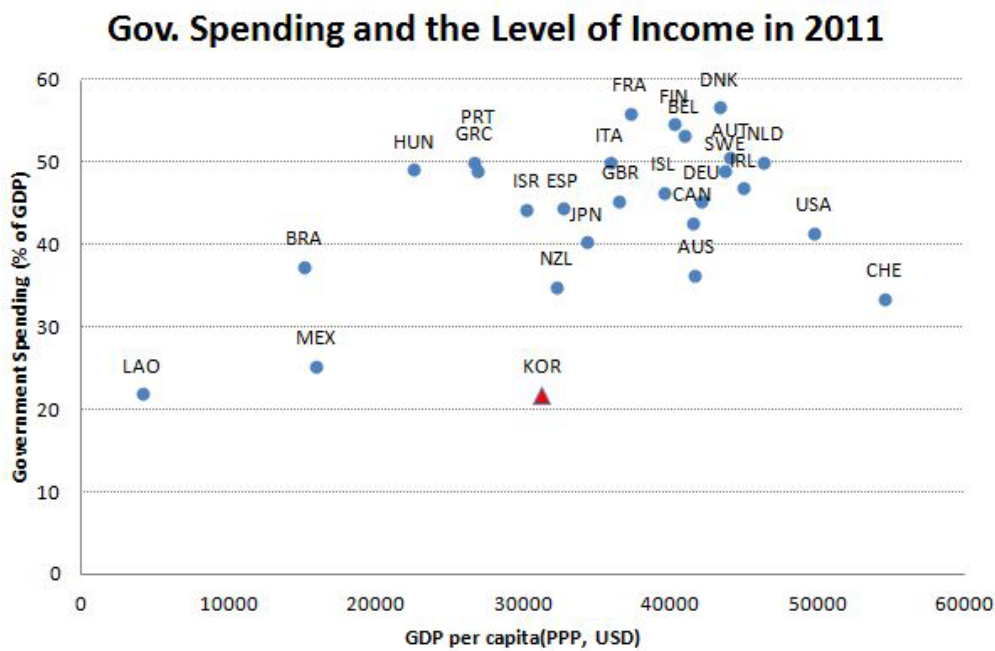
Source: Wehner (2004), OECD (2002).

There is a need to analyze whether such criticism is sound through a comparative perspective. As can be seen in Table 2-10, according to studies by the OECD in 2002, among 27 member countries of the OECD, there are only four countries (Czech Republic, Denmark, Hungary, United States) in which “the legislature generally approves the budget as presented by the government ‘with significant changes.’” This represents 15% of the total number of countries. The majority of OECD members, specifically 17 countries including Korea or 63% of the total, have legislatures that approve the budget “with minor changes only.” Six countries, including countries with Westminster-type parliaments (Australia, Canada, New Zealand, and United Kingdom), Japan, and Greece, typically approve the budget “with no changes.”

Fiscal Prudence

It should be noted that there are significant constitutional constraints on the authority of the National Assembly to finalize the budget in Korea. According to the Constitution, the National Assembly has no power to increase the total amount of the proposed budget and to add any new expenditure items in the budget without prior consent of the executive. This constitutional constraint on the amendment authority of the National Assembly reflects the history of fiscal prudence in Korea. As discussed earlier, Korea has a relatively low level of public debt and typically runs only a small budget deficit. Korea also has one of the lowest ratios of government spending to GDP among the OECD members. (See the below Figure 2-5)

Figure 2-5. Government Spending and the Level of Income in 2011

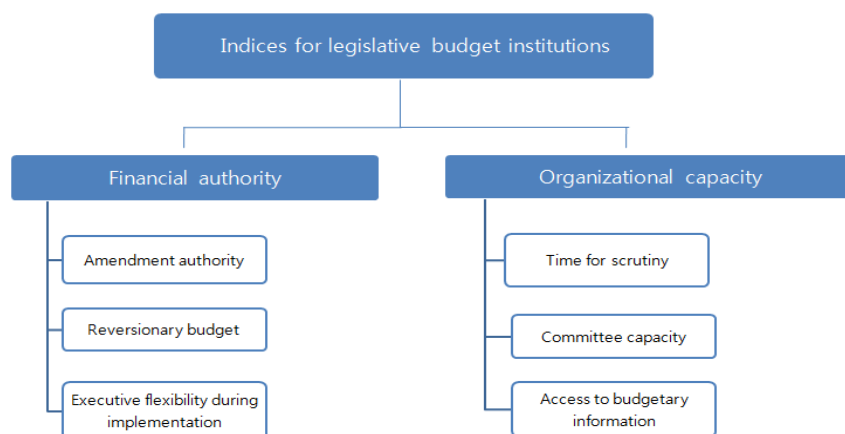


Source: International Monetary Fund

We have pointed out that the National Assembly’s right to increase the budget is constitutionally constrained, but that when compared with other countries, the degree of amendments in Korea is not exceptional. It should also be noted that Korea has a very low ratio of government spending to GDP compared with other OECD countries, which reflects a lower level of social welfare spending. Under these circumstances, efforts by the National Assembly to reduce the budget as much as possible in an effort to increase its influence over the executive branch could decrease the quality of public services. This means that unrestricted authority by the National Assembly over budget amendments may not always be good for the public interest. In this vein, we need a more balanced and a comprehensive approach to evaluating the legislature’s role in the budget process.

Financial Authority vs. Organizational Capacity

Figure 2-6. Various Elements of Indices for Legislative Budget Institutions



Source: Chunsoon Kim 2015

As Wehner (2010) has pointed out, amendment authority is not the only way to measure the legislature's impact on the budget. Since Von Hagen (1992) introduced the pioneering index of parliament's impact on the budget, scholars have proposed additional indicators which include: the nature of the reversionary budget (Alesina et al. 1999); parliament's role in approving medium-term expenditure parameters; the time available for the approval of the budget; the technical support available to the legislature; and restrictions on executive flexibility during budget execution (Lienert 2005). In addition to the development of the index, Wehner (2006, 2010) and Chunsoon Kim (2014) compiled indices for legislative budgetary institutions for international comparison: two global indices for 'financial authority' and 'organizational capacity' and six sub-indices for each global index. The indicators of financial authority include amendment authority, a reversionary budget, and executive flexibility during implementation. The indicators of organizational capacity include

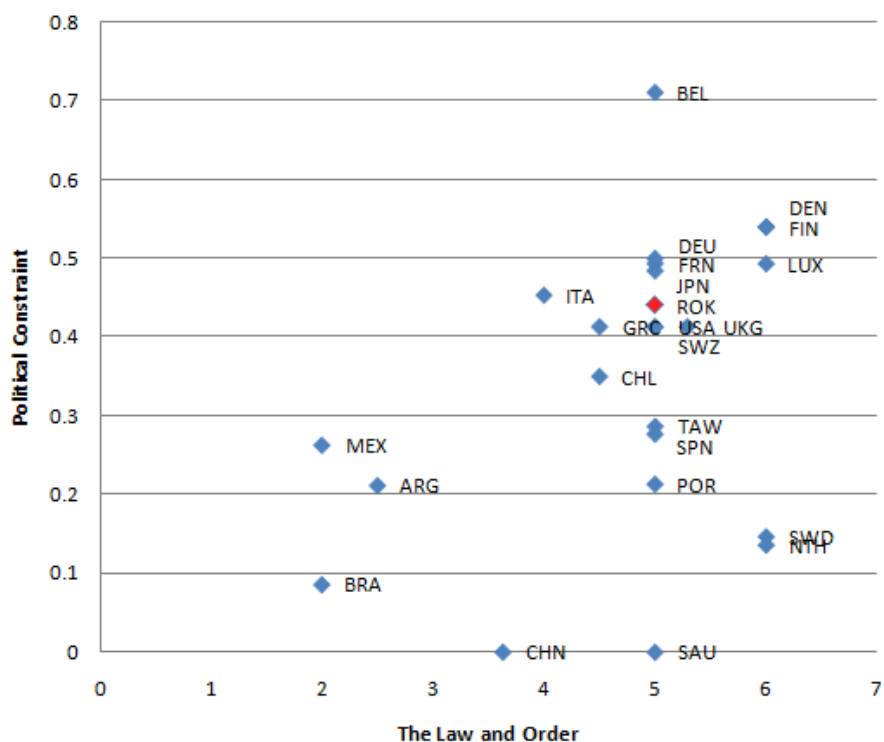
the amount of time given for scrutiny of the budget, the committee's capacity and its access to budgetary information. (See Figure 2-6.)

Based on these comprehensive indices for legislative budget institutions, Korea is ranked 14th, according to Wehner's analysis (2010), and 10th according to Kim's analysis (2014) among the 60 countries investigated. (See Appendix 1 to Chapter 2) Note that Korea's financial authority which includes amendment authority, a reversionary budget, and executive flexibility as its sub-indices, is relatively low, whereas its organizational capacity which includes sub-indices of time for scrutiny, committee capacity, and access to budgetary information is relatively high. A similar pattern is observed for Canada, the Czech Republic, France, Hungary, Israel, Kenya, Mexico, and Taiwan. On the contrary, countries such as Austria, Finland, Germany, Greece, and Italy display the opposite pattern, with high financial authority and low organizational capacity. Belgium, Brazil, Denmark, Netherlands, Norway, Sweden, and the United States exhibit both high financial authority and organizational capacity.

According to Streb et al's (2009) analysis, which focuses on checks and balances and political budget cycles, "checks and balances are effective when there is both a legislative veto player and high compliance with the law." To measure the nominal presence of a legislative veto player, Henisz's (2000) political constraints index POLCON3 is used in Streb et al's study. To identify countries where laws are complied with, Streb et al (2009) employ the ICRG law and order index from Henisz (2000). If we apply these two indices to Korea, it would fall in the high-to-middle group as shown in Figure 2-7. Because Korea has a single legislative chamber, its score for a legislative veto player is 4.4, lower than Finland, Denmark, and Luxembourg, which all have a two-chamber system. On the other hand, Korea's score for the rule of law index is 5 points, again 1 point lower than the United Kingdom, Denmark, and Luxembourg which have 6 points. Therefore, we can see that Korea has few constraints on PBC only compared to the countries located in the upper-right side of the graph including

Belgium, Denmark, Finland, Germany and France. In other words, excluding those countries with particularly high levels of legislative veto power and rule of law, Korea falls into the group of countries with relatively high checks and balances.

Figure 2-7. Political Budget Cycles and Check and Balance



Source: Henisz (2013) POLCON Database (<https://mgmt.wharton.upenn.edu/profile/1327>)

In sum, under authoritarian rule in Korea, legislative-executive relations were unilaterally lopsided toward the latter. The authoritarian regimes undermined the authority of the National Assembly to check and balance the executive’s power by imposing institutional restrictions including the right of the president to dissolve the National Assembly and to appoint a portion of the National Assembly’s members, the abolition of parliamentary inspection of government offices, and the restrictions imposed on the legislative sessions. As a result, the legislative capacity of the National Assembly was significantly inferior to that of the executive branch during the pre-democratization era. After democratization, major

institutional obstacles to the National Assembly's exercise of its authority were abolished. Legislative-executive relations became tilted towards the National Assembly after the consolidation of democracy as it assumed a greater role in terms of lawmaking. The National Assembly's fiscal control, based on its budget review and its ability to check the activities and law-making decisions of the executive branch, has also improved with democratic consolidation. In spite of the criticism that the National Assembly's capacity to amend the budget in Korea has not changed significantly even after the democratization, recent studies that have used updated and more comprehensive indicators show that Korea has relatively favorable conditions for checks and balances compared to most other countries, with high scores on organizational capacity in spite of relatively low scores of financial authority.

IV. CONCLUDING REMARKS: COMBINING THE INCENTIVE AND THE CONSTRAINT STRUCTURE

We have so far discussed the incentive and constraint sides of election-oriented macroeconomic policy that includes political budget cycles and targeted spending. Contrary to the bureaucracy dominance thesis, authoritarian leaders in Korea had incentives to manipulate macro-economic conditions before elections to increase the ruling party's urban representation. Park Chung Hee and Chun Doo Hwan attempted to target spending to urban areas in order to achieve their political objectives. Given their predominant position in the legislative-executive relations, Park and Chun both had almost no constraints in attempting political manipulation of macroeconomic conditions.

After the democratization, the incentive structure for PBC and targeted spending became more favorable. Most presidential elections since democratization have been extremely competitive with a close margin of victory. Divided government has become a frequent phenomenon. This means that an incumbent politician, in particular the president,

have greater incentives for PBC and targeted spending since such spending may prove to be the difference between victory and defeat. An ‘imperial but fragile presidency’ during the post-democratization period led to a discrepancy in political interests and objectives between the incumbent president and the candidate next in line from the ruling party. As a result, we speculate that a five-year single term president of Korea would have incentives to target both his/her core support groups for risk-avoidance as well as backers of the opposition for risk-diversification. However, it should also be noted that the incentives for PBCs and targeted spending increased as electoral pressure escalated due to potential threats in the next election. At the same time, however, the structural constraints on the president’s ability to manipulate macroeconomic conditions for political objectives increased. The stronger organizational capacity of the National Assembly regarding budget review reduced the degree and scale of the president’s discretion significantly.

Thus, I find that the incentive for PBC and targeted spending under authoritarian rule in Korea were smaller than that under democracy, but constraints on PBC and targeted spending were also smaller under authoritarian rule than under democracy. Based on these findings, this study expects that the increased constraints (checks and balances) offset the increased incentive (electoral competition) after democratization. As a result, I expect political business cycles and targeted spending to be present in Korea during the authoritarian period as well as under democracy. In the next chapters, I will test the proposed hypotheses with empirical analyses.

Chapter 3: The Effect of Democratization on Political Budget Cycles

This chapter examines the politicization of macroeconomic policy in developmental states and the effects of democratization on political budget cycles (PBCs) using empirical analyses. In Chapter 1, I proposed that greater politicization occurred in developmental states than what the bureaucracy dominance thesis holds. I argued that the degree of PBCs in Korea should not have significantly changed after the democratization because the increased constraints under democracy have offset the increased incentives for manipulation. In this chapter, I provide empirical evidence to support the arguments made in the previous chapters. This chapter, which consists of four sections, is organized as follows. First I begin with a brief review of empirical studies on PBCs in Korea, focusing on a comparison of their findings and the methodologies they employed. Next I explore the preliminary evidence of PBCs in Korea. Section 3 summarizes the testable hypotheses, and Section 4 tests the hypotheses using mainly time series analysis. I conclude with a discussion on the empirical findings and their theoretical implications.

I. REVIEW OF EMPIRICAL STUDIES ON PBCs IN KOREA

It is not surprising that very few studies on PBCs have focused on developmental states in East Asia, given that developmental states in the region have been regarded as “hard cases” for detecting the effects of elections on economic policy. Here, I briefly survey the empirical analyses used in several key studies that explore the case of Korea. Table 3-1 summarizes the results of the survey.

Table 3-1. Existing Empirical Studies on PBCs in Korea

Author	Dependent Variables	Data	Period for Analysis	Methodology	PBC
Soh (1988)	Government expenditure Money supply	Not specified	1962-1979	OLS	Partially exists but not by election
Kim (1999)	Economic growth Inflation Money supply Stock price index	Quarterly	1981-1996	Descriptive Statistics	Not exists
An (2002)	Money supply Budget balance	Quarterly	1963-1997	ARIMA	Conditionally exists only in fiscal policy
Kwon (2005)	Government expenditure	Quarterly	1988-1997	AR(1) (Prais-Winsten)	Exists

Koh (1988) tries to determine whether a political business cycle existed in Korea during the Park Chung Hee regime from 1962 to 1979. According to Koh, although Korea had a somewhat different election environment than Western democracies, there was no reason for an incumbent politician not to manipulate business cycles for the maximization of his or her political gain. The evidence presented in this work indicates that political disturbances were influenced by economic conditions, and economic policy measures seemed to reflect political considerations. Although this study does not address the effect of the timing of elections on fiscal and monetary policies, it shows that political disturbances, including student demonstration and labor disputes, affected government expenditures and the money supply. However, Koh's argument is not supported by his empirical analysis because he employs an unsophisticated statistical method. For instance, the regression results supporting his arguments include autocorrelation problem as he himself notes. Some Durbin-Watson statistics are 2.6000 and 0.243 because OLS is employed without addressing the serial correlation problem.

Chae-Han Kim (1999), on the other hand, tries to examine the possibility of PBCs in Korea by using economic voting theory. According to him, since Korean voters do not have

strong beliefs regarding the incumbent party's responsibility for the national economy, the government's intentional manipulation of economy before elections is not demonstrated by his analysis. However, Kim's study is limited in that he presents only some descriptive indicators without a systematic in-depth analysis.

An's (2002) study presents a major challenge to the bureaucracy dominance thesis in developmental states. This study suggests that Korean governments tend to manipulate fiscal and monetary policies only when faced with difficult economic and political conditions. The study also suggests implicitly that democratic governments tend to manipulate economy under electoral pressure. An's study is worthy of notice in that he tries to incorporate various political variables such as the incumbent party's popularity, election rules, regime type, and closeness to elections. The statistical method is also more sophisticated compared with the previous studies. However, the limitations of this study are two-fold. First, the operationalization of some political variables seems arbitrary. For instance, no concrete and objective criteria are provided when he measures a government's popularity, which is coded minus one (-1) for each political event that has a negative impact on the incumbent and plus one (+1) for each positive event. He also categorizes a government's popularity into three groups without considering combining numerical variables. Secondly, some statistical methods used are inappropriate for testing An's hypotheses. For instance, he uses interaction terms to test the significance of interaction effect between an election and popularity, and between proximity and regime. However, he simply adds interaction terms, omitting the original individual variables in the equation. As Gujarati (1995) points out, without the original variables, we cannot estimate whether the simultaneous presence of the two attributes will attenuate or reinforce the individual effects of each attribute. Despite his ambitious theoretical questioning of bureaucracy dominance thesis, the study's arguments are insufficiently supported by his empirical analysis because of the inappropriate methodology.

Kwon (2005) tests the existence of political budget cycles in developmental states, and extends his analysis in an attempt to detect whether targeted spending was used for electoral purposes. With relatively parsimonious methods, this study provides clear evidence of the electoral manipulation of the macro-economy. In addition to the excellent literature review that combines PBC theories with developmental state theory, Kwon provides an appropriate interpretation of empirical evidence within the historical context. However, the empirical analysis falls short. The time period for his analysis extends from 1988 to 1997, which falls within the post-democratization era. During this period, electoral competition in the Korean politics was restored and bureaucrats were not free from the impact of electoral politics.

In order to delve into Kwon's thesis, we must first address the questions: what is the core assumption of the bureaucratic dominance thesis? Were the bureaucrats apolitical when they made major decisions and if so, why? Could bureaucrats make major decisions based on the long-term development objectives without taking into account short-term political considerations, that is, the risk of losing election (Kim 1987, Haggard 1990, Chu 1989)? Given that the restriction of electoral competition was regarded as a prerequisite of successful economic growth in the developmental states, the main characteristic of the developmental states was eroded with democratization. As Kwon admits, "the findings of this paper may not be conceived to disconfirm the literature on the developmental state, which is presumed to have been at its height during the pre-democratization period." Thus Kwon's empirical analysis does not provide a "revisionist" view of the developmental state. If he has aimed to target the core of developmental states, he should have directed his attention to the pre-democratization period. Otherwise, there is no difference between this study and the demise of developmental state thesis. In addition, the 10 years – 40 quarters – that are included in this analysis is not so long enough for time series regression.

It should be also noted that the dependent variables used in the previous studies have some limitations with regard to their ability to capture the incumbent's intentional actions for political purposes because the variables include both cyclical factors in a market economy as well as factors that are at a government's discretion. This will be discussed again in section 4.

II. PRELIMINARY ANALYSIS

In order to test the existence of a political budget cycle, a more sophisticated and strict statistical analysis is required. As will be further elaborated in the later sections, the statistical analysis used in this dissertation isolates GDP growth from economic cycles in order to determine whether an incumbent has discretion over the fiscal stance in a certain period. The timing of elections is the main independent variable of the analysis. Here, I will conduct a preliminary analysis by selecting critical cases of PBCs. This analysis becomes more substantial with the consideration of the political and economic environment in which an election is held and the issues that concerned policymakers. Using the preliminary evidence derived from this section, Section 4 will examine the occurrence and the degree of change in political budget cycles in South Korea before and after democratization.

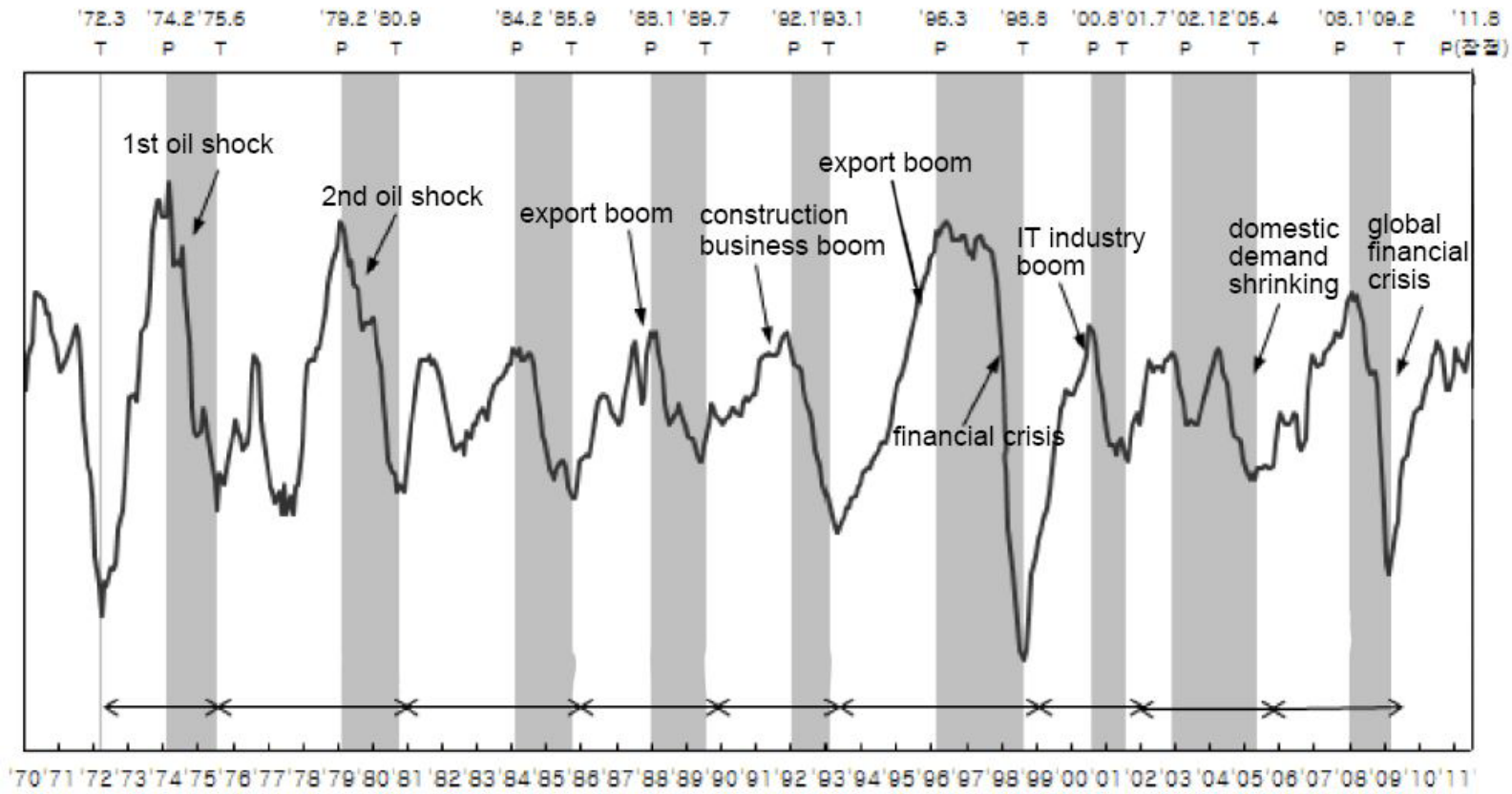
In order to determine the occurrence of a PBC at this stage without statistical analysis, we must verify certain conditions. First, an election held during a recession period is not appropriate when determining whether an incumbent has manipulated macroeconomic policy during an election. According to PBC theories, incumbents tend to increase expenditure right before an election and to decrease it right after an election. In a similar vein, incumbents tend to decrease tax revenue before an election and increase it after an election. However, when an election is held during a recession, it is difficult to determine whether an increase in expenditure or a decrease in tax revenue indicates a PBC or is caused by a counter-cyclical adjustment in the recession period without a statistical analysis with all other variables controlled. In contrast, during an expansion period when the economy is in

upswing, a government should take counter-cyclical policies that could “cool down” the economy as a stabilization policy. Thus the counter-cyclical policies implemented during an economic expansion period tend to increase tax revenue and decrease expenditure. Hence, if we find evidence of decrease in tax revenue or increase in expenditure around an election period during an economic expansion, we can speculate that the fiscal policy during the period has been manipulated for political objectives. This is especially likely to be the case if Cooper and Haggard’s (1988) assertion that South Korean governments successfully manage counter-cycles is correct.

I will first focus on the pre-democratization period. Presidential elections during the Park Chung Hee and Chun Doo Hwan regimes were rituals that lacked competitiveness, but the legislative elections were more competitive. The elections that provided incentives for the incumbents to manipulate fiscal policy included the National Assembly Elections held in the years 1973, 1978, 1981, and 1984. Except for the 1973 election, the other three elections were held during a recession period as defined by the Statistics Korea’s (KOSTAT) analysis of business cycles in Korea. Therefore, these elections are inappropriate for this preliminary analysis.⁴ By contrast, the 9th National Election was held on February 9, 1973 during an economic expansion period and therefore can be used as a viable case study.

⁴ See Appendix 1 for the characteristics of fiscal policy around the three elections.

Figure 3-1. Business Cycles in Korea



T: Trough, P: Peak

Source: Korean Statistical Information Service, <http://kosis.kr/>

In a similar vein, eight elections held in the post-democratization period can be considered as viable case studies, including the 1992, 1997, 2002, and 2007 Presidential Elections and the 1992, 1996, 2000, 2004 National Assembly Elections. The 16th National Assembly Election (2000), which was held during a period of economic expansion, is adopted as a case-study.⁵ As noted earlier, the other seven elections held during recession are excluded because there is no certain way to determine whether an increase in the expenditure or a decrease in the tax revenue during these elections indicates a PBC or caused by a counter-cyclical adjustment.

1. Pre-democratization period: The ninth National Assembly Election in 1973

The 9th National Assembly Election held in 1973 was the first election held under Park Chung Hee's *Yushin* System. From Park's perspective, it was an occasion to test the effectiveness of the N=2 SNTV, which was designed and implemented to increase the DRP's urban representation and to soothe political conflicts with the opposition parties. Considering the political pressure that Park faced just after declaration of the *Yushin* Constitution, we can speculate that he had a strong incentive to manipulate fiscal policy for political objectives.

South Korea's economy was struggling with inflation during this period. The Guidelines for Budget Compilation for the fiscal year of 1972 reflects these concerns.⁶ The Guidelines for Budget Compilation for the fiscal years 1972 and 1973 urged the government to refrain from increases in public utility fees and wages to ease inflationary pressures. The guidelines demanded that only a limited number of key industries receive tax exemptions and that tax

⁵ See Appendix 1 for the characteristics of fiscal policy around the seven elections.

⁶ "The guidelines – annually drawn up by the Ministry of Finance and Economy and conveyed to other government ministries – effectively serve as an instruction to which each ministry refers during the budget-compilation stage. A president's policy priorities – such as presidential campaign pledges – are well incorporated into" it (Horiuchi and Lee 2008).

exemptions should be cut in general to increase tax revenue. In addition, it sought to block the government from hiring new civil servants and placed restrictions on benefits paid to the civil servants. In short, the guidelines were calling for a counter-cyclical adjustment during a period of economic expansion.

There is a difference between fiscal policy guidelines published by the government and the actual revenue and expenditure. The chart below shows the revenue and expenditure during the four quarters that preceded and followed the 1Q of 1973 when the 9th National Assembly Election was held. It indicates that the revenue had increased according to the guidance's plan since the 1Q of 1972, four quarters before the election. The revenue in this quarter was 182.3 billion Won, a 32.0% increase compared to the same quarter in the previous year (YoY). This trend in the revenue continued until the 3Q of 1972. In contrast, during the 4Q of 1972, right before the election, revenue reached 173.0 billion Won, a 3.5% decrease from the previous year (YoY). In the 1Q of 1973, when the election was held, revenue declined 0.6 % YoY but rapidly increased soon after the election. By the 4Q of 1973, it reached 40.5% YoY. This fluctuation in revenue—the decline observed before and during the election quarter—during a period when the economy did not experience any dramatic changes, leads us to speculate that this was a typical political budget cycle.

Expenditure policies did not adhere to the government's fiscal guidelines either. The records show quarterly increases of 35.7%, 25.1%, 42.7%, 36.9%, and 21.0% respectively from the 1Q of 1972 to the 1Q of 1973. Immediately after the election (1Q of 1973), expenditure was significantly reduced. By the 4Q of 1973, it fell to 1.6%. What we see here is a typical PBC. We discover the same pattern when we examine the fourth-quarter moving average (4QMA) and when we compare all revenue and expenditure in the previous quarter to the current quarter (QoQ).

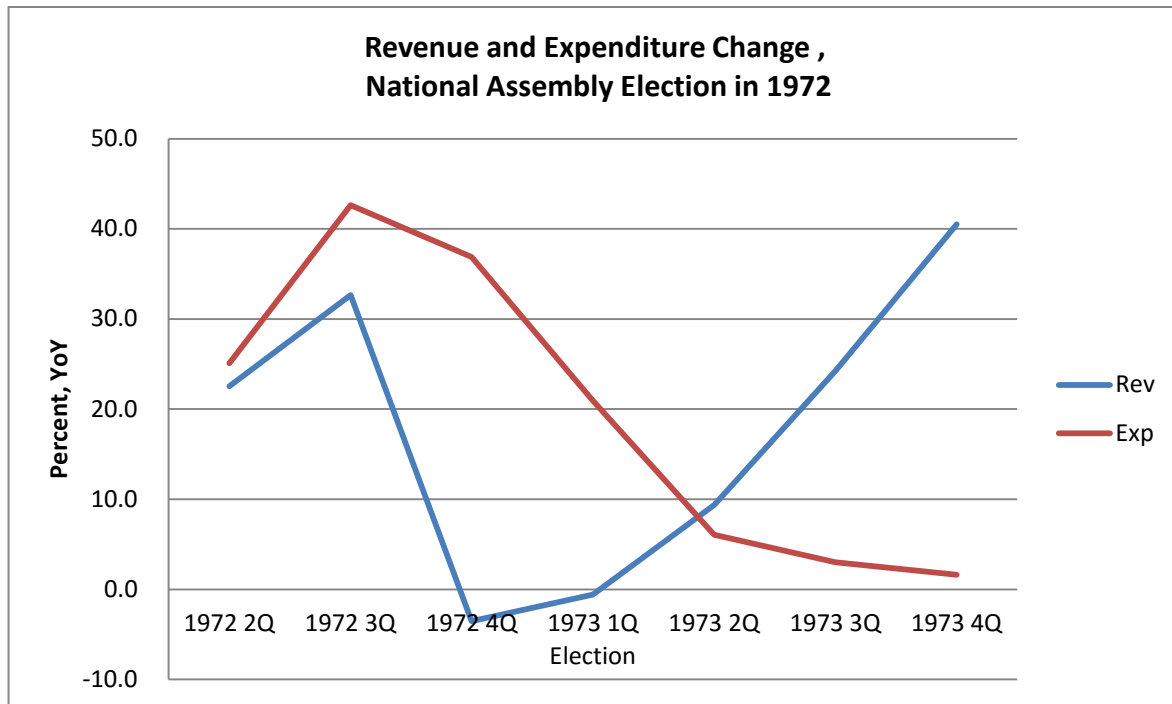
Table 3-2. Revenue and Expenditure around the 9th National Assembly Election

	1972 1Q	1972 2Q	1972 3Q	1972 4Q	1973 1Q Election	1973 2Q	1973 3Q	1973 4Q	1974 1Q
Revenue	182.3	188.8	200.8	173.0	181.3	206.4	249.4	243.1	320.9
YoY	32.0	22.5	32.7	-3.5	-0.6	9.4	24.2	40.5	77.0
QoQ	1.7	3.5	6.4	-13.8	4.8	13.9	20.8	-2.5	32.0
4QMA	7.5	5.5	7.5	-0.6	0.2	2.8	6.4	9.2	16.0
Expenditur	192.5	189.2	224.3	246.1	232.8	200.7	231.0	250.1	370.3
YoY	35.7	25.1	42.7	36.9	21.0	6.1	3.0	1.6	59.1
QoQ	7.0	-1.7	18.5	9.7	-5.4	-13.8	15.1	8.3	48.1
4QMA	8.0	5.9	9.6	8.4	5.3	2.3	1.4	1.0	14.4

Source: Ministry of Strategy and Finance

To summarize, as demonstrated by the figures below, revenue during the period followed the government's fiscal guidelines in general and displayed evidence of counter-cyclical adjustments. However, we can also observe a drastic decline in tax revenue just before the election, and then a rapid recovery just after the election. Another finding is that while the Guidelines for Budget Compilation for fiscal years 1972 and 1973 called for budget austerity, expenditures increased until the first quarter of 1973. The expansionary expenditure continued during the election period and plummeted just after the election. The trend shows pro-cyclical adjustments before the election and then a return to counter-cyclical adjustments after the election. Such short-term manipulation can only be explained by intervention for political gains. In other words, it is highly probable that the Park regime manipulated revenue and expenditure policy during this period in order to rally support in the short term.

Figure 3-2. Budget Cycles around the 9th National Assembly Election



Source: Ministry of Strategy and Finance

2. Post-democratization period: The sixteenth National Assembly Election

The 16th National Assembly Election held in 2000 was the first election after the peaceful transition in 1998 led by President Kim Dae Jung. Although President Kim won the election through a successful coalition with Kim Jong Pil's ULD party, the coalition remained a minority at his inauguration. The Kim administration resolved the divided-government issue by gaining a majority through an artificial political reorganization just as his predecessors had. Kim Dae Jung faced many challenges including a political rivalry with minority parties as well as unresolved problems from the 1997 financial crisis. When Roh Tae Woo, Kim Young Sam, and Kim Jong Pil attempted to merge their parties in 1990, Kim Dae Jung's PDP resisted vigorously. The 16th Election held in April 2000 hence presented a critical opportunity for the Kim administration to rescue the President's reputation, which was impaired by his use of the very

undemocratic practice he himself had once criticized. Thus, the Kim administration had sufficient incentives for political manipulation of fiscal policy for the election.

The 1999 budget was the first budget set by the Kim administration after he took office. The Guidelines for Budget Compilation for fiscal years 1999 and 2000 reflected the difficulties the Kim administration was facing. President Kim took office in the immediate aftermath of the 1997 financial crisis and thus was faced with low growth, a decrease in consumption, a high unemployment rate, and a decline in corporate profits, to name a few of the problems. In order to effectively support the restructuring of the financial sector, it was necessary to increase tax revenue but this was difficult to achieve.

Table 3-3. Budget Cycles around the 15th National Assembly Election

	1999 3Q	1999 4Q	2000 1Q	2000 2Q Election	2000 3Q	2000 4Q
Revenue	23044.3	16586.9	26533.3	31025.3	27291.6	25311.1
YoY	-7.4	-33.0	-16.5	20.1	18.4	52.6
QoQ	-10.8	-28.0	60.0	16.9	-12.0	-7.3
4QMA	-0.4	-7.3	0.6	9.5	9.2	14.4
Expenditu	22870.8	26369.7	24765.5	27292.5	31226.4	32944.7
YoY	-22.4	-25.2	-22.7	-13.3	36.5	24.9
QoQ	-27.3	15.3	-6.1	10.2	14.4	5.5
4QMA	-4.7	-5.7	-5.0	-2.0	8.5	6.0

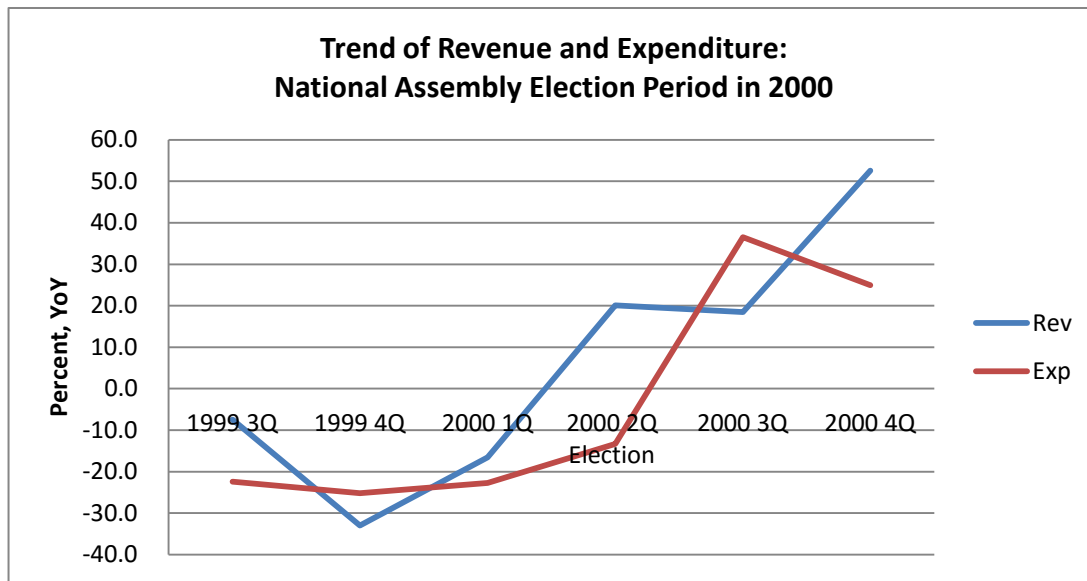
Source: Ministry of Strategy and Finance

When we look at the actual budget, we see that revenues steadily decreased from 4 quarters prior to the election to the 2Q of 2000 when the election was held. From the 3Q of 1999 to the 1Q of 2000, the revenue declined quarterly by -7.4%, -33.0%, and -16.5% YoY respectively. What is interesting, however, is that revenue began to increase beginning with the 2Q of 2000. In other words, the revenue that experienced a downturn until the second quarter of

2000, recovered after the election, increasing by 52.6% YoY in the 4Q of 2000. The reduction before the election might have been a response to the low economic growth and high unemployment rate. However, the fact that revenue increased immediately after the election leads us to suspect that these shifts were politically motivated.

In sum, the two case-studies, one from the pre-democratization period and the other from the post-democratization period, were analyzed in this section to test for PBCs. We can infer that the government used fiscal policy for political ends during the 9th National Assembly Election held in 1973 under the Park regime. The delay in the revenue increase in 2000 and the timing of the 16th National Assembly Election held in 2000 under the Kim Dae Jung administration also suggests political motivations were at work.

Figure 3-3. Trend of Revenue and Expenditure in the National Assembly Election in 2000



Source: Ministry of Strategy and Finance

III. TESTABLE HYPOTHESES

Two hypotheses are tested in this chapter. These hypotheses are based on the previous discussion about the possibility that PBCs may exist in a developmental state even before democratization and that these PBCs continued to exist, without much change, after democratization.

1. PBC in Developmental States Hypothesis

PBC occurred in a developmental state.

The bureaucracy dominance thesis holds that few, if any, PBCs occurred in developmental states because macroeconomic management was conducted by autonomous and competent bureaucrats, who focused on the long-term policy-making. Therefore, it is believed that PBCs, a short-term manipulation of economic cycle for political gains, were either non-existent or weak at best in these countries.⁷ However, as Pempel (1999) points out, the assumption about apolitical bureaucrats in developmental states is worth testing empirically. In addition, a recent empirical study shows that governments of a less-democratic newly-industrialized country such as South Korea, Taiwan, Singapore and Malaysia are more sensitive to their economic performance than what conventional theories suggest (Yap, 2005). The government, even if it is authoritarian, might not be able to avoid bargaining with its citizens under weak or less-than-optimal economic conditions because citizens acting rationally and strategically may choose to withdraw resources such as labor and production investment.

⁷ Kwon (2005) finds empirical evidence of PBCs in South Korea, but, as noted earlier, his analysis deals only with the post-democratization period from 1988 to 1997.

2. Democratization Effect on PBC Hypothesis

The degree of PBCs in Korea did not change significantly after democratization because the increased constraints under democracy offset the increased incentives for manipulation.

The challenges developmental states have faced in dealing with changed internal and external environments have led to “the demise of developmental states,” according to some scholars (Weiss and Hobson 1995, Cheng and Krause 1991, Moon and Kim 1995). They suggest that democratization has eroded certain institutional characteristics of developmental states, making them much more vulnerable to PBCs. It then follows that PBCs emerge as a result of democratization, especially when electoral competition begins to toughen.

This study, however, challenges the conventional wisdom that PBCs require significant electoral competition and instead proposes that PBCs are shaped not only by incentives (electoral competition) but also by constraints, such as the checks and balances exercised by a viable opposition party, independent central bank, free press, and civil society. From this perspective, we can re-write PBCs’ function as below:

$P_i = f(I_i, C_i)$, where P_i is individual politician’s action for PBCs; I_i , the incentives for PBCs; and C_i , the constraints against PBCs

If incentives for PBCs are greater than constraints ($I_i > C_i$), we can expect that incumbents will try to manipulate economic conditions. Otherwise, the likelihood of PBCs will decrease. In other words, the magnitude of difference between incentives and constraints will determine the likelihood of PBC. Thus, this research hypothesizes that the increased constraints (checks and balances) offset the increased incentives (electoral competition) after democratization. As a result, I expect that democratization might not have significantly

influenced the degree of PBCs in developmental states, in spite of widespread concerns about the negative consequences of democratization on economic policy.

Below, I test the above hypothesis by examining whether democratization has changed the degree of the PBCs in Korea. Table 3-4 compares my theoretical expectation with those of other authors.

Table 3-4. Hypothesis and Theoretical Expectation

Hypotheses	Variable	My Expected Effect	Existing Explanations	
Existence of PBC	Election Timing	+ (pre- and post-democratization period)	n/a	Bureaucracy Dominance Thesis
			+	Kwon (post-democratization)
Democratization effect on PBC	Democratization	+ → +	n/a → +	“Demise of Developmental States” Thesis
			? → +	Kwon

IV. STATISTICAL ANALYSIS

1. Data

Economic Data

This chapter uses over 124 quarters of economic data from South Korea from the first quarter of 1970 to the fourth quarter of 2000. This time period is selected for the analysis because of the availability of quarterly fiscal data in Seoul. Quarterly or monthly budget data are used whenever possible in order to trace the impact of election timing on fiscal policy. The quarterly data are selected instead of yearly budget data not only because the latter provides too few number of observations for a reasonable time-series analysis, but also because annual data

cannot effectively detect short-term manipulations of the incumbent's fiscal stance. The fiscal data in Korea has experienced some structural changes brought out by adoption of consolidated budget system in accordance with international criteria exemplified by A Manual on Government Statistics of the IMF (IMF 2001, 2003). Yearly data on consolidated central government budget have been compiled and disseminated by the Korean Government since 1979; quarterly data since the first quarter of 1994; and monthly data, since July 1999. Unfortunately, it was not feasible to use the quarterly data set that dates from 1994 because the data are too short for time series analysis and not suitable for a study that compares pre- and post- democratization periods.

Given the discontinuous time series of fiscal data in Korea, I instead use quarterly revenue and expenditure data from the Monthly Statistics of Korea issued by the Bureau of Statistics Korea, which are identical to the fiscal statistics issued by the Bank of Korea. Although this dataset does not incorporate the revenues and expenditures of local governments⁸ and the social security system, it does include the central government's general accounts, special accounts, public funds and others. The data was reported until the fourth quarter of 2000 and then was replaced by the consolidated budget data. Therefore, this dataset does not include the recent fiscal data, but it is sufficient for our analysis in this chapter that focuses on the effects of democratization on PBC in South Korea. All fiscal data is seasonally adjusted with X-12 ARIMA by author.

The starting point of this analysis is the first quarter of 1970 because it is also the starting point of a consistent time series of GDP data. In the next section, I also use quarterly GDP data to derive dependent variables for this analysis. The quarterly GDP data has been seasonally adjusted by the Bank of Korea. Since we need data on potential GDP to calculate the GDP gap and Fiscal Impulse, I calculate the potential GDP using the Hodrick-Prescott filter, widely

⁸ Strictly speaking, the consolidated budget system has not incorporated local government yet (Ministry of Planning and Budget, Korea 2002).

employed in macroeconomics especially in real business cycle study to isolate the cyclical component of a time series from raw data.

Political Data

The main political variable in this chapter is the timing of elections. This chapter covers 7 presidential elections, 9 legislative elections, and 3 nationwide local elections held between the years of 1970 and 2000 (Table 3-5). The timing of elections in South Korea is fixed. The term for legislators in the National Assembly is four years. Presidential elections were held every four years from 1970 to 1972, six years from 1972 to 1979 while from 1980 to 1987 the election interval was seven years. Since 1987, presidential elections have been held every five years. Local elections were introduced in 1991. (National Election Commission, www.nec.go.kr)

Table 3-5. Election Date in South Korea

Type of Elections	Date (Month, Year)
Presidential Election	April 1971, Dec. 1972, Dec. 1978, Dec. 1981, Dec. 1987, Dec. 1992, Dec. 1997
Legislative Election	May 1971, Feb. 1973, Dec. 1978, March 1981, Feb. 1985, April 1988, March 1992, May 1996, April 2000
Local Election	March 1991, June 1995, June 1998

Source: National Election Commission (www.nec.go.kr)

2. Variables

Dependent Variable

The main dependent variable in this chapter is the incumbent's fiscal position which is used to test Hypotheses 1 and 2. Simply put, a government's fiscal policy can be characterized as "expansionary" or "contractionary." To estimate the effects of the timing of elections on fiscal policy, I use quarterly fiscal impulse, calculated by separating the actual budget balance into two components—a cyclically neutral component and a fiscal stance component, as an indicator to measure the discretionary change in the budgetary position of the incumbents.

Much of the literature on Political Budget Cycles has relied on total central government expenditures to measure an incumbent government's efforts to use fiscal policy in order to manipulate the economic situation before elections. In fact, expansionary fiscal policies can be an effective means of influencing the government's popularity among its citizens. However, expenditures reflect just one side of fiscal policy. In fact, the ruling government produces expansionary fiscal policies before an election in two ways: first by increasing the government expenditures and, second by decreasing taxes (Schunecht 1994). The government may use either one of these policy tools or both simultaneously (An 2002). Therefore, a government's budget balance is a better indicator than its expenditures, when investigating its fiscal policies for possible manipulation.

However, the actual fiscal balance may not be a good indicator to measure changes in fiscal policy. Economic growth rates are important determinants of fiscal position. In other words, the actual fiscal budget balance is shaped by certain cyclical factors in a market economy as well as by the government's discretionary policies. We therefore need to separate the effects of the government's discretionary policies from the effects of economic cycles. In this study, I am mainly interested in those changes in fiscal policy that result from intentional actions by the

incumbent party, as Alesina and Perotti (1995) suggest. In other words, I am less interested in those changes that come from the effect of the economic cycle on expenditure and tax revenues.

The fiscal impulse can be a better indicator to isolate the effects of economic cycles and to determine whether a government's fiscal policy is expansionary or contractionary. The fiscal impulse measure used in this study is similar to that used in the IMF's World Economic Outlook (Heller et al. 1986). It is calculated by separating the actual budget balance into two components—a cyclically neutral component and a fiscal stance component. The cyclically neutral component is defined by assuming that nominal tax revenues are unit elastic with respect to actual nominal GDP and that government expenditures are unit elastic with respect to potential output valued at current prices.⁹ The fiscal stance component – the difference between the cyclically neutral and the actual budget balance – then captures the full effect of automatic stabilizers and discretionary changes in fiscal policy. The fiscal impulse is basically the annual change in the fiscal stance measure expressed as a share of GDP. Negative fiscal impulse indicates a more contractionary fiscal policy relative to that of the previous year, and positive fiscal impulse indicates a more expansionary demand impulse. Based on the previous discussion, I apply this method to calculate quarterly fiscal impulse. A more detailed description of the fiscal impulse calculation method is provided in Appendix 1 to Chapter 3. The result of these calculations is reported in Figure 4.1, along with the timing of elections in Korea.

Despite the simplicity of the calculation, the fiscal impulse indicator has not been widely used in political budget cycle studies, especially in the time series analyses, with a few notable exceptions, including the works of Alesina and Perotti (1995), Von Hagen (2005), and Mink and Haan (2006). It is only in recent years that this indicator, which has commonly been used for

⁹ As will be mentioned in Appendix 1, the unit elasticity has been criticized as an unrealistic assumption by many studies. Simplicity of this measurement is its weakest and strongest point. Given that the other alternative requires complicated and sensitive measurement as well as sufficient data, the Fiscal Impulse used by the IMF can be a plausible alternative.

fiscal adjustment analysis such as those conducted by Alesina and Perotti (1995), is being employed in PBC studies.

Independent Variables

The pre-election period dummy variable constitutes the main independent variable that allows me to test the hypotheses in this chapter. The Election variable takes the value of 1 in the period when expansionary policies are expected, 0 otherwise. I code N quarters prior to the election as the “pre-election periods” to denote the time lag between the policy implementation and the real electoral effects expected by incumbents. $N = \{1\sim 4\}$ quarters because it is not certain a priori how long these effects are likely to last. To compare the pattern of fiscal policy in pre- and post-election in the later part of the analysis, I also choose $N = \{-4\sim 4\}$ quarters.

To test Hypothesis 2, I include a dichotomous democracy variable, coded 1 during periods where Korea was a democracy, and 0 otherwise. This indicator is extracted from the Polity IV Database developed by Marshall and Jaggers (2002) and Freedom House. The widely accepted turning point of democratization in Korea is the fourth quarter in 1987. This variable is used to estimate the interactive effect that the timing of elections and democracy have on fiscal policy.

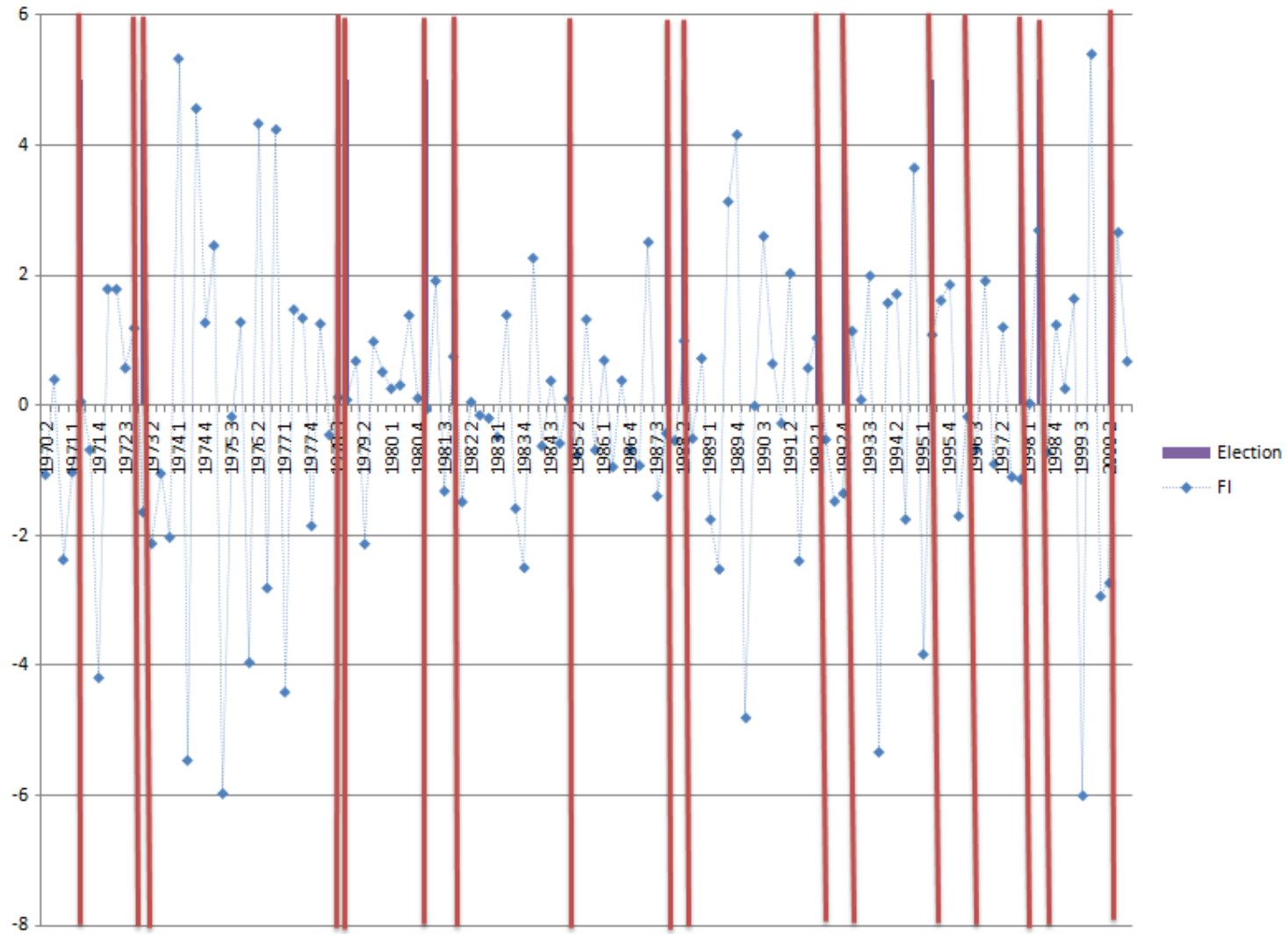
Control Variables

I also control for some economic variables that affect the dependent variable. First, the GDP Gap (differenced) is used to control for a government’s response to a cyclical fluctuation in economy. If a country’s economy is moving toward a recession or is already experiencing it, the government of the country will typically adopt an expansionary fiscal stance. If the economy is booming, a contractionary policy will typically be employed to prevent the economy from overheating. If governments adopt a pro-cyclical fiscal stance, the coefficient of this variable

would be positive and if governments employ counter-cyclical policies, the coefficient will be negative.

The other control variable is the change in the actual budget balance in the previous quarter. If the actual budget balance is negative, the fiscal stance of a government will tend to be contractionary to avoid deficit financing.

Figure 3-4. Fiscal Impulse and Election Timing



3. Methodology

To assess the impact of election timing on fiscal policy and the effect of democratization on political budget cycles in Korea, I employ two main sets of statistical tests. The purpose of the first test is to see whether there are electoral effects on economic policy during all periods, regardless of the type of regime in power. The second test investigates if there is a significant difference in the degree of pre-election manipulation of economy before (1970-1987) and after (1988-2000) the democratization of South Korea.

The basic time series regression model

The basic model of the first test is:

$$Y_t = \alpha + \beta \text{Election} + \gamma_k Z_{k,t} + \varepsilon_t$$

where Y_t denotes the fiscal impulse in time t , Election refers to dummy variables for the pre-(sometimes post-) election periods when expansionary (contractionary) fiscal policy is expected. Z is a vector of exogenous variables that affect the government's fiscal stance: changes in the GDP gap and the actual budget deficit. ε_t is the disturbance term. If the expectations of PBC theory are correct, the coefficient of the Election variable should be positive.

To take into account the problem of serial correlation of error terms, I employ the ARIMA (Auto-Regressive Integrated Moving Average) model (Box and Jenkins 1976, Hamilton 1994, Gujarati 1995). The ARIMA procedure helps us identify time-trends in time-series and controls for the effect of time-trends on the regression model. It requires three steps: identification, estimation, and diagnosis. A detailed description of the ARIMA procedure

employed in this chapter is given in Appendix 2 to Chapter 3. Using this approach, I include ARMA (2, 1) terms for the dependent variable (Fiscal Impulse) in the ARIMA regression model.

Time-Varying Effect of Democratization on Fiscal Policy

The second test examines whether there is a significant difference in the frequency and degree of pre-election manipulation of the economy between the non-democratic periods (1970-1987) and the democratic periods (1988-2000) in Korea. In order to verify that what we are observing are time-varying effects, I divide the 124 observations into two sub-periods based on the prevailing regime type—72 quarters for the non- or pre-democratization period and 52 quarters for post-democratization period. However, if we employ this method, we lose a large number of observations in each statistical test. I therefore also use another approach, including a democracy dummy variable for all periods, and interacting it with the Election independent variable. If the theoretical argument of the “demise of developmental state” thesis is correct, the coefficient of the interaction variable should be positive. If my expectations are correct, the coefficient should not be statistically significant. Table 3-4 summarizes the expectations of my analyses and other approaches.

I use the Chow test on the equation of the first test. The Chow test is simply “a test of whether the coefficients estimated over one group of the data are equal to the coefficients estimated over another” (Gould 2002: 1) using F-statistics. Since the ARIMA regression model in this chapter is a nonlinear econometric model and thus does not have F-statistics, I employ a Chow-type Wald test functionally equivalent to the Chow test. Finally, to examine the stability of the effect of elections on the fiscal stance of the government, I use a moving (rolling) regression analysis (Lin 1999). A sub-period for this moving regression consists of 40 consecutive quarters.

4. Estimation and Empirical Results

Test for Existence of PBC Hypothesis

Table 3-6 displays the results of the time series ARIMA regressions for testing the hypothesis on the existence of PBCs in Korea. The main independent variable in this chapter is the Election dummy variable. The Election dummy variables are tested in three possible forms. The first specification is the most widely used in the opportunistic PBC literature (Alesina et al.1997, Kwon 2003).¹⁰ In this specification, only one election dummy is included in the equation at a time, that is, $n=1$. As mentioned earlier, I test from $N=1$ to $N=4$ quarters prior to the election. Columns (1) to (4) in Table 3-6 show the above mentioned methods.

Another specification is to include all of the dummy variables in the estimated regression simultaneously (Gonzalez 2002, Faust and Irons 1999), as Column (5) shows. This approach helps us “identify effects that are specific single quarters in the political term. ... The horizon has been chosen to be sufficiently long in order to capture the pattern in which economic policy is manipulated, and to avoid a possible discontinuity” (Gonzalez 2002). The other specification is a combined one. Based on the above two specifications, we can identify which dummy variable terms are statistically significant. In Table 3-6, two dummies – Q2 and Q3 – are statistically significant. Thus I include these two dummies in the estimated regression at the same time and exclude the other dummies as shown in Column (6).

Table 3-6 presents parameter estimates of the effects of election timing on fiscal impulse. As columns (3), (5), and (6) show, two pre-election period specifications - Q2 and Q3- display

¹⁰ This specification has been criticized since “it implicitly restricts the pre-election policy manipulation to be the same in every quarter...the dummy has a discontinuous nature, dropping from 1 to 0 around the pre-election horizon; ... it might not be reasonable to expect such a discontinuity in policy, especially at the beginning of the pre-election period.” (Gonzalez 2002)

evidence that supports electoral manipulation of economy, although we do not have any theoretical reasons to observe variation in the effect of different pre-election periods. In other words, fiscal policy is more expansionary two or three quarters before the elections. The test provides empirical evidence that Korean fiscal policies are shaped to a significant extent by an incumbent party's electoral concerns during the periods studied. This finding supports Hypothesis 1 regarding the existence of PBC in Korea.

Table 3-6. Timing of Election

	(1)	(2)	(3)	(4)	(5)	(6)
DV: FI						
Δ GDP Gap	0.128 ^{***} (0.0175)	0.134 ^{***} (0.0196)	0.126 ^{***} (0.0164)	0.131 ^{***} (0.0175)	0.128 ^{***} (0.0161)	0.127 ^{***} (0.0160)
Δ Budget Deficit	-0.990 ^{***} (0.0166)	-0.982 ^{***} (0.0143)	-0.987 ^{***} (0.0176)	-0.991 ^{***} (0.0160)	-0.988 ^{***} (0.0174)	-0.988 ^{***} (0.0171)
Pre-Election (Q4)	0.0117 (0.0579)				0.0418 (0.0453)	
Pre-Election (Q3)		0.137 (0.0803)			0.137 [*] (0.0546)	0.127 [*] (0.0553)
Pre-Election (Q2)			0.163 [*] (0.0770)		0.173 ^{**} (0.0663)	0.167 [*] (0.0681)
Pre-Election (Q1)				0.0375 (0.0761)	0.0720 (0.0594)	
_cons	-0.0869 (0.189)	-0.0705 (0.0370)	-0.114 (0.189)	-0.0592 (0.0471)	-0.153 (0.186)	-0.139 (0.203)
ARMA						
AR(1)	0.846 [*] (0.402)	-0.762 ^{***} (0.134)	0.775 [*] (0.341)	0.169 (0.119)	0.751 ^{**} (0.282)	0.763 ^{**} (0.280)
AR(2)	0.0611 (0.137)	0.119 (0.145)	0.131 (0.131)	0.182 (0.108)	0.154 (0.120)	0.150 (0.117)
MA(1)	-0.718 (0.386)	1.000 ^{***} (0.001)	-0.680 [*] (0.321)	774.7 (.)	-0.649 [*] (0.265)	-0.671 ^{**} (0.260)
sigma						
_cons	0.315 ^{***} (0.0411)	0.319 ^{***} (0.0343)	0.310 ^{***} (0.0425)	-0.000413 ^{***} (0.0000439)	0.305 ^{***} (0.0433)	0.307 ^{***} (0.0433)
<i>N</i>	122	122	122	122	122	122

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Test for Democratization Effect on PBC Hypothesis

As the developmental state underwent democratization, did manipulation of macroeconomic conditions by incumbents to help their reelection possibilities increase? To answer this question, the second test examines whether there was a significant change in the degree of economic manipulation before elections between the non-democratic period (1970-1987) and the democratic periods (1988-2000). The effects of democratization on the PBC are tested in three possible forms as mentioned earlier. First, we separate the dataset into two periods and estimate each parameter as Columns (2) and (3) in Table 3-7 show. Second, I include a variable of democracy for all periods and interact it with the Election dummy term. If the expectation of “demise of developmental states” thesis is correct, the coefficient of the interaction variable should be positive, which means that PBC is a new phenomenon introduced after democratization. If on the other hand my hypothesis is correct, the coefficient of the interaction variable should not be statistically significant, indicating that the increased constraints (checks and balance) on the PBC offset the increased incentives (electoral competition) after democratization.

Table 3-7 shows the test results for the democratization effect hypothesis. Column (2) and (3) present the result of first approach, splitting the data into two periods. During the pre-democratization period, the two coefficients of the pre-election dummy terms are positive and they are significant at the 95 and 99 percent confidence level, respectively. Contrary to the expectations of the “demise of developmental states” thesis, the two coefficients of the pre-election dummy terms are not significant during the post-democratization period although they both have positive signs. These findings indicate the existence of PBCs during the pre-democratization period. In other words, fiscal policy is more expansionary in the two to three quarters before elections during the pre-democratization period even though this period had a

low level of electoral competitiveness. This means that PBCs are not a new phenomenon after democratization.

Column (4) in Table 3-7 illustrates the second approach. The main interest of this column is the interaction term between Election and Democracy. These coefficients are negative, but they do not achieve clear statistical significance. Only focusing on the sign of coefficients, we can observe that the degree of PBC decreased after democratization. Although we need to be cautious in interpreting the lack of statistical significance, it suggests a conclusion contradictory to the “demise of developmental states” thesis.

Table 3-7. Comparison of the Election Effects between Pre- and Post-Democratization Periods

	(1)	(2)	(3)	(4)
		Pre- Democratization Period	Post- Democratization Period	
DV: FI				
$\Delta GDP\ Gap$	0.127 ^{***} (0.0160)	0.121 ^{***} (0.0242)	0.143 ^{***} (0.0315)	0.129 ^{***} (0.0156)
$\Delta Budget\ Deficit$	-0.988 ^{***} (0.0171)	-1.006 ^{***} (0.0316)	-0.969 ^{***} (0.0139)	-0.987 ^{***} (0.0170)
Pre-Election(Q3)	0.127 [*] (0.0553)	0.141 (0.0722)	0.0851 (0.0560)	0.133 (0.0823)
Pre-Election(Q2)	0.167 [*] (0.0681)	0.216 ^{**} (0.0795)	0.0536 (0.0966)	0.222 ^{**} (0.0856)
Democracy				0.164 (0.148)
Democracy*Q3				-0.0291 (0.104)
Democracy*Q2				-0.121 (0.121)
_cons	-0.139 (0.203)	-0.221 (0.273)	-0.0193 (0.0223)	-0.205 (0.208)
ARMA				
AR(1)	0.763 ^{**} (0.280)	0.707 ^{**} (0.255)	0.870 ^{***} (0.218)	0.739 ^{**} (0.248)
AR(2)	0.150 (0.117)	0.209 (0.158)	-0.0748 (0.160)	0.158 (0.115)
MA(1)	-0.671 ^{**} (0.260)	-0.620 ^{**} (0.229)	-1.000 ^{***} (0.0001)	-0.648 ^{**} (0.228)
sigma				
_cons	0.307 ^{***} (0.0433)	0.350 ^{***} (0.0603)	0.195 ^{***} (0.0205)	0.305 ^{***} (0.0438)
<i>N</i>	122	69	52	122

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

To confirm the above test, I use two more supplementary tests. First, the Chow test is used to investigate whether the coefficients estimated over one period of the data are equal to the coefficients estimated over another.¹¹ Since the ARIMA regression model in this chapter is a nonlinear econometric model and thus does not have F-statistics, I employ a Chow-type Wald test. The Wald statistic is 1.87 for the Q2 Election dummy, and 1.38 for the Q3 Election dummy, which is much smaller than the 99 percent critical value of 5.99. The test for the degree of changes in the PBC cannot reject the null hypothesis of parameter constancy between two periods. In other words, there is no structural break between the pre- and post-democratization periods.

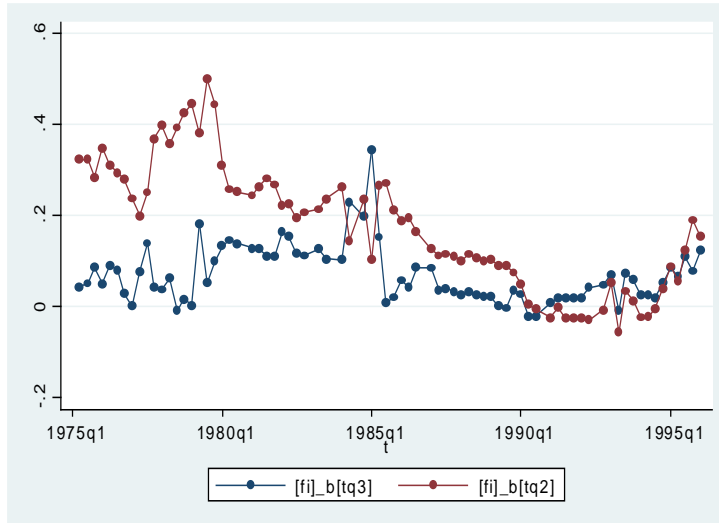
¹¹ General form of the F test statistic is

$$F^* = \frac{(RSS_R - RSS_U)/q}{RSS_U/(T-k)} \sim F(q, T-k) \text{ if } H_0 \text{ is true}$$

“Now given that in this case, the restricted residual sum of squares (RSSR) is RSS0, the unrestricted residual sum of squares (RSSU) is RSS1 + RSS2, the number of restrictions under the null hypothesis (q) is k, and the degrees of freedom in the unrestricted model is T-2k (the full sample, less the two sets of k parameters being estimated), the F test statistic can be written as” (Perman: 17)

$$CHOW(1) = \frac{(RSS_0 - (RSS_1 + RSS_2))/k}{(RSS_1 + RSS_2)/(T-2k)} \sim F(k, T-2k) \text{ if } H_0 \text{ is true}$$

Figure 3-5. Rolling Estimation Result



My final test for the degree of change in PBC uses moving (rolling) estimates for investigating time-varying parameters. I estimate the coefficients for time period t by estimating the regression employing observations $[t-w/2, \dots, t+w/2]$ with, so called, window width. When we set window [40], the number of observations for estimation is 40. The result of rolling estimation with 40 consecutive quarters in each sub-period is presented in Fig. 3-3. The parameter of Q3 seems more stable than that of Q2, but I cannot find any evidences of structural change of the coefficients Q2 and Q3 around 1987-1988. There seem to be structural breaks around 1980 for Q2, and around 1985 for Q3, but they do not appear to be related to democratization, the main focus of this chapter.

To conclude, the above statistical analyses indicate that a PBC existed during the pre-democratization period in Korea. The degree of PBCs in Korea did not significantly change after democratization.

Other findings

I have tested the above two hypotheses with pre-election dummy terms. If fiscal policy tends to be expansionary before elections, we can expect that it will be contractionary after elections because an incumbent is expected to balance the budget deficit generated during the pre-election period, for the soundness of fiscal management. To test this proposition, I also include post-election dummy variables in the equation. If my theoretical expectations are correct, the coefficients of post-election dummies should be negative. The results of this test are shown Table 3-8.

As Column (1) presents, all coefficients of pre-election dummies are positive and they turn to negative passing through election quarters. Q3 and Q2 in Column (1) for all periods, Q2 in Column (2) for the pre-democratization period, and PQ2 and PQ4 in Column (3) for post-the democratization period have statistical significance respectively. The results support my claim that fiscal policy is expansionary before elections and becomes contractionary after elections.

The other finding is related to the control variable, GDP Gap. All of the above tables show that the differenced GDP Gap variable has a positive coefficient that is highly statistically significant regardless of the time period. This means that fiscal policy becomes expansionary when the economy is booming and contractionary when the economy enters a recession. This finding suggests that fiscal policy in Korea is pro-cyclical rather than counter-cyclical. This contradicts the conventional wisdom (Haggard et al. 1994, Cooper 1994, Kim and Mo 1999, Koh 2007). The most plausible explanation for the contrasting results would be the differences in the data the studies use. Cooper (1994) uses annual data and therefore if he is correct, the mid-term fiscal policy in Korea is counter-cyclical. This study, on the other hand, is based on quarterly data analysis. If this study is correct, the fiscal policy is pro-cynical in the short term. Another possible explanation for the different results is that Cooper's study focuses on the Chun regime period (1980-1987), and this study incorporates periods before and after the democratization..

Table 3-8. Differences between the Pre- and Post-Election Effect

	(1) All Periods	(2) Pre- Democratization Period	(3) Post- Democratization Period
DV: FI			
<i>ΔGDP Gap</i>	0.130 ^{***} (0.0195)	0.138 ^{***} (0.0267)	0.129 ^{***} (0.0167)
<i>ΔBudget Deficit</i>	-0.988 ^{***} (0.0156)	-1.004 ^{***} (0.0258)	-0.971 ^{***} (0.0117)
<i>Pre-Election(Q4)</i>	-0.0371 (0.0872)	-0.0237 (0.0716)	0.115 (0.0789)
<i>Pre-Election(Q3)</i>	0.0735 (0.0768)	0.145 [*] (0.0715)	0.0466 (0.0521)
<i>Pre-Election(Q2)</i>	0.0738 (0.0870)	0.168 (0.115)	0.0340 (0.0856)
<i>Pre-Election(Q1)</i>	0.0462 (0.0899)	0.0306 (0.106)	0.00698 (0.0707)
<i>Election</i>	-0.168 (0.0891)	-0.103 (0.126)	-0.124 (0.0998)
<i>Post-Election(Q1)</i>	-0.0783 (0.0754)	-0.192 (0.146)	-0.0487 (0.0535)
<i>Post-Election(Q2)</i>	-0.112 (0.0713)	0.149 (0.106)	-0.177 [*] (0.0739)
<i>Post-Election(Q3)</i>	-0.00746 (0.0832)	-0.123 (0.150)	-0.0860 (0.0651)
<i>Post-Election(Q4)</i>	0.0252 (0.104)	0.275 (0.168)	-0.151 [*] (0.0720)
_cons	-0.0258 (0.0656)	-0.222 (0.299)	0.0585 [*] (0.0271)
ARMA			
AR(1)	-0.768 ^{***} (0.148)	0.670 ^{**} (0.239)	0.416 (0.243)
AR(2)	0.0976 (0.151)	0.251 (0.159)	-0.264 (0.139)
MA(1)	1.000 ^{***} (0.0001)	-0.610 ^{***} (0.179)	-0.606 ^{***} (0.168)
sigma			
_cons	0.308 ^{***} (0.0325)	0.328 ^{***} (0.0446)	0.166 ^{***} (0.0147)
<i>N</i>	122	69	52

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

V. DISCUSSION AND CONCLUSION

To summarize from the previous section, I have two main empirical findings regarding the effects of elections on fiscal policy. First, I find quite strong evidence of expansionary fiscal policy before elections and contractionary fiscal policy after elections. Second, democratization did not affect the degree of PBC in statistical terms. This suggests that there is no significant difference between the manipulation of economy before elections during the non-democratic periods (1970-1987) and the democratic periods (1988-2000). In addition, I find that fiscal policy in Korea was not counter-cyclical as conventional wisdom holds but quite pro-cyclical, at least, from the perspective of quarterly intervals.

What are the implications of these findings? First, the findings challenge the conventional wisdom that PBC requires electoral competition. As discussed in the Testable Hypotheses section, this study suggests that PBC hinges not only on incentives (electoral competition) but also on constraints (checks and balances). Assuming that the magnitude of the difference between the incentives and the constraints determines the likelihood of PBC, we can postulate that the increased constraints on PBCs after democratization counterbalance the increased incentives in Third Wave Democracies. Combining the incentive and constraint structures for PBCs will help explain why studies of PBCs in developed democracies have generated mixed results while they have generated consistent results in developing or non-democratic countries. In other words, PBCs appear inconsistently in developed democracies because they are equipped with checks and balances preventing political manipulation of economy. In developing or non-democratic countries, which typically do not have as many checks and balances, PBCs appear more consistently.

Second, the findings of this study suggest that the degree of economic manipulation during the pre-democratization period might be as high as during the post-democratization period. Contrary to what the democratization literature suggests, macroeconomic policies under a democratizing government are not likely to be more inconsistent or inflationary than they were under authoritarian rule. This is because the increased incentives democratic governments have to manipulate the economy may be cancelled by the increased constraints. Third, the results of this analysis imply that electoral incentives for an incumbent to manipulate economy were present during the pre-democratization period in developmental states. Simply put, developmental states were more politicized than the bureaucracy dominance thesis holds. Although these findings may not directly disconfirm the developmental states thesis, this study provides a “revisionist” view of developmental state theory.

Chapter 4. The Effect of Democratization on Distributive Politics: Dynamics of Targeted Spending

This chapter examines how distributive policies changed in Korea due to democratization. In Chapter 3, I demonstrated that politicization in macroeconomic policy did occur even during the pre-democratization period in South Korea, a developmental state. This chapter questions the conventional wisdom formulated by the bureaucracy dominance thesis that distributive policies in developmental states were not shaped by political considerations. In this chapter, I will delve into the question of whether political considerations shaped distributive policies during the pre-democratization period and whether democratization brought about any changes to these policies.

This chapter is organized as follows. In the first section, I will provide a brief overview of theories of distributive politics focusing on “swing groups” vs. “support groups.” A review of the existing literature on distributive politics in Korea is also presented. In order to break the theoretical deadlock between the “swing voters” and “core supporters” hypotheses, I will describe Korean institutions, political cleavages, political goals, and political culture and how they have shaped distributive policies. In Section 3, I will conduct a statistical analysis of the preliminary evidence for targeted spending before testing whether and how political consideration influences distributive policy. Section 4 elaborates my hypotheses regarding targeted spending, which I introduced in Chapter 2. Section 5 tests the hypotheses using panel data regression models. I conclude this chapter with a discussion of my empirical findings and their theoretical implications.

I. REVIEW OF DISTRIBUTIVE POLITICS AND THE DEMOCRATIZATION EFFECT

1. Theoretical Explanation

As discussed in Chapter 2, in most political systems incumbents will use political considerations in targeting scarce goods in order to maximize electoral goals. Distributing particular goods to specific groups is a more efficient tool for winning votes than distributing programmatic goals (Chang 2008, Lizzeri and Persico 2001, Persson and Tabellini 2003). However, the literature on distributive patterns in allocating resources has produced different theoretical propositions.

Those who support the core voter theory claim that risk-averse political elites target core supporters because it is safer to buy their votes (Cox and McCubbins, 1986). That is, the likelihood of voting for an incumbent is highest when transfers are made to loyal voters. According to this model, an incumbent knows the core supporters' preferences and desires quite well, while they do not know the swing voters' and opposition backers' preferences and desires (Schady 2000). Thus, they prefer the safer investment of keeping loyal voters happy over the riskier investment of trying to win support from swing voters or opposition backers. Instead of targeting voters with less affinity for the incumbent, office-seeking politicians always choose to strengthen the electoral base they have cultivated over time.

On the other hand, those who support the swing voter theory claim that targeting swing voters is more efficient since such voters are ideologically indifferent to parties and more responsive to material incentives even though this strategy is somewhat risk-acceptant (Lindbeck and Weibull, 1987; Dixit and Londregan, 1996). The basic assumption of this model is that core supporters and opposition backers are less responsive to material benefits while swing voters are more responsive to them (Lindbeck and Weibull, 1987; Dixit and Londregan, 1996). According

to this model, an incumbent need not waste precious resources on rewarding core supporters who (it is assumed) have the same underlying ideological preferences as the incumbent and thus will vote for him or her anyway. Thus, the amount of transfers a region receives from the central government is expected to be positively correlated with a higher density of swing voters.

Much effort has gone into testing the validity of these two competing models, but the empirical evidence has been somewhat contradictory. Without a theoretical breakthrough, it is hard to know why incumbents sometimes seem to focus on core supporters and sometimes focus on swing voters. In addition, it is hard to generalize about whether incumbents are, by nature, risk-averse or risk-acceptant and what strategies they would use to realize their preferences.

In order to bridge the gap between the “core voters” and the “swing voters” models, I pay close attention to the institutional arrangements an incumbent faces and the political objectives s/he seeks to achieve. This dissertation examines an incumbent’s key political objectives and strategies, and the Korean political and institutional context in both the pre- and post-democratization periods and uses these factors to analyze and compare the targeted spending pattern between authoritarian and democratic regimes in South Korea. It is crucial to understand what objectives authoritarian leaders had in holding elections (Joseph 1999, Bratton and Van de Walle 1997, Gandhi and Przeworski 2006, Magaloni 2006), because electoral institutions and targeted spending strategy were decided mainly based on these objectives. As seen in Chapter 2, the regime under President Park Chung Hee’s leadership in South Korea can be considered to be urban-biased because it worked to enhance its legitimacy by increasing its urban representation. Moreover, the N=2 Single Non-Transferable Vote (SNTV) system adopted in order to achieve such political objective served as a significant institutional variable.

When examining the elections held under democracy, this dissertation pays special attention to the five-year single-term presidency in Korea as a significant institutional variable, and strong regionalism and a history of political retaliation as important cultural factors. As

discussed in Chapter 2, the Korean presidency is often called an “imperial presidency.” At the same time, the Korean presidency is very fragile because of characteristic stemming from the institutional arrangement of the constitution such as single-term limits and complicated election timing. Thus, the five-year single term president’s incentives cannot perfectly match with that of ruling party and its next presidential candidate. As a result, since democratization the president in Korea has incentives to target both his/her core support group and opposition backers.

The conventional “core supporters” and “swing voters” models do not capture the Korea-specific pattern of distributive politics as discussed above. Thus, this dissertation specially focuses on how changing institutional arrangements and the incumbent’s political objectives shaped targeted spending.

2. Empirical Evidence in the Case of South Korea

Following the above theoretical discussion, this section provides a survey of empirical studies on distributive politics in South Korea. As discussed in previous chapters, South Korea has been regarded as a hard case for detecting how elections shape distributive policies. The assumption has been that apolitical bureaucrats have made major decisions regarding distributive politics in adherence to long-term development objectives and that short-term political considerations did not interfere with these decisions. In other words, incumbents’ distributive policies have been more concerned with evening up development across regions than electoral politics (Kwon 2005).

As a result, very few studies have spotlighted on distributive politics in South Korea (Kwon 2005, Horiuchi and Lee 2008). In a provincial-level analysis for the years from 1988 to 1997, Kwon (2005) argues that the president distributed more national subsidies to swing

provinces. By contrast, Horiuchi and Lee (2008) argue that votes and expenditures have a U-shaped relationship based on municipal-level data covering the 1993-2002 period. That is, an incumbent president distributes more benefits to both his turf and his rival's turf, while distributing less to the regions where votes are more evenly divided. Differences between these two studies may arise from the use of 1) different units of observation (provinces or cities in Kwon's study vs. municipalities in Horiuchi and Lee's study); 2) different dependent variables (one type of transfers – national subsidies – in Kwon's study vs. total transfers in Horiuchi and Lee's study); and 3) different control variables (Horiuchi and Lee 2008).

These two studies are deficient in several regards for answering the broader questions raised in this dissertation. The time-period Kwon's and Horiuchi and Lee's analyses investigate are 1988 to 1997 and 1993 to 2002 respectively, both of which fall within the post-democratization period. As mentioned in Chapter 3, during this post-democratization period, electoral competition in Korean politics had been restored and bureaucrats were no longer free from electoral politics. Given that the restriction of electoral competition is regarded as a prerequisite of a successful economic growth in a developmental state, the key structural advantages of a developmental state may have been eroded by democratization. As Kwon admits, "the findings of this paper may not be conceived to disconfirm the literature on the developmental state, which is presumed to have been at its height during the pre-democratization period." Thus, Kwon's empirical analysis cannot provide a "revisionist" view on developmental states. If it were Kwon's ambition to present a case that contradicts the demise of developmental state thesis, he should have concentrated on the developmental state during the pre-democratization period.

The purpose of this study is to examine the relationship between political dynamics and resource allocation during the pre-democratization period and how democratization influenced this relationship. The time period of this study is from 1976 to 2008, which covers the pre-

democratization as well as the post-democratization period. In this chapter, I compare the main characteristics of distributive politics between the two periods.

II. KOREAN CONTEXT AND TESTABLE HYPOTHESES

In this section, I specify an incumbent's targeted spending strategy by factoring in his or her key political goals, and the institutional and cultural characteristics of Korean politics. To derive my hypotheses, I examine how these factors have influenced budget-making during the pre-democratization and the post-democratization periods in Korea.

1. Pre-Democratization Period

The authoritarian regimes of Park Chung Hee and Chun Doo Hwan, which lasted for fifteen years before Korea's democratization in 1987, could be labeled as a "golden period" for the development state from the perspective of economic development, but a "dark period" in the history of Korean politics. Presidential elections were held indirectly with almost pre-determined outcomes, and freedom of assembly was completely restricted. However, even during this period, electoral and party politics were not completely wiped out. A study by Domínguez (2011) compared South Korea under the Park Chung Hee regime to four different Latin American countries including Argentina, Brazil, Chile, and Mexico from the perspective of dictatorship's political effectiveness. According to this study, the Park regime before the imposition of the *Yushin* Constitution in 1972 received much higher scores for political effectiveness in the category of "use legislature and political parties" compared to the Latin American authoritarian regimes. The Park regime during the *Yushin* period fared worse than regimes in Mexico and Brazil in the use of legislature and political parties but better than those

in Argentina and Chile that had no legislature and election (Table 4-1). In this light, legislative elections during the authoritarian period in Korea embraced and effectively utilized the legislature and political parties, thereby reducing the cost of repression and achieving a limited degree of political effectiveness.

Table 4-1. Comparative rank order for authoritarian political effectiveness: Choice of institutional means

Rank	Delegate to civilian elites	Use legislature and political parties	Co-opt > Repress labor unions
1 Best	S. Korea <i>Yushin</i> *	S. Korea 1961-72	Mexico
2	S. Korea 1961-72*	Mexico	Brazil
3	Brazil *	Brazil	S. Korea 1961-72
4	Argentina 1966 *	S. Korea <i>Yushin</i>	Argentina 1966
5	Mexico	Argentina 1966*	Chile
6	Argentina 1976	Argentina 1976*	S. Korea <i>Yushin</i>
7 Worst	Chile	Chile *	Argentina 1976

*indicates ties

Source: Dominguez 2011

Political Background and Presidents' Goal

Park Chung Hee and the ruling Democratic Republican Party (DRP), which had relatively weak legitimacy due to their seizure of power through a coup d'état, declared martial law and imposed the *Yushin* Constitution in 1972 in order to secure a life-long hold on power for Park Chung Hee after it was predicted that a direct presidential election would not guarantee this objective. While President Park abolished direct presidential elections, he had to maintain the National Assembly elections due to public pressure at home and abroad. Under the political circumstances, the DRP's legitimacy was undermined by its lack of support in urban areas,

which could be fatal to the party in the long term. First, there was an increase in electoral pressure due to rapid urbanization, given that the *yeochon-yado* phenomenon (support for the ruling party in rural areas and for the opposition in urban area) during this period was almost unbreakable. Even though the existing SMD system was designed to favor the ruling DRP, the DRP's share of the vote and the district seating ratio continuously decreased under the SMD system due to rapid urbanization. Second, the authoritarian presidents Park Chung Hee and Chun Doo Hwan feared mass protests in the cities such as Seoul and Busan. Such mass movements in the urban areas became a huge concern for the authoritarian presidents. They thus wanted more support from the urban voters in coopting the opposition within the existing system. Third, the very fact that Park Chung Hee placed a great deal of emphasis on increasing urban representation is closely linked to his own political vision and the legitimacy of his regime. Urban areas in South Korea have traditionally been the very epitome of modernity and modern values (Choi 1971), and therefore, leaders have always focused on urban areas in times of political turbulence. For Park Chung Hee who tried to secure his regime's legitimacy through modernization and economic development, the significance of the urban areas, especially the city of Seoul, was absolute. Under such political circumstance, the most important political goal of presidents was to increase urban representation.

N=2 SNTV and Target Identification

As previous chapters discussed, Park Chung Hee abolished the SMD—which had been practiced as the election method for the National Assembly—and adopted the N=2 SNTV system. President Park's intention behind adopting the SNTV was to increase the DRP's urban representation in order to enhance the legitimacy of his regime (Choi 1973, Lee 1999, Mo and Brady 1999). It was Park's objective to have a DRP candidate win the second seat under the N=2

SNTV system in urban areas where the likelihood of a DRP candidate being elected was very low under the previous SMD system. At the same time, however, under the N=2 SNTV system it became more likely for the opposition party to win the second seat in rural areas. In other words, under the N=2 SNTV system the ruling party and the opposition were likely to split the two seats in both urban and rural areas. Nevertheless, it was strategically advantageous for effective governing in the long-run for the DRP to give up some seats in rural areas to the opposition party, while increasing its own share of urban seats. Moreover, the fact that the *Yujonghoe* system allowed the president to assign one third of National Assemblymen, under the *Yushin* Constitution, made it less crucial for the DRP to secure the majority of votes in the National Assembly elections.

The adoption of N=2 SNTV brought about significant and rapid changes in the competitiveness of regional elections and the identification of support groups. Competitiveness is usually measured through the difference in vote share between the first- and the second-place winners for SMD elections and the second- and the third-place winners for the N=2 SNTV system. Under SMD, voters in urban areas, including Seoul, backed the opposition and provided only low levels of support for the DRP. Under the N=2 SNTV system, however, these urban voters became a swing voter group that could determine the election outcome. During the 1971 election under the SMD system, for example, the electoral margin (the difference in vote share between the winner and the runner-up) in Seoul was 22.8%. However, in the 1973 election, which used the N=2 SNTV system, the electoral margin (the difference in vote share between second- and third-place finishers) in Seoul was only 9.9%. The electoral competitiveness in rural areas also increased. During the 1971 election under the SMD system, the electoral margin (the difference in vote share between the winner and the runner-up) in Jeonbuk (one of the most representative of the rural areas) was 28.2%. However, in the 1973 election under the N=2

SNTV system, the electoral margin (the difference in vote share between second – and third-place finishers) in Jeonbuk was only 7.0.

Note that the candidates competing for the second seat diverged between the urban and rural areas under the N=2 SNTV. In the rural areas, a candidate of the Democratic Unification Party (DUP), the third-party, or an independent candidate competed against the largest opposition party, the New Democratic Party (NDP) to win the second seat, because a DRP candidate almost always won 1st place in the rural areas. For example, during the 1973 election, the DPR candidates won 1st place in 46 rural districts among 57 districts. This pattern was reversed in the urban areas with DRP candidates, third party candidates, and independent candidates competing for the second seat since the largest opposition party candidate usually won the first seat. During the 1971 election under the SMD, the DRP won only 1 seat among 19 seats in Seoul whereas during the 1973 election under the N=2 SNTV, it won one 1st and six 2nd seats among the 16 seats distributed to 8 districts in Seoul.

In sum, the introduction of the N=2 SNTV increased competitiveness in both urban and rural areas. Moreover, the elimination of the ban on independent candidacy encouraged third party and independent candidates (Mo and Brady 1999). This elimination was a part of the “divide and rule” strategy the Park regime hoped to achieve with the introduction of the N=2 SNTV and the *Yushin* Constitution. To increase its urban representation by introducing the N=2 SNTV system the DRP had to give up some of its electoral advantages in the rural areas. The total number of the rural districts during the 1971 election under the SMD system was 117 while the number decreased to 55 (with 110 seats) during the 1973 election held under the N=2 SNTV system. The DRP won 79 seats among 117 total seats during the 1971 election. However, during the 1973 election, the total number of seats it could win was 55. The DRP strategically nominated only one candidate in the district across the country including the rural districts. The DRP with strong party discipline did not face coordination problem during the candidate

nomination process. This was not the case for the opposition NDP. Sometimes two candidates were nominated for the same district while the NDP affiliated politicians who were not nominated frequently left the party and entered the election as independent candidates. This resulted in the fragmentation of the opposition party, which in turn helped the ruling DRP in securing a smooth legislative process. The DRP had to give up some of its electoral advantages in rural areas under the N=2 SNTV, but it managed to increase its urban representation and successfully caused divisions in the opposition party.

To recapitulate, Park Chung Hee and the DRP attempted to increase their urban representation by adopting the N=2 SNTV system thereby increasing the chance that a DRP candidate would finish second in the urban areas where its support had traditionally been weak. As planned by Park Chung Hee, voters in urban areas who had previously belonged to the political opposition backer group under the SMD system, became a swing voters group that could determine the election outcome under the N=2 SNT system. From the implementation of a new electoral system, we can deduce that Park Chung Hee and the DRP had specifically targeted spending to the urban areas in order to achieve their political objectives, which was to increase their urban representation. The regime calculated that even if its core support in rural areas might be weakened due to the greater expenditures allocated to urban areas, the N=2 SNTV system would buffer the negative short-term electoral effects.

2. Post-Democratization Period

Political Background and Presidents' Goal

After democratization, elections became “the only game in town” (Przeworski 1991) in South Korea. Since the democratic transition, which began in 1987 after two and half decade

under military rule, South Korea has held free and competitive elections on a regular basis to choose its presidents and lawmakers to the National Assembly. Korea also passed the so-called “two turnover test” (Huntington 1993), a major milestone for democracy. Five presidential elections that were conducted through direct popular vote after the democratic transition in 1987 were extremely competitive in that most of the winners did not win a majority vote, and divided government has become the norm rather than an exception.

Unbridled presidential power, which is often witnessed in fledgling democracies (O’Donnell 1994, 1998), has created the so-called “imperial presidency” in Korea. The power of the “imperial presidency” is derived from the very fact that the president presides over a highly disciplined, efficient ruling party and a strong regional voting base. Using non-statutory political power and partisan support, a president can extend his/her influence over the legislature. Because of these characteristics, Korean presidents have wielded unrivalled influence over distributive policy, especially the allocation of the budget.

At the same time, Korean presidency is very fragile because it is shaped by constitutional and institutional arrangements such as the single term limit and the complicated timing of elections. The five-year, single-term limit made presidents vulnerable to the lame-duck phenomenon, thus diminishing their authority faster than expected (Kihl 2013). When a president is past the half-way point in his/her tenure, bureaucrats and politicians in the ruling party no longer feel obligated to show loyalty to the president while opposition parties no longer fear the president’s power. The ‘last step’ in the early lame-duck process is the president’s withdrawal from his/her party, under pressure from the media, the opposition party, and even the ruling party. Moreover, most former presidents of Korea have suffered political retribution after leaving office, which has led presidents to become concerned about obtaining a graceful retirement. As a result, since democratization presidents in Korea have had three main goals: 1) Retaining influence throughout his/her term in order to preempt early lame-duck status ; 2) Obtaining a

graceful retirement that prevents political retaliation after s/he leaves office; and 3) Ensuring the smooth operation of government by obtaining cooperation from rivals during his/her term.

Five-Year Single Term Presidency and Target Identification

These political goals shaped the president's preference in designing a strategy for targeted spending. The president's first target for spending are his/her core supporters who are crucial to ensuring that the president continues to have influence throughout his term and who can defend him from any potential political problems after retirement. The presidential candidate of the ruling party also focuses on core supporters, and his/her short-term goal is to unify the core supporters in order to win the next election. The simple majority rule of presidential elections in Korea motivated the ruling party and its presidential candidate to focus on unifying their core support group. While the ruling's party wide electoral margin in its stronghold areas did not increase its seats under the N=2 SNTV, it did help ensure its victory in the simple majority presidential elections. As the election results indicate, since democratization, it has been nearly impossible for the presidential candidate to win without concentrated support from the core group. In addition, Korean presidents often adopted a campaign strategy that used regional rivalries to unify the core supporters group and gain electoral advantages. Regarding core support group, the incumbent president, and the ruling party's candidate in the next political elections share the same political goal.

The president's and the ruling party's attitude toward swing voters diverge. For the ruling party's presidential candidate, the logical, short-term decision would be to support swing voters in order to win the next election. It is highly likely that swing voters would be more responsive to the material benefits than opposition backers who are much less likely to support the ruling party. Moreover, politicians in the ruling party seeking office or reelection may adopt the risk-

acceptant “swing voters” strategy because the incumbent president’s lame duck status influences negatively their objective of winning re/election. Swing voters should be the target of politicians of the ruling party seeking office or reelection, but they are not the target of the five-year single term president. This is because a president under a single-term system or one who is serving his/her second term in a system with a two term limit is less likely to be concerned with the short-term electoral implications of his policies. From the perspective of incumbent president, there is no reason for swing voters to protect a weakening president who will step down after five years.

As a result, the president’s second most important target is opposition backers rather than swing voters. The five-year single term president has ample reason to diversify the political risks/he faces rather than to accept the political risk in the Korean context. A president whose political priority is to secure a graceful retirement and to prevent early lame-duck status may choose instead to invest in the opposition. The president does this to forestall potential political retaliation from the opposition party once he or she steps down. He or she is also motivated to reduce the level of resistance from the opposition that may hinder the smooth operation of the government during his/her presidency. Moreover, if a president uses strong regionalism and rivalry as an election strategy in order to increase the ruling party’s vote in its strongholds, he or she may motivate opposition backers to unify and hinder government activities. The president will therefore target opposition supporters as an insurance measure against his/her lame-duck status, which is inevitable due to the institutional arrangements. The pressure to withdraw from his/her party and the fear of an ungraceful retirement and political retribution may also lead the president to make the decision to target supporters of the opposition.

We can expect that a five-year single term president of Korea would therefore have incentives to target both his/her core support group for risk-aversion as well as opposition backers for risk-diversification.

3. Testable Hypotheses

Based on the above discussion, I propose the major hypotheses of this chapter here. Following Cox and McCubbins (1986) and Horiuchi and Lee (2008), this study assumes that there are three regions based on the density of support for the incumbent: high (H), medium (M), and low (L). Region H is the incumbent's stronghold, and Region L has the least support for the incumbent. Voter support for an incumbent is relatively evenly divided in Region M. As scholars have noted, a smaller margin of victory indicates a more competitive election and a greater presence of swing votes (Dahlberg and Johansson 2002, Diaz-Cayeros, Estevez, and Magaloni 2008, Albertus 2012). Given that a swing voter usually casts the vote that determines the outcome of an election in a competitive election, the term "swing voter" and "pivotal voter" are sometimes used interchangeably. The swing voter group, "often equated with the closeness or margin of the victory," (Diaz-Cayeros, Estevez, and Magaloni 2008: 3) under the SMD system conventionally coincides with the medium support group (Region M) with a narrower electoral margin (Cox and McCubbins 1986, Diaz-Cayeros, Estevez, and Magaloni 2008, Diaz-Cayeros 2008).

As discussed earlier, the political goal of presidents under authoritarian rule was to increase urban representation due to electoral pressures stemming from increasing urbanization, escalating mass protests in urban areas, and the authoritarian leaders' obsession with modernity. Urban areas under SMD before the adoption of N=2 SNTV were low support areas (Region L), for the ruling DRP, with a wide electoral margin between the 1st place winner (opposition) and the 2nd place finisher (DRP). DRP candidates had a very low possibility of being elected under SMD. To win more seats in urban areas, Park Chung Hee adopted the N=2 SNTV electoral

system. Under this system, the DRP had a very strong likelihood of winning the 2nd seat in each district.

The new system (N=2 SNTV) transformed the rival's turf (Region L, urban areas) into a swing voters region with narrow electoral margins. There was often only a small vote margin between the ruling party and independent candidates in the competition for the seat awarded to the second place finisher. Under the N=2 SNTV, rural areas remained strongholds (Region H) of the ruling party which typically carried them by wide electoral margins. This wide electoral margin meant that the ruling party would gain little from concentrating resources in rural areas since they were likely to finish in first place regardless. As a result, I argue that both the electoral margin and political support for the ruling party should be negatively correlated with total transfers under N=2 SNTV system during pre democratization period in Korea.

Hypothesis 3. The swing voters group in urban areas with low incumbent party support and narrow electoral margin under the N=2SNTV received more benefits during the pre-democratization period. As a result, the relationship between government transfers and electoral margin/ incumbent party support has an inversely proportional relationship

The institutional environment surrounding the target spending after the democratization underwent significant changes. Direct popular election of the president, which was abolished during the authoritarian rule, has been reinstated, and as a result, presidential elections have a far greater impact on targeted spending. Because presidents in South Korea are limited to a single five-year term, the president has three main goals: 1) Retaining influence throughout his/her term in order to preempt early lame-duck status; 2) Obtaining a graceful retirement that prevents political retaliation after s/he leaves office; and 3) Ensuring the smooth operation of government by obtaining cooperation from rivals during his/her term.

The president's first target for spending are his/her core supporters who are crucial to ensuring that the president continues to have influence throughout his term and who can defend him from any potential political problems after retirement. The president's second most important target is opposition backers rather than swing voters. The president targets them in order to try to get them to cooperate during his/her term and to persuade them not to try to seek political retribution after his/her retirement. This strategy, however, is not a rational choice in the short-term from the perspective of the ruling party or the ruling party's candidate in the next elections because those allocations of resources rarely transform into political support in the next election. As a result, this strategy sometimes causes a conflict between the president and the candidate. Yet, the president in Korea has always had control of budget allocation and thus his/her preferences have prevailed.

In sum, five-year single term presidents in Korea since democratization have had incentives to target both their core support groups (for risk-avoidance) and opposition backers (for risk-diversification). As a result, I argue that since democratization the relationship between the political support of ruling party and total transfers has been a U-shaped curve, meaning that swing voters get less resources than core voters and opposition backers. In addition, I expect core voters as the most important target would get more resources rather than opposition backers as the second most important target.

Hypothesis 4. Both the incumbent's own turf and the rival's turf have received a larger benefit package under SMD during the post-democratization period. As a result, the relationship between government transfers and incumbent party support has resembled a U-shaped curve.

Below, I will test the above hypotheses by examining whether there was any political manipulation of distributive policies during the pre-democratization period and possible changes that were brought by the democratization as summarized in Table 4-2.

Table 4-2. Theoretical Expectations

Target Regions	Expected Effect	Hypothesis
Region H	+	Core support groups (Cox-McCubbins)
Region M	+	Swing voters (Lindbeck-Weibull, Dixit-Londregan)
Region L	+	Swing voters during pre-democratization period(Bae)
Region H & L	+	Revised Core support groups during post-democratization period (Horiuchi-Lee, Bae)

III. PRELIMINARY EVIDENCE OF TARGET SPENDING

As illustrated in Section 2, both Park Chung Hee's and Chun Doo Hwan's administrations had incentives to use the N=2 SNTV to increase representation in the urban areas. They also sought to provide more material benefits to Seoul during the pre-democratization period. By contrast, the administrations that came into power after democratization had incentives to focus on both their own support groups as well as those of their rival parties. During the 10 years (1988-1997) Presidents Roh Tae Woo and Kim Young Sam were in office, the core-support groups for each president were concentrated in North Gyeongsang/Gyeongbuk and South Gyeongsang/Gyeongnam in the Yongnam region while the rival parties' support groups were concentrated in North Jeolla/Jeonbuk and South Jeolla/Jeonnam in Honam region.

As previously discussed with the PBC case studies, testing the determinants of distributive policy requires rigorous statistical methods. The unit of analysis used in this section is the individual province and the dependent variable is total expenditure per capita. The units of analysis used to test the determinants of distributive policy later in this chapter are the individual province for the pre-democratization period and the individual municipality for the post-democratization period.

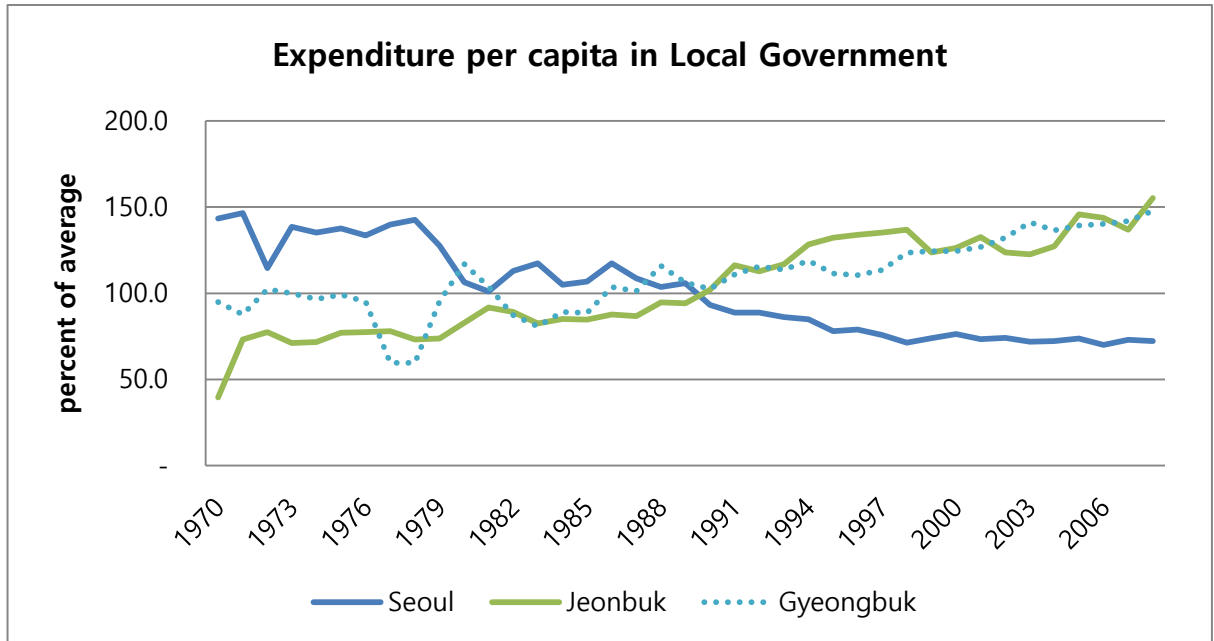
Table 4-3 below indicates the total expenditure per capita in major provinces compared to the national average from 1970 to 2008 divided into 5-year periods. The total expenditure per capita in Seoul in 1970 was 8,588 won, equivalent to 143% of the national average, which was 5,989 won. The ratios for North Jeolla/Jeonbuk, South Jeolla/Jeonnam, and North Gyeongsang/Geongbuk and South Gyeongsang/Gyeongnam combined were 40%, 86%, 97% respectively. The total expenditure per capita in Seoul, which was identified as a swing voter area under the N=2 SNTV system during the pre-democratization period, surpassed the national average. The total expenditure in the provinces, classified as support base for the authoritarian regimes during the period, was below the national average.

Table 4-3. Expenditure per capita in Local Government

	1970	1975	1980	1985	1990	1995	2000	2005	2008
Average	5,989	20,135	79,710	173,575	550,703	1,195,548	1,651,739	2,640,011	3,457,423
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Seoul	8,588	27,687	84,819	185,314	513,220	933,220	1,261,861	1,946,313	2,499,833
	143%	138%	106%	107%	93%	78%	76%	74%	72%
Jeonbuk	2,376	15,513	66,044	146,933	561,581	1,580,733	2,085,611	3,849,698	5,364,253
	40%	77%	83%	85%	102%	132%	126%	146%	155%
Jeonnam	5,134	18,083	74,398	201,963	606,156	1,594,339	2,823,402	5,060,895	7,075,572
	86%	90%	93%	116%	110%	133%	171%	192%	205%
Gyeongbuk	5,679	19,953	93,245	153,808	564,820	1,331,824	2,056,083	3,676,947	5,109,213
	95%	99%	117%	89%	103%	111%	124%	139%	148%
Gyeongnam	5,813	16,385	83,735	210,036	865,142	1,701,621	2,067,950	3,579,189	4,566,040
	97%	81%	105%	121%	157%	142%	125%	136%	132%

As demonstrated by the Figure 4-1 below, this trend was reversed in the 1980s and the early 1990s. Seoul, classified as a swing voter group, enjoyed privileges that greatly surpassed the national average under the authoritarian regimes. However, the total expenditure began a continuous downturn in the 1990s. In 2008, the ratio between Seoul and the national average was 72%. Conversely, the total expenditure per capita of North Cholla/Jeonbuk, South Cholla/Jeonnam, North Kyongsang/Gyeongbuk and Kyongsang/Gyeongnam provinces, which fell much below the national average under authoritarian rule, reached above the national average in the mid-1980s. In 2008, the total expenditure per capita for South Cholla/Jeonnam was 7,075,572 Won, which was more than twice the national average of 3,457,423 Won.

Figure 4-1. Expenditure per capita in Local Governments



In sum, distributive spending before and after democratization shows clear regional differences. Under the Park and Chun regimes, regions that were underdeveloped due to the government’s unbalanced development strategy enjoyed fewer benefits than did Seoul and other highly developed urban areas. This trend was reversed after democratization as indicated by the fact that Seoul’s total expenditure per capita fell below the national average. Through this preliminary analysis, we can speculate that, under authoritarian rule, swing voters in urban areas including Seoul, received many more benefits compared to core supporters in rural areas. In addition, we also find that, under democracy, core supporters and opposition supporters in Gyeongsang and Cholla region received more benefit than did swing voters in urban areas.

IV. STATISTICAL ANALYSIS

1. Data

The datasets used in this chapter come from various sources. Fiscal data from *Jibang Jaejeong Yeongam* (Local Finance Yearbook) and *Jaejeonggo*, published annually by the Ministry of Public Administration and Security, cover the period from 1973 to 1988 for the pre-democratization period, and from 1989 to 2008 for the post-democratization period. Election data are based on the four National Assembly elections during the pre-democratization period (1973, 1978, 1981, 1985) and the five presidential elections during the post-democratization period (1987, 1992, 1997, 2002, and 2007). When matching election data with fiscal data, a one-year lag is used. Population data is gathered primarily from the Census.

The units of analysis are individual provinces for the pre-democratization period and individual municipalities for the post-democratization period. The units of analysis for the post-democratization period include *si* (city), *gun* (county) for the rural areas and *gu* (district) for the urban areas. For the pre-democratization period, however, data on the total transfers from the central government to the municipality, the dependent variable for this analysis, are available from 1976 for *si* (city) and *gun* (county) in the rural areas. The total transfer data from *gu* (district), a municipality in the urban areas, was not available until 1988. Given the limitations of data availability, I used provinces as the unit of analysis for the pre-democratization period.

The number of provinces increased from ten to twelve during the period of pre-democratization under scrutiny here because Incheon and Deague, which had been under the administrative control of the Kyunggi province and the North Gyeongsang province respectively, were separated and established as cities under central government control. The number of municipalities according to the 2008 data is 228. In the dataset, some municipalities do not appear over the full period due to mergers and/or eliminations, while others were newly created.

As a result, the dataset has an unbalanced panel structure in which some cross-sectional units are observed only for a limited period of time.

2. Variables

Previous works on distributive politics in South Korea have relied on two different types of dependent variables: the per capita level of total transfers (Horiuchi and Lee 2008) and national subsidies (Kwon 2005). This study follows Horiuchi and Lee's method. It is very difficult to properly estimate the comprehensive political effects on targeted spending with program-specific or type-specific subsidies, given the fact that a particular project is often financed from various sources (Ansolabehere et al. 2002, Horiuchi and Saito 2003). The total transfers are defined as the sum of *bojogeum* (subsidy), *jibang gyobuse* (local allocation tax), and *jibang yangyeogeum* (local transfer tax).

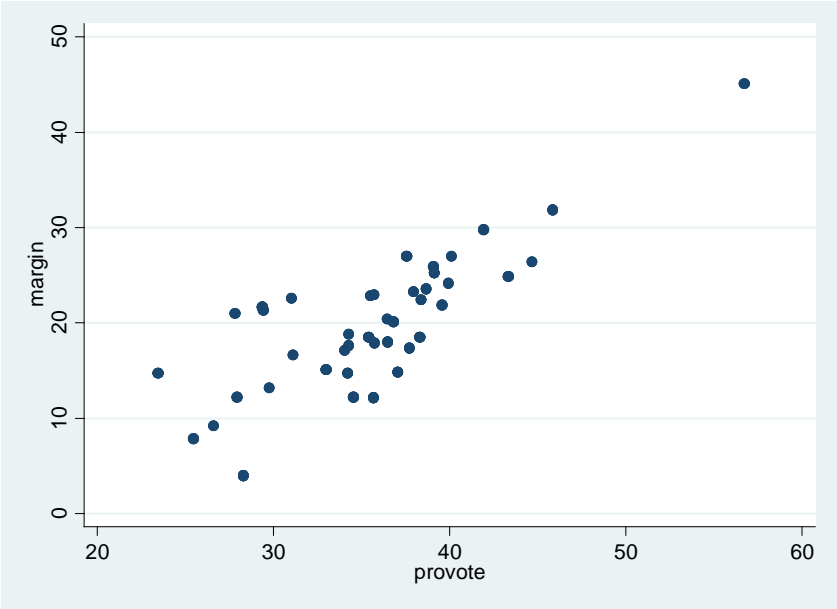
The key political independent variable is the vote share in National Assembly elections during the pre-democratization period, and the president's vote share during the post-democratization period. These variables are perceived as indicators of how loyal a province or a municipality is to an incumbent. Therefore, a positive sign of the vote share coefficient implies that a president delivers more transfers to his or her core supporters whereas a negative sign implies that a president delivers more transfers to the opposition.

To capture the influence of the swing voters group, I also use the variable Electoral Margin. As discussed earlier section, the swing voter group under the SMD system normally coincides with the medium support group (Region M) with a narrower electoral margin (Cox and McCubbins 1986, Diaz-Cayeros, Estevez, and Magaloni 2008, Diaz-Cayeros 2008). Thus, as demonstrated by Figure 4-2 (2), the relationship between political support for a ruling party and electoral margin forms a U-shaped curve.

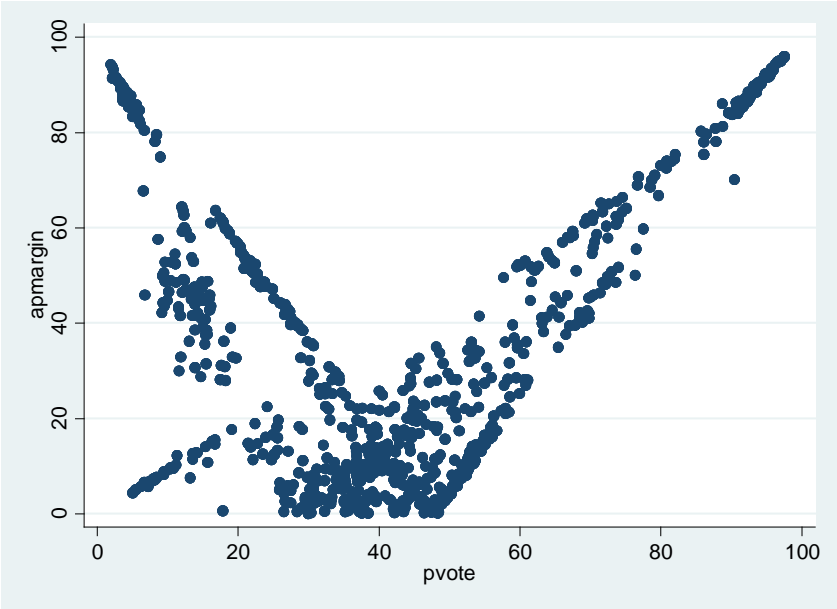
However, Region M is not always aligned with the swing voter group. According to previous studies that uses margin of victory, Region L transform into a swing voter group under the N=2 SNTV system. The introduction of the N=2 SNTV decreased the electoral margin between the 2nd and 3rd places both in rural and urban areas. Yet, from the ruling DRP's perspective, its competitiveness in the rural areas did not increase since under the SMD, the rural areas were the party's stronghold. This meant that it was relatively easier for a ruling party candidate to win the 1st or 2nd place under the N=2 SNTV. The DRP managed to have 46 candidates wining 1st place during the 1973 election in the 57 rural districts. Under the N=2 SNTV system, the margin of victory between the 2nd and the 3rd place finishers held no significance to the DRP in designing targeted spending since its candidate normally won 1st place. Rather, a meaningful electoral margin from the perspective of ruling DRP in allocating resources was the difference of vote share between the 1st place winner and the 3rd place finisher. In the case of the pre-democratization period under the N=2 SNTV system, Region L where the overall support rate was low but the electoral margin dropped, was a swing voter group because the possibility of victory increased. As demonstrated in Figure 4-2 (1), the relationship between political support for the ruling party and electoral margin under the N=2 SNTV looks almost proportional rather than a U-shaped curve.

Figure.4-2. Political Support and Electoral Margin

(1) Pre-democratization period



(2) Post-democratization period



As discussed earlier, the electoral margin under N=2 SNTV was measured as the difference in vote share between the 1st and 3rd place finishers, in the case the ruling party candidate won the 1st place, and between the 2nd and 3rd, in the case the ruling party candidate won the 2nd place. After democratization, the electoral margin was measured as the difference in vote share between the 1st and 2nd if the ruling party candidate won 1st or 2nd place. If the DRP candidate won 3rd place, the electoral margin was measured as the absolute value of the vote shares of the 1st and 3rd place finishers. A negative sign on the electoral margin coefficient implies that a president delivers more transfers to the regions where swing voters are concentrated. However, the positive sign itself cannot clarify whether more benefits are delivered to core supporters or opposition backers.

Control variables include the fiscal independence index and the logged dependency ratio (the percentage of youth and elderly in the population). The Fiscal Independence Index (FII), which measures the share of local tax resources in the total budget, is used to decide the portion of transfers governed by a formula. The more financially independent a municipality, the smaller the amount of transfers delivered. Data for socio-political variables are gathered from the National Statistical Office (NSO) website (<http://www.kosis.kr/>) and *Main Indicators of Municipality (Si, Kun, Ku Juyo Jipyo)* published by the NSO. Tables 4-4 and 4-5 provide the summary statistics for variables during the pre- and post-democratization periods, respectively.

Table 4-4. Summary of Variables during Pre-Democratization Period

Variable	Mean	Std. Dev.	Min	Max	No. Obs
Per capita total transfers (logged)	9.0979	1.0284	7.0011	11.3108	176
Ruling party's vote share (%)	35.6109	5.640	23.4373	56.7255	176
Electoral Margin (absolute value)	19.3929	6.9842	3.9947	45.0949	176
Fiscal Independence Index (%)	72.2523	17.1257	42.1355	98.9044	176
Population density rate (%)	6.4770	1.6326	4.5849	9.7268	176

Table 4-5. Summary of Variables during Post-Democratization Period

Variable	Mean	Std. Dev.	Min	Max	No. Obs
Per capita total transfers (logged)	6.1261	1.3008	1.0759	9.7723	4380
President's vote share (%)	43.4520	24.8408	1.9591	97.4872	4084
Electoral margin (absolute value)	7.9338	44.2088	0.3231	95.8724	4092
Legislator's co-partisan status with president	0.5399	0.4980	0	1	3955
Fiscal Independence Index (%)	40.2867	17.9777	3.4611	98.9466	4380
Youth & elderly population ratio (logged)	0.3173	0.0466	0.2016	0.4669	4380

3. Methodology

For empirical estimation, I employ the following basic model for the pre-democratization period:

$$\ln Y_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 Z_{it} + \varepsilon_{it} \quad - \text{(Eq.1)}$$

Y_{it} is total transfers from the central government to local provinces i in a given fiscal year t . X_{it} is the vote share of a ruling party candidate in municipality i in the previous National Assembly election for the pre-democratization period as of year t . To capture the impact of the swing voters group on spending, I also use the electoral margin as an independent variable. The electoral margin under the N=2 SNTV system is measured as the difference in vote share between the first- and the third-place winners if the ruling party candidate wins first place in a district. If the ruling party candidate wins second place, it is measured in terms of the difference in vote share between the second- and the third-place finishers. As shown in Figure 4-1 (1), the relationship between the vote share of the ruling party candidate and electoral margin is very proportional. The coefficient of correlation between these two variables is almost 0.8. In order to avoid the multi-collinearity problem, I test the variables separately. Z_{it} and ε_{it} are a set of control variables and a disturbance term, respectively.

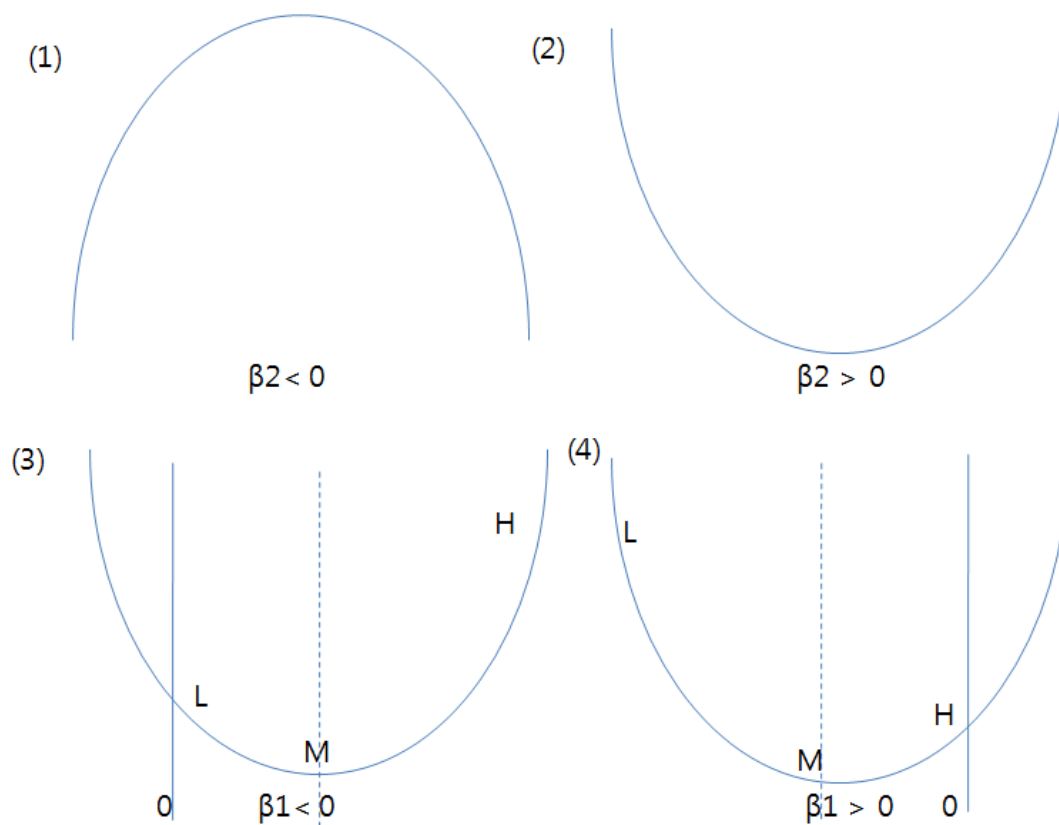
The hypothesis in the previous section expects that there would be an inversely proportional relationship between support for the incumbent (measured by the vote share in the previous election) and total transfers. We would also expect an inversely proportional relationship between electoral margin and total transfers. Thus we can expect that the coefficient of both incumbent vote share and the electoral margin would have negative signs ($\beta_1 < 0$).

For the empirical estimation of the post-democratization period, I propose the following equation.

$$\ln Y_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 X_{it}^2 + \beta_3 Z_{it} + \varepsilon_{it} \quad - \text{(Eq.2)}$$

Equation 2 is almost the same as Equation 1, except it adds the squared term of X_{it} . The hypothesis suggests that the relationship between political support for an incumbent (measured by the vote share of ruling party in the previous election), and the total transfers would result in a U-shaped curve. If “the revised core support groups” hypothesis—in which both the high support regions and the low support regions receive larger benefits than do the medium regions—is correct, then the curve would also form a U-shape as shown below in Figure 4-3 (2). In this case, the coefficient of the squared term of the ruling party’s vote share should be positive ($\beta_2 > 0$). If “the conventional swing voter” hypothesis, which holds that the medium regions receive larger benefits than do the high support and the low support regions, is correct, then the curve would be an inverted U-shaped form as shown below in Figure 4-3 (1). In this quadratic equation, the sign of effect of the vote share (β_1) indicates the relative size of the transfers that the high support region and the low support region receive. If the coefficient is negative ($\beta_1 < 0$), the high support region (Region H) receives more transfers than do the low support region (Region L). If the coefficient is positive ($\beta_1 > 0$), the Region L receives more transfers than do the Region H. [See Figure 4-3 (3) and (4) below].

Figure 4-3. Intuitive Explanation about the Quadratic Relationship



To estimate Equation (1) and (2), the model includes the lagged dependent variable, $Transfer_{it-1}$, as a regressor because past transfers would impact the current level of transfers but also to deal with the problem of autocorrelation. Since the lagged dependent variable is correlated with the error term, traditional static panel data model estimators such as fixed effects and random effects estimators are likely to be inconsistent, due to presence of endogenous regressors. One solution to solve this problem is to use instrumental variables (IV) estimation,

proposed by Anderson and Hsaio (1981), by taking the first difference of the regression equation to remove permanent unobserved heterogeneity. However, in dynamic panel data models where “the series are highly autoregressive and the number of time series observations is moderately small” (Blundell, Bond and Windmeijer 2000), the standard GMM estimator has been found to have large finite sample bias and poor precision.

To respond to this issue, unbiased dynamic panel data estimators were introduced based on Generalized Method of Moments (GMM) (Arellano and Bond 1991, Blundell and Bond 1999). The estimators assume that “lagged levels (Difference GMM) and additionally lagged differences (System GMM) are valid instruments for the lagged endogenous variable” (Mehrhoff 2009: Non-technical summary). They are uncorrelated with the transformed error term. For this procedure, I employ the System GMM estimator in this analysis.¹² For testing over-identifying restrictions in a statistical model, I used the Sargan test in each analysis.

4. Estimation and Empirical Results

Table 4-6 presents the parameter estimates of the effects of the political and economic variables on the amount of total transfers distributed to each province during the pre-democratization period (1976 to 1988). In Model 1, the incumbent’s vote share has a negative effect on the total transfers which is indicated by the coefficient. The coefficient is statistically significant at 5%, 1%, and 0.1% levels. The sign of the coefficient is consistent with my expectation and results in an inverse proportional relationship. This verifies the hypothesis that urban areas, where the vote share of the DRP was low but the likelihood of a DRP candidate winning the 2nd place increased with the introduction of the N=2 SNTV, received more benefits during the pre-democratization period. This also supports my expectation that an incumbent’s

¹² I also estimated Equation (1) and (2) using the two-stage least square (2SLS) estimator and the Difference GMM, which did not produce qualitative different results.

main goal was to gain second place seats in opposition bastions rather than first place in the rural areas where the ruling party could have an easy victory with its candidates winning the 1st place with a high vote share.

Model 2 shows the results of the electoral margin effect on the total transfers. The negative sign of the coefficient is consistent with my theoretical expectations and is statistically significant at 5% level. Clearly, total transfers tend to be distributed to the swing provinces--that is, provinces with higher levels of electoral competition. The results also indicate that provinces that are less supportive of the incumbent are likely to receive more transfers than more supportive provinces.

The results of my analysis of the pre-democratization period contradict Cox-McCubbins' core supporters group hypothesis. The relationship between the political support for incumbents and the benefits distributed/received is inversely proportional. Region L with the least support received more benefits from the central government. My analysis suggests that in Region L, vote share did not influence targeted spending. Rather, my analysis suggests that the reduced electoral margin between the 2nd and the 3rd place finishers with the possibility of a ruling party candidate winning 2nd place influenced the targeted spending. In this vein, the Lindbeck-Weibull and Dixit-Londregan prediction is more consistent with the empirical pattern that we see in Korea in that the total transfers tended to be delivered to swing provinces.

The effects of the socioeconomic variables are mixed. As I expected, the coefficients of the fiscal independence index are negative and statistically significant at the 5%, 1%, and 0.1% levels in both models. This indicates that the distribution of total transfers has an inverse relationship with provincial revenues. Another socioeconomic factor - population density - has a positive effect on the distribution of the total transfers. Contrary to the conventional wisdom that the government during the pre-democratization period in Korea fostered even socioeconomic development across the regions, my analysis shows that the central government delivered more

transfers to relatively more developed provinces with a higher population density, particularly to the urban areas such as Seoul and Busan. The coefficient of population density is statistically significant at the 5% level in Model 1, but did not reach statistical significance in Model 2.

Table 4-7 presents the results of my analysis on the data from the post-democratization period (1988 to 2008). In Model 1, an incumbent's vote share has a negative effect on the total transfers while the squared incumbent's vote share has a positive effect. The coefficients' magnitudes are relatively stable and are statistically significant at the 0.1% level. The signs of these coefficients are consistent with my expectation: a U-shaped curve. The results of this analysis verify the hypothesis that both the incumbent's own turf and rival regions received more benefits than did swing voter regions. The electoral margin effect also supports my hypothesis as indicated in Model 2. As expected, the coefficient of the electoral margin has a positive effect on the distribution of total transfers, meaning that municipalities that had a larger vote margin (i.e., ruling party and opposition bastions) tended to receive more transfers, other things being equal. When I put the above three variable together as in Model 3, they yield the same results. All the coefficients are statistically significant at the 0.1% level. In Model 4, I added another variable—ruling party legislator—to test the impact of having a National Assembly member from the ruling party on the distribution of transfers. The sign of the coefficient is negative but it is not statistically significant. Moreover, the coefficient' magnitude is very small (-0.00146). In other words, the impact of a ruling party legislator is difficult to observe.

The effects of the socioeconomic variables are also mixed. The result shows that the distribution of the total transfers has an inverse relationship with municipal revenue as I expected. However, the coefficients of the population dependency ratio have negative signs in all models, which contradicts the expectation that a higher percentage of youth and elderly people in a municipality relative to the working age population would reflect higher welfare needs in a

given municipality and would lead the central government to boost its allocation of total transfers. Thus, we can speculate that, in Korea, the total transfers from the central government to a municipality do not reflect the municipality's welfare needs even during the post-democratization period.

The above results for the post-democratization period support my expectation that the main target for an incumbent is his/her own turf and rival regions. This is partly due to the incumbent's objectives—to secure a graceful retirement and avoid accusations of “unfairness” regarding to the distributions of transfers. The results stand in contrast to the swing voter hypothesis (Lindbeck-Weibull 1987, Dixit and Londregan 1996) which suggests the electoral margin has a negative effect on the distribution of transfers. My analysis is partially consistent with Cox and McCubbins' argument in that a risk-averse incumbent has the tendency to deliver larger benefits to his/her core supporters group. However, my analysis also indicates that a president has incentives to allocate more distributive benefits to his/her rival's stronghold as an insurance measure against an early lame-duck status and political retaliation after retirement. Moreover, Cox and McCubbins' model is insufficient to capture the dynamics of targeted spending in Korea where presidents serving a single five-year term have to channel resources both to their core supporters for risk-aversion and their political rival's supporters for risk-diversification. Instead, these results are more consistent with the previous study of Horiuchi and Lee (2008).

V. DISCUSSION AND CONCLUSION

I have two key empirical findings regarding the effects of elections on distributive policies. First, I have found an inverse proportional relationship between the incumbent party's electoral support (and electoral margin) and transfers from the central government to provinces

during the pre-democratization period (1976 to 1988). This supports my argument that the main target for an incumbent during the pre-democratization era were urban areas and the objective was to win second place in opposition strongholds rather than first place in areas where the ruling party had high support. Second, I also have discovered a U-shaped curve that supports my argument that spending was focused on both the incumbent's own turf and rival areas in the democratic period (1988 to 2008).

What are the implications of the above findings? First, the finding about the effects of elections on distributive policies in the pre-democratization period supports the theoretical challenges to the bureaucracy dominance thesis. According to the developmentalist thesis, an incumbent's welfare should be "significantly derived from fulfilling his/her concern about evening up development across the regions" (Kwon 2005) without any political considerations. Yet, the results demonstrate that politicized spending existed in developmental states.

Second, we have observed that resource allocations focused on urban areas facilitated a "crisis of success" in developmental states. The credit for rapid economic growth rested with developmental states, but city dwellers, the main beneficiaries of the rapid economic growth, became more critical of authoritarian rule and started to side with opposition parties (Kim 2000). The developmental state, ironically, lost electoral support from urban areas in spite of disproportionate and active material support allocated to these areas by the government.

Third, the analysis helps us reconcile competing arguments about whether incumbents cater to "core voters" or "swing voters" by identifying the various political conditions that determine their strategies in the Korean context. My proposal to focus on an incumbent's political goals and how they are shaped the institutional configurations will likely help bridge the gap between these two competing arguments.

Another point that should be noted is that political institutions, such as the SNTV system, should not be considered as non-democratic. Although the SNTV system was employed by

authoritarian regimes in Korea during the pre-democratization period as a way of securing their political power, we cannot say that the SMD system was generally superior to the SNTV system. SNTV combined with political culture and the specific political goals of the incumbent in Korea to produce the reversed U-shaped curve with regard to the electoral effect on distributive patterns. Thus, caution is needed before making hasty generalizations.

Table 4-6. Political Allocation during Pre-Democratization Period

DV: Per Capita Total Transfers	(1)	(2)
Total Transfers(t-1)	0.759*** (0.035)	0.764*** (0.035)
Ruling party candidates' vote share	-0.0211** (0.007)	
Electoral margin		-0.0163* (0.008)
Fiscal Independence Index	-0.0172*** (0.004)	-0.0170*** (0.004)
Population Density	0.119* (0.057)	0.106 (0.060)
_cons	3.605*** (0.620)	3.190*** (0.617)
<i>N</i>	164	164

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4-7. Political Allocation during Post-Democratization Period

DV: Per Capita Total Transfers	(1)	(2)	(3)	(4)
Total Transfers(t-1)	0.820*** (0.005)	0.822*** (0.005)	0.801*** (0.005)	0.799*** (0.005)
President's vote share	-2.651*** (0.147)		-2.096*** (0.153)	-2.294*** (0.157)
President's vote share(sq.)	2.791*** (0.156)		2.124*** (0.173)	2.329*** (0.167)
Electoral margin		0.473*** (0.030)	0.357*** (0.032)	0.332*** (0.032)
Fiscal independence index	-0.0154*** (0.001)	-0.0144*** (0.001)	-0.0159*** (0.001)	-0.0160*** (0.001)
Youth and elderly ratio	-1.126*** (0.170)	-0.810*** (0.173)	-0.906*** (0.179)	-0.700*** (0.192)
Ruling party's legislator				-0.00146 (0.013)
_cons	2.679*** (0.086)	1.914*** (0.074)	2.549*** (0.086)	2.531*** (0.091)
<i>N</i>	4007	4012	4007	3605

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Chapter 5. Conclusion

This study has explored the effect of democratization on election-oriented economic policy in East Asian developmental states in order to better understand when incumbents use state resources for electoral gain and whom they target with such resources. Contrary to the bureaucracy dominance thesis in developmental state theory, I argued that developmental states did politicize macroeconomic and distributive policy. Based on existing studies, I identified two sets of research questions. First, I asked a set of questions regarding political budget cycles: 1) Can PBCs occur without electoral competition, or with a low level of electoral competition? 2) Were the bureaucrats in pre-democratic developmental states autonomous and apolitical as the bureaucracy dominance thesis argues? 3) Are PBCs in these countries a new phenomenon that came into being only after democratization? The second set of research questions dealt with distributive politics: 1) What are the main political goals and strategies of the incumbent in each period? 2) To achieve these goals, which group was the more effective target for transferring economic resources? 3) Do opposition backers, a group that has rarely been examined in studies of distributive politics, play any role in regards to targeted spending?

I have chosen South Korea for an in-depth case study for several reasons. First, South Korea can provide a useful environment for analyzing the effects of democratization on PBCs. Korea presents a hard case for detecting political manipulation of the macro-economy. It also possesses the necessary conditions for PBCs, which include presidential systems and fixed timing for elections. South Korea's democratic opening in 1987 and its subsequent consolidation

have produced new incentive and constraint structures for PBCs. The second reason I used South Korea as my case study is that it represents an interesting case to study targeted spending, given its regional patterns of voting and the variation it has experienced in terms of electoral rules. South Korea's pattern of bloc voting based on strong regionalism makes it easier to identify which group should be targeted from the perspective of incumbents. In addition, The N=2 Single Non-Transferable Vote (SNTV) system introduced during the pre-democratization period and the Single Member District (SMD) system adopted during the post-democratization period in Korea enable me to study the effect of institutional changes on targeted spending.

I. SUMMARY OF MAIN FINDINGS

Chapter 2 provided historical background on PBCs and target spending in South Korea, focusing on the incentive and constraint structures facing election-oriented macroeconomic policy. It showed that authoritarian leaders in Korea had incentives to manipulate macroeconomic conditions before elections to increase the ruling party's urban representation. Park Chung Hee and Chun Doo Hwan attempted to target spending to urban areas under the N=2 SNTV system during National Assembly elections in order to get more seats in urban areas. Given their predominant position in the legislative-executive relations, Park and Chun faced almost no constraints in attempting to manipulate macroeconomic conditions for political gain. After democratization, the incentive structure for PBCs and targeted spending became more favorable due to the extremely competitive elections and frequent presence of divided government. The chapter also shows that a five-year single term president of Korea would have

incentives to target both his/her core support groups for risk-avoidance and backers of his/her opposition for risk-diversification. At the same time, however, the structural constraints on the president's ability to manipulate macroeconomic conditions for political objectives increased. The relatively stronger organizational capacity gained by the National Assembly to conduct budget reviews significantly reduced the degree and scale of the president's discretion.

Thus, Chapter 2 concluded that the incentive for PBCs and targeted spending under authoritarian rule in Korea were smaller than that under democracy, but that the constraints on PBC and targeted spending were also smaller under authoritarian rule than under democracy. I expect that the increased constraints (checks and balances) offset the increased incentive (electoral competition) after democratization.

Chapter 3 presented empirical analyses of the degree of politicization of macroeconomic policy in authoritarian South Korea and the effects of democratization on PBCs in this country. This chapter provided two key empirical findings regarding the effects of elections on fiscal policy. First, I found quite strong evidence of expansionary fiscal policy before elections and contractionary fiscal policy after elections even under authoritarian rule. Second, South Korea's democratization did not affect the degree of PBCs in statistical terms. This suggests that there is no significant difference between the manipulation of economy before elections during the non-democratic periods (1970-1987) and during the democratic periods (1988-2000). These empirical findings support the expectation outlined in Chapter 2 that the increased constraints offset the increased incentive after democratization.

Chapter 4 explored how distributive policies changed in Korea due to democratization. In this chapter I presented two key empirical findings. First, the chapter found an inverse

proportional relationship between an incumbent party's electoral support (and electoral margin) and transfers made from the central government to provinces during the pre-democratization period (1976 to 1988). This finding supports the argument that the main target for an incumbent during the pre-democratization era were urban areas and the objective was to win second place under the N=2 SNTV in opposition strongholds (urban areas) rather than first place in areas where the ruling party had high support. The finding also supports my claim that the political goal of presidents during this period was to increase urban representation in response to electoral pressures stemming from increasing urbanization, escalating mass protests in urban areas, and the authoritarian leaders' obsession with modernity.

Second, Chapter 4 also discovered a U-shaped relationship between an incumbent party's electoral support and transfers made from the central government to municipalities during the post-democratization period (1988 to 2009). This finding supports my claim that both the incumbent's own turf and rival regions received more benefits than did swing voter regions. The logic behind the argument is as follows. Because the president in South Korea is limited to a single five-year term, a Korean president has three main goals: 1) retaining influence throughout his/her term in order to preempt early lame-duck status; 2) obtaining a graceful retirement that prevents political retaliation after s/he leaves office; and 3) ensuring the smooth operation of government by obtaining cooperation from rivals during his/her term. To achieve these goals, the president's first target for spending are his/her core supporters who are crucial to ensuring that the president continues to have influence throughout his/her term and who can defend him/her from any potential political problems after retirement. The president, at the same time, should take care of opposition backers. The president targets them in order to try to get them to

cooperate during his/her term and to persuade them not to try to seek political retribution after his/her retirement. Table 5-1 summarizes the key findings of this study.

Table 5-1. Summary of the Key Findings

(1) PBCs

Hypothesis	Variable	Estimation	Explanation
Existence of PBC	Election Timing	(+)	PBC occurred.
Democratization Effect on PBC	Election Timing * Democratization	(+) → (+)	Increased constraints offset increased incentives.
Methodology	Time Series Regression (ARIMA)		

(2) Targeted Spending

Period	Hypothesis	Variable	Estimation	Explanation
Non-democracy	Swing Voters	Electoral Margin	(-)	Swing voters with low support > Core supporters
		Support for Ruling Party	(-)	
Democracy	Core & Opposition Backers	Support for Ruling Party (squared term)	(+)	Core supporters & opposition backers > swing voters
		Electoral Margin	(-)	
Methodology	Dynamic Panel Data Analysis (System GMM)			

II. IMPLICATIONS

This study proposes alternative approaches to PBCs and distributive politics, focusing on the effect of democratization and its subsequent institutional changes on election-oriented

economic policy. First, I found quite strong evidence of PBCs even under authoritarian rule in an East Asian developmental state that has been regarded as a hard case for detecting the effect of electoral politics on economic policy. The study also found that the degree of economic manipulation during the pre-democratization period may be as high as during the post-democratization period. The findings challenge the conventional wisdom that PBCs require significant electoral competition, which came into being only after democratization. This study instead suggests that PBCs hinge not only on incentives (electoral competition) but also on constraints (checks and balances). Assuming that the magnitude of the difference between the incentives and the constraints determines the likelihood of PBC regardless of the nature of regime, we can postulate that the increased constraints on PBCs after democratization counterbalance the increased incentives for PBCs in new democracies. The failure to take into account the different incentive and constraint structures for PBCs helps to explain why studies of PBCs in developed democracies have generated mixed results while they have generated consistent results in developing or non-democratic countries. In other words, PBCs appear inconsistently in developed democracies because they are equipped with checks and balances preventing political manipulation of economy. In developing or non-democratic countries, which typically do not have as many checks and balances, PBCs appear more consistently.

Second, this study emphasized the importance of institutional arrangements that shape an incumbent's political preferences in calculating the tactical allocation of resources. Although the existing "core support" and "swing voter" models are solidly grounded, the competing two models do not fully illuminate the strategic dilemma incumbent parties face. When the parties try to expand their electoral base by attempting to win the support of groups outside the core, they

face the risk of losing their core supporters' loyalty in the long term. If they focus on attending to the core supporters, the parties may risk losing elections in the short term. To solve this strategic dilemma, this study explored the institutional influences on incumbent's targeted spending decisions. Contrary to the assumption of the earlier studies on targeted spending, partisan loyalty is not totally exogenous. This means that the degree and elasticity of core supporters' loyalty may vary depending on the level of electoral volatility or competitiveness under different electoral institutions. Since there has been little effort to investigate how these two competing theories may be conditional on different institutional arrangements and political objectives of the incumbents under the institution, this institutionalist approach may help break the deadlock between "core supporter" and "swing voter" models.

Therefore, in identifying the groups that incumbents target to maximize strategic effectiveness, this dissertation paid special attention to the N=2 SNTV system that South Korea used under authoritarian rule and the five-year single term presidency that it used under democracy. Under authoritarian rule in Korea, the N=2 SNTV transformed the rival's turf (Region L, urban area) into a swing voter region with narrow electoral margins. There was often only a small vote margin between the ruling party and the independent (or the third party) candidate in the competition for the seat awarded to the second place finisher. Under the N=2 SNTV, rural areas remained strongholds of the ruling party which typically carried them by wide electoral margins. This wide electoral margin meant that the ruling party would gain little from concentrating resources in rural areas since they were likely to finish in first place regardless. The regime calculated that even if the core support from rural areas might be weakened due to the greater economic support allocated to urban areas, the wider electoral margin under the N=2

SNTV system would buffer the negative short-term electoral effects, that is, risk of losing seats due to supporter groups' potential defect.

The five-year single term presidency under democracy also plays a critical role for an incumbent president in identifying target groups. The incumbent president and the ruling party's candidate in the next presidential elections both want to channel resources to core supporters but for different reasons. The incumbent president adopts a risk-averse "core supporters" strategy to protect himself/herself during the latter part of his/her term and after retirement. The presidential candidate of the ruling party also focuses on core supporters, but his/her short-term goal is to unify the core supporters in order to win the next election. The simple majority rule of presidential elections in Korea motivated the ruling party and its presidential candidate to focus on unifying their core support group. While the ruling party's wide electoral margin in its stronghold areas did not increase its seats under the N=2 SNTV, the wide electoral margin the ruling party racked up in these areas helped ensure its victory in the simple majority presidential elections. As the election results indicate, since democratization, it has been nearly impossible for the presidential candidate to win without concentrated support from the core group. In addition, Korean presidents often adopted a campaign strategy that used regional rivalries to unify the core supporters group and gain electoral advantages.

The president's and the ruling party's attitude toward swing voters diverge. For the ruling party's presidential candidate, the logical, short-term decision would be to support swing voters in order to win the next election. It is highly likely that swing voters would be more responsive to the material benefits than opposition backers who are much less likely to support the ruling party.

A president under a single-term system or one who is serving his/her second term in a system with a two term limit is less likely to be concerned with the short-term electoral implications of his policies. A president whose political priority is to secure a graceful retirement and to prevent early lame-duck status may choose instead to invest in the opposition. The president does this to forestall potential political retaliation from the opposition party once he or she steps down. He or she is also motivated to reduce the level of resistance from the opposition that may hinder the smooth operation of his/her government during presidency. Moreover, if a president uses strong regionalism and rivalry as an election strategy in order to increase the ruling party's vote in its strongholds, s/he may motivate opposition backers to unify and hinder government activities.

We can thus speculate that South Korean presidents targeted opposition backers for spending in order to ensure a smooth presidency and/or a graceful retirement. This strategy may not be optimal in the short-term from the perspective of the ruling party or the ruling party's candidate since it rarely transforms into political support in the next election. As a result, this strategy sometimes causes a conflict between the president and the candidate. Yet, the president in Korea has always had control of budget allocation and thus his/her preferences have prevailed. Thus, which groups are targeted for election-oriented spending may be conditional upon the different institutional arrangements and political objectives of the incumbents. Therefore, the approach employed here, which emphasizes institutional analysis, may be helpful in resolving this theoretical deadlock between the core and swing voter theories.

This study also found that the electoral incentives for an incumbent to manipulate the economy were present during the pre-democratization period in developmental states. PBCs and

targeted spending occurred in Korea before and after democratization, and democratization did not affect the degree of PBCs in statistical terms. According to the developmentalist thesis, an incumbent's welfare should be "significantly derived from fulfilling his/her concern about evening up development across the regions" (Kwon 2005) without any political considerations. On the contrary, the results demonstrate that politicized spending existed in developmental states. Simply put, developmental states were more politicized than what the bureaucracy dominance thesis suggests. Among the two approaches that criticized bureaucracy dominance thesis in developmental state, this study supports the approach that denies the existence of bureaucracy dominance itself (Ramseyer and Rosenbluth 1993). Contrary to mainstream developmental state theory (Johnson 1982; 1987, Evans 1989, Wade 1989), this study shows that bureaucrats in developmental state were politicized in terms of macroeconomic and distributive policy even before democratization and globalization. It was not simply the case that democratization and globalization reduced the degree of bureaucratic dominance. In this respect, these findings run directly counter to the developmental states thesis, at least, in the realm of fiscal and distributive politics. As Kang argues by citing numerous corruption cases in Korea, politics propel incumbent's policy choice even at the height of Park Chung Hee's rule and bureaucrats were not independent of political interference in setting economic and distributive policies. This study supports the argument that the politicization of bureaucrats was concealed or was dismissed out of hand because economic growth was so spectacular (Kang 2002). However, Kang also argues that democracy increased the impact of money politics after 1987. In other words, the already-politicized bureaucracy was aggravated due to democratization. This argument is partly comparable to the "decline of developmental states" thesis that suggests that

the bureaucracy was neutral and depoliticized during the pre-democratization period but politicized after democratization. However, my empirical analysis showed that democratization did not affect the degree of PBCs in statistical terms and I argued that the increased constraints (checks and balances) offset the increased incentives (electoral competition) after democratization. This study thus provides backing for Ramseyer and Rosenbluth (1993) and McCubbins and Noble (1995) who criticize Johnson's bureaucracy dominance thesis regardless of the time period of analysis.

There remain some theoretical issues to be clarified in the study. How can we apply the findings of this study to other cases? For example, it should be noted that political institutions, such as the SNTV system, should not be considered as non-democratic. Although the SNTV system was employed by authoritarian regimes in Korea during the pre-democratization period as a way of securing their political power, we cannot say that the SMD system was generally superior to the SNTV system. SNTV combined with the political culture of Korea and the specific political goals of the incumbent to produce the reversed U-shaped curve with regard to distributive patterns. Thus, caution is needed before making hasty generalizations.

Other limitations of my study include that I did not develop a hypothesis about the effects of legislative elections on distributive politics. Since previous research as well as my study here reports that the impact of legislative elections on targeted spending is marginal compared with that of presidential elections in Korea, this study focused on presidential elections after democratization. Nevertheless, given the increasing role of the National Assembly regarding budget review and fiscal control, further studies are needed on this topic.

Appendix

I. APPENDIX TO CHAPTER 2

1. Ranking of Indices for Legislative Budget Institutions

Country	Financial Authority						Organizational capacity						Budget Institution Index (Rank)	
	Amendment		Reversion		Flexibility		Time		Committee		Research		Kim	Wehner
	Kim	Wehner	Kim	Wehner	Kim	Wehner	Kim	Wehner	Kim	Wehner	Kim	Wehner		
United States	10.0	15.5	10.0	8.2	7.7	7.9	8.0	3.0	10.0	10.3	10.0	12.0	92.8 (1)	94.8 (1)
Sweden	10.0	15.5	10.0	8.2	6.7	6.8	4.0	1.5	10.0	10.3	1.3	1.6	70.1 (2)	73.2 (2)
Denmark	10.0	15.5	5.0	4.1	10.0	10.2	4.0	1.5	5.0	5.2	3.8	4.6	63.0 (3)	68.4 (3)
Norway	10.0	15.5	10.0	8.2	3.3	3.4	4.0	1.5	10.0	10.3	0.0	0.0	62.2 (4)	64.8 (4)
Belgium	10.0	15.5	5.0	4.1	3.3	3.4	2.0	0.8	10.0	10.3	2.5	3.0	54.7 (7)	61.7 (5)
Mexico	2.5	3.9	10.0	8.2	3.3	3.4	4.0	1.5	10.0	10.3	7.5	9.0	62.2 (4)	60.5 (6)
Netherlands	10.0	15.5	7.5	6.2	3.3	3.4	4.0	1.5	2.5	2.6	5.0	6.0	53.8 (8)	58.5 (7)
Bulgaria	10.0	15.5	5.0	4.1	3.3	3.4	2.0	0.8	10.0	10.3	0.0	0.0	50.5 (14)	56.7 (8)
Switzerland	10.0	15.5	10.0	8.2	3.3	3.4	4.0	1.5	5.0	5.2	0.0	0.0	53.8 (8)	56.2 (9)
Brazil	7.5	11.6	10.0	8.2	3.3	3.4	6.0	2.3	7.5	7.7	0.0	0.0	57.2 (6)	55.3 (10)
Iceland	10.0	15.5	5.0	4.1	6.7	6.8	4.0	1.5	5.0	5.2	0.0	0.0	51.2 (12)	55.2 (11)
Indonesia	10.0	15.5	5.0	4.1	6.7	6.8	4.0	1.5	5.0	5.2	0.0	0.0	51.2 (12)	55.2 (12)
Luxembourg	10.0	15.5	10.0	8.2	2.2	2.2	4.0	1.5	5.0	5.2	0.0	0.0	52.0 (11)	54.4 (13)
Korea	2.5	3.9	5.0	4.1	0.0	0.0	4.0	1.5	10.0	10.3	10.0	12.0	52.5 (10)	53.0 (14)
Austria	10.0	15.5	5.0	4.1	2.2	2.2	2.0	0.8	7.5	7.7	0.0	0.0	44.5 (19)	50.6 (15)
Venezuela	7.5	11.6	5.0	4.1	6.7	6.8	6.0	2.3	5.0	5.2	0.0	0.0	50.3 (15)	50.0 (16)
Germany	10.0	15.5	5.0	4.1	3.3	3.4	4.0	1.5	5.0	5.2	0.0	0.0	45.5 (17)	49.4 (17)
Finland	10.0	15.5	2.5	2.1	4.4	4.5	4.0	1.5	5.0	5.2	0.0	0.0	43.2 (24)	47.8 (18)
Uganda	2.5	3.9	2.5	2.1	5.5	5.6	2.0	0.8	10.0	10.3	5.0	6.0	45.8 (16)	47.7 (19)
Cambodia	7.5	11.6	5.0	4.1	6.7	6.8	2.0	0.8	5.0	5.2	0.0	0.0	43.7 (22)	47.5 (20)
Italy	10.0	15.5	5.0	4.1	2.2	2.2	4.0	1.5	5.0	5.2	0.0	0.0	43.7 (23)	47.5 (20)
Czech Rep.	7.5	11.6	5.0	4.1	0.0	0.0	4.0	1.5	10.0	10.3	0.0	0.0	44.2 (20)	45.9 (22)
Latvia	5.0	7.7	5.0	4.1	3.3	3.4	4.0	1.5	10.0	10.3	0.0	0.0	45.5 (17)	45.1 (23)
Turkey	7.5	11.6	7.5	6.2	0.0	0.0	4.0	1.5	7.5	7.7	0.0	0.0	44.2 (20)	45.0 (24)
Hungary	7.5	11.6	2.5	2.1	1.1	1.1	4.0	1.5	10.0	10.3	0.0	0.0	41.8 (25)	44.4 (25)
Portugal	10.0	15.5	5.0	4.1	0.0	0.0	4.0	1.5	5.0	5.2	0.0	0.0	40.0 (28)	43.8 (26)
Romania	7.5	11.6	5.0	4.1	3.3	3.4	4.0	1.5	5.0	5.2	0.0	0.0	41.3 (26)	42.9 (27)
Phillippines	7.5	11.6	5.0	4.1	4.4	4.5	0.0	0.0	5.0	5.2	0.0	0.0	36.5 (38)	42.3 (28)
Greece	7.5	11.6	5.0	4.1	3.3	3.4	2.0	0.8	5.0	5.2	0.0	0.0	38.0 (30)	41.7 (29)
Servia	7.5	11.6	5.0	4.1	3.3	3.4	2.0	0.8	5.0	5.2	0.0	0.0	38.0 (31)	41.7 (29)

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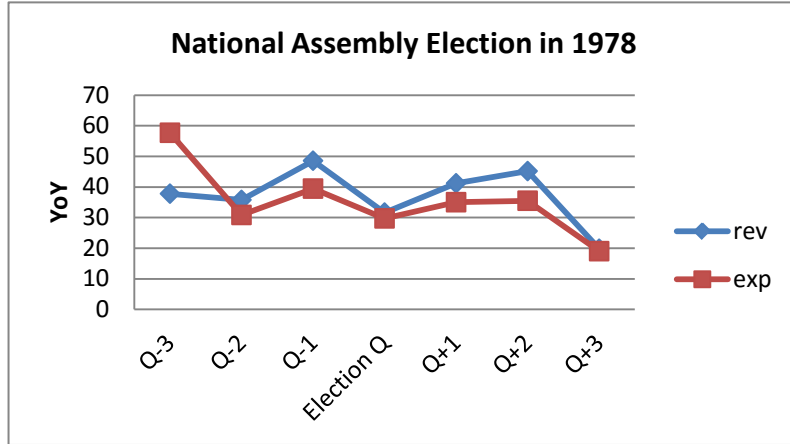
1. Ranking of Indices for Legislative Budget Institutions (cont.)

Poland	7.5	11.6	0.0	0.0	1.1	1.1	4.0	1.5	10.0	10.3	0.0	0.0	37.7 (34)	40.9 (31)
Slovenia	7.5	11.6	5.0	4.1	0.0	0.0	4.0	1.5	5.0	5.2	1.3	1.6	38.0 (30)	39.9 (32)
Canada	2.5	3.9	2.5	2.1	3.3	3.4	2.0	0.8	10.0	10.3	2.5	3.0	38.0 (31)	38.9 (33)
Spain	7.5	11.6	5.0	4.1	3.3	3.4	4.0	1.5	2.5	2.6	0.0	0.0	37.2 (36)	38.6 (34)
Uruguay	2.5	3.9	5.0	4.1	3.3	3.4	4.0	1.5	10.0	10.3	0.0	0.0	41.3 (26)	38.6 (34)
Fiji	10.0	15.5	5.0	4.1	0.0	0.0	2.0	0.8	2.5	2.6	0.0	0.0	32.5 (45)	38.2 (36)
Slovakia	10.0	15.5	0.0	0.0	0.0	0.0	4.0	1.5	5.0	5.2	0.0	0.0	31.7 (47)	36.9 (37)
Argentina	2.5	3.9	5.0	4.1	6.7	6.8	4.0	1.5	5.0	5.2	0.0	0.0	38.7 (29)	35.8 (38)
Kenya	2.5	3.9	7.5	6.2	2.2	2.2	2.0	0.8	5.0	5.2	2.5	3.0	36.2 (39)	35.3 (39)
Hong Kong	5.0	7.7	7.5	6.2	1.1	1.1	2.0	0.8	5.0	5.2	0.0	0.0	34.3 (42)	34.9 (40)
Israel	0.0	0.0	5.0	4.1	5.5	5.6	2.0	0.8	10.0	10.3	0.0	0.0	37.5 (35)	34.7 (41)
Albania	2.5	3.9	5.0	4.1	6.7	6.8	2.0	0.8	5.0	5.2	0.0	0.0	35.3 (40)	34.6 (42)
Swaziland	2.5	3.9	5.0	4.1	6.7	6.8	2.0	0.8	5.0	5.2	0.0	0.0	35.3 (41)	34.6 (42)
Morocco	2.5	3.9	0.0	0.0	2.2	2.2	2.0	0.8	10.0	10.3	2.5	3.0	32.0 (46)	33.7 (44)
Russia	5.0	7.7	5.0	4.1	1.1	1.1	4.0	1.5	5.0	5.2	0.0	0.0	33.5 (43)	32.7 (45)
Peru	7.5	11.6	0.0	0.0	1.1	1.1	4.0	1.5	5.0	5.2	0.0	0.0	29.3 (49)	32.3 (46)
Tadzhikistan	0.0	0.0	5.0	4.1	3.3	3.4	4.0	1.5	10.0	10.3	0.0	0.0	37.2 (36)	32.2 (47)
Panama	2.5	3.9	5.0	4.1	3.3	3.4	4.0	1.5	5.0	5.2	0.0	0.0	33.0 (44)	30.0 (48)
Japan	2.5	3.9	2.5	2.1	5.5	5.6	2.0	0.8	5.0	5.2	0.0	0.0	29.2 (50)	29.1 (49)
South Africa	0.0	0.0	5.0	4.1	6.7	6.8	2.0	0.8	5.0	5.2	0.0	0.0	31.2 (48)	28.1 (50)
Taiwan	2.5	3.9	0.0	0.0	0.0	0.0	4.0	1.5	10.0	10.3	0.0	0.0	27.5 (51)	26.2 (51)
United Kingdom	2.5	3.9	5.0	4.1	1.1	1.1	0.0	0.0	2.5	2.6	2.5	3.0	22.7 (57)	24.5 (52)
Ghana	2.5	3.9	7.5	6.2	1.1	1.1	2.0	0.8	2.5	2.6	0.0	0.0	26.0 (53)	24.2 (53)
Ireland	0.0	0.0	5.0	4.1	6.7	6.8	2.0	0.8	2.5	2.6	0.0	0.0	27.0 (52)	23.8 (54)
Malawi	0.0	0.0	5.0	4.1	3.3	3.4	2.0	0.8	5.0	5.2	0.0	0.0	25.5 (54)	22.3 (55)
New Zealand	2.5	3.9	3.3	2.7	3.3	3.4	2.0	0.8	2.5	2.6	0.0	0.0	22.7 (57)	22.1 (56)
France	2.5	3.9	0.0	0.0	0.0	0.0	4.0	1.5	7.5	7.7	0.0	0.0	23.3 (56)	21.9 (57)
Australia	2.5	3.9	2.5	2.1	3.3	3.4	2.0	0.8	2.5	2.6	0.0	0.0	21.3 (59)	21.0 (58)
Thailand	0.0	0.0	5.0	4.1	1.1	1.1	4.0	1.5	5.0	5.2	0.0	0.0	25.2 (55)	19.8 (59)
Chile	2.5	3.9	0.0	0.0	0.0	0.0	4.0	1.5	5.0	5.2	0.0	0.0	19.2 (60)	17.6 (60)

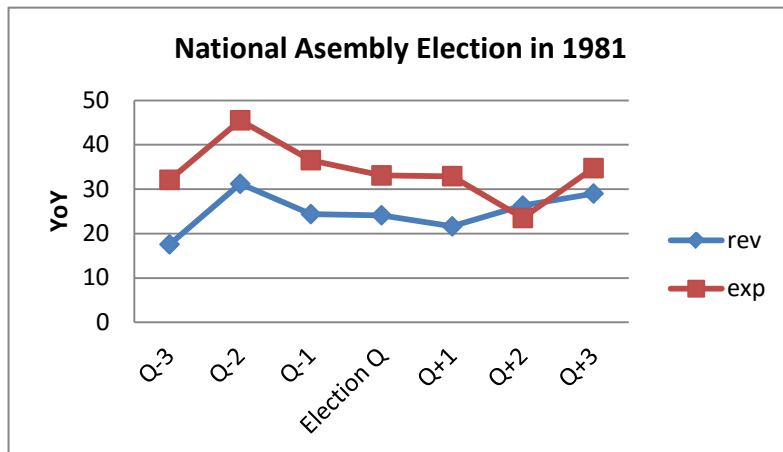
Source: Wehner 2006, Chunsoon Kim 2015

2. Revenue and Expenditure changes in elections held during economic recession period

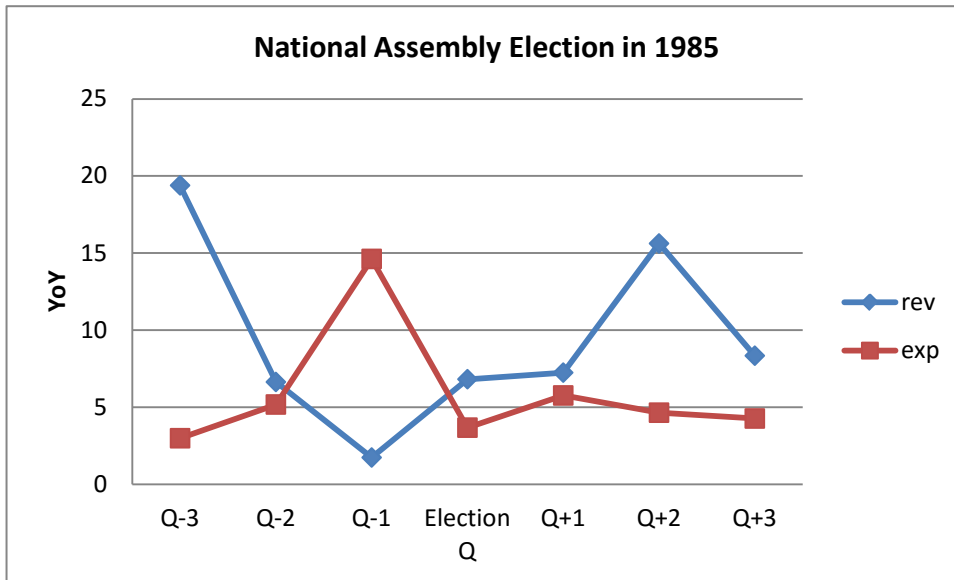
Pre-democratization period



As shown in the above figure, there is no clear change indicating PBC. There is no fluctuation in both revenue and expenditure before and after the election. .

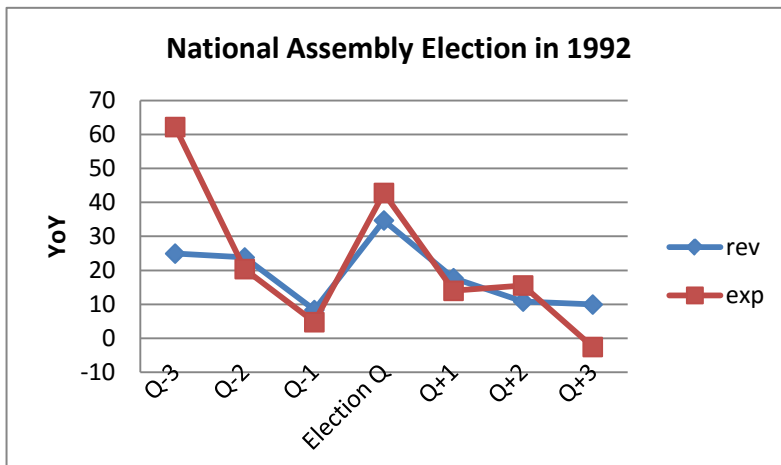


The rate of increase in the revenue, which reached up to 31.1% during the Election Q-2, decreased to the mid-20% during the Election Q-1 and Election Q. Except for that, there is no noticeable cycle observed. There is no significant change in the expenditure before and after the election.

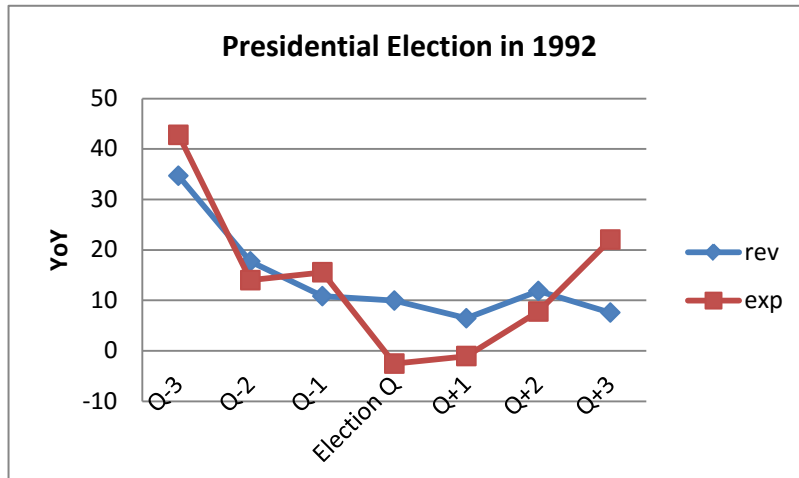


There is a change in the revenue that may indicate a sign of PBC. The rate of increase in the revenue, which reached around 20% during the Election Q-3, decreased dramatically to 6.6% during the Election Q-2 and 1.7% during the Q-1. During the Election Q+2, the rate of increase in the revenue more than doubled, exceeding a little over 15%. There is also a hint of change in the expenditure that points toward PBC. The rate of increase in the expenditure, which was only 5.1% in the Election Q-2, almost tripled in the Election Q-1, reaching up to 15%. Right after the election, the rate of increase in the expenditure dropped to 5% and remained in that range.

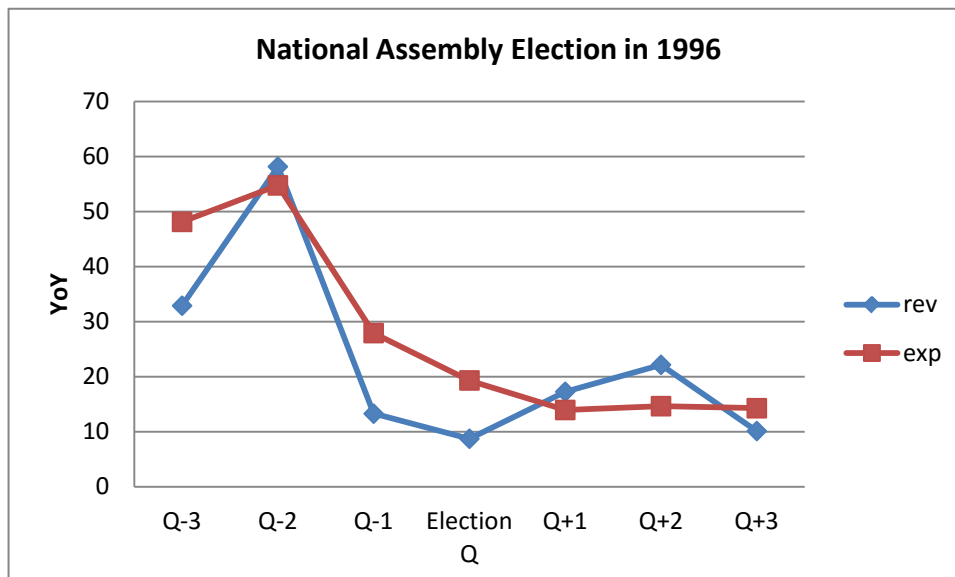
Post-democratization period



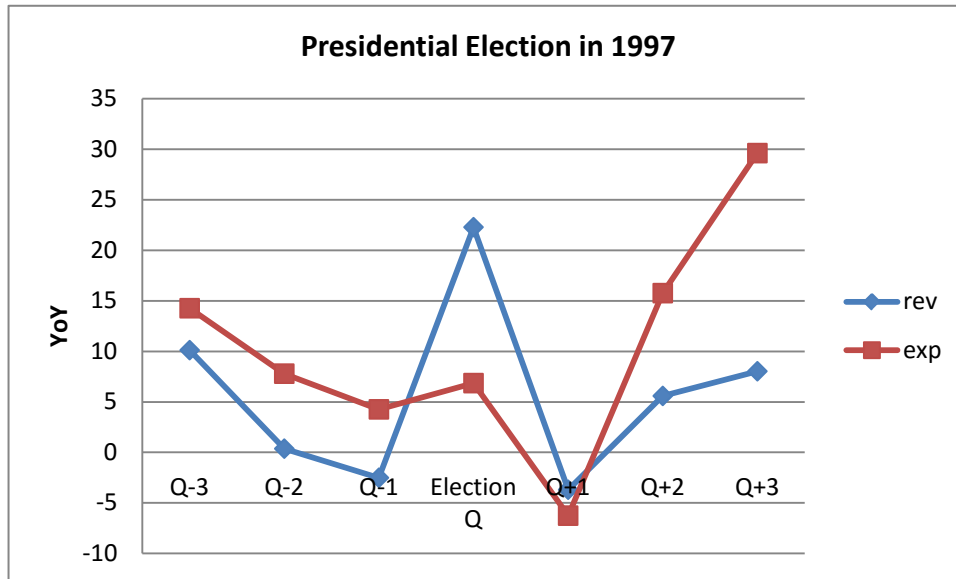
The rate of increase in the revenue was dramatically increased in the Election Q, but that trend was immediately stabilized. Therefore, this trend does not seem to signify a change due to PBC. The rate of increase in the expenditure continued to decrease up until the Election Q and bounced back up to 40% in the Election Q; however, the rate fell to around 10% after the election. This may indicate a weak sign of PBC.



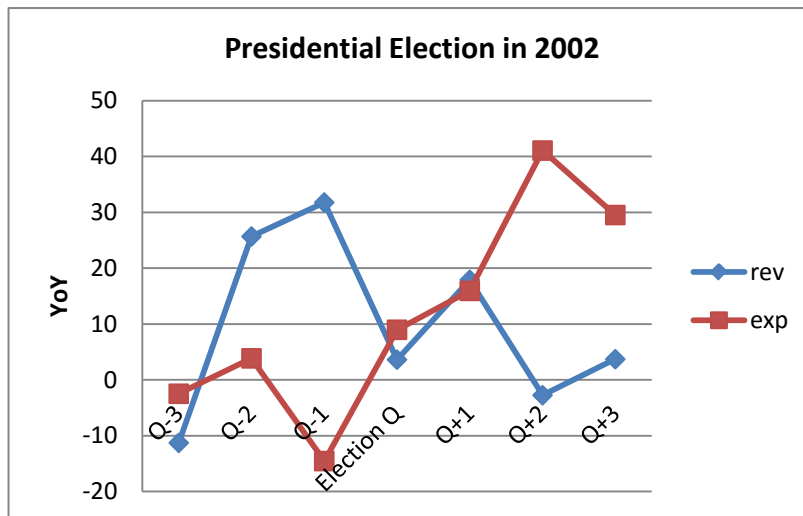
The rate of increase in the revenue continued to decrease from 34.6% during the Election Q-3 to 10% during the Election Q. However, the rate of increase in the revenue after the election did not increase. In the case of expenditure, the rate of increase took an opposite turn from the conventional PBC. The expenditure decreased before the election, but was on an upward trend after the election.



The rate of increase in the revenue decreased from 32.8% in the Election Q-3 and 58.1% in the Election Q-2 to 13.2% in the Election Q-1, and then further down to 8.7% during the Election Q. This rate increased to around 20% after the election, however. This may indicate a weak sign of PBC. In the case of the rate of increase in the expenditure, it decreased during the pre-election period, thereby taking an opposite turn from the conventional PBC. It continued to display a similar pattern of behavior even after the election.

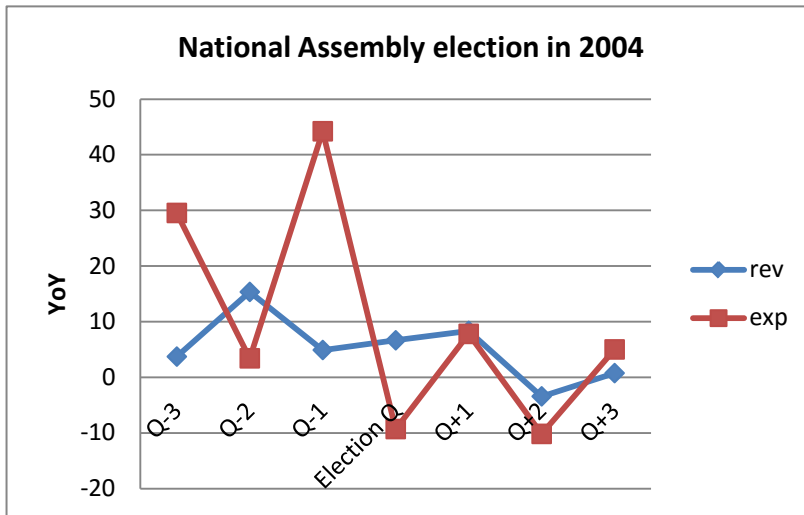


There is no significant change that indicates PBC. The rate of increase in the expenditure takes an opposite turn from the conventional PBC.

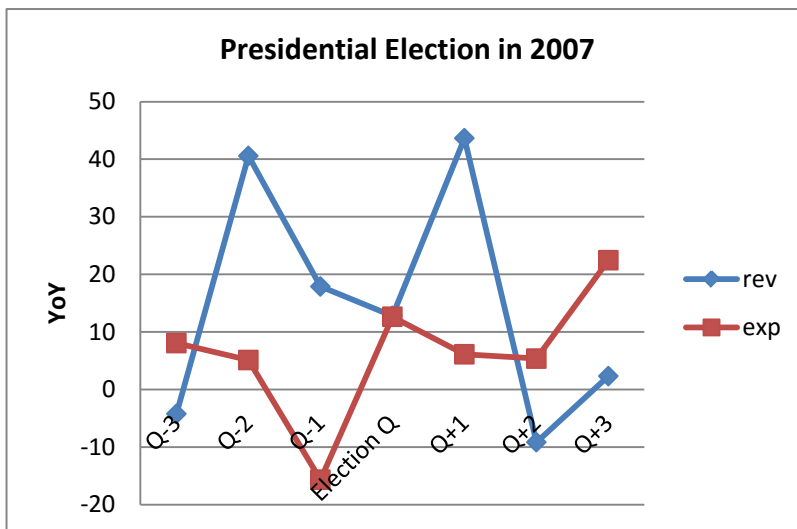


The rate of increase in the revenue takes a turn that is aligned with the conventional PBC, while that in the expenditure takes an opposite turn. Before the election, the rate of increase in the

revenue increased and then decreased after the election. However, the rate of increase in the expenditure, which was relatively low before the election, was increased after the election.



There is no particular sign of PBC in the revenue. The rate of increase in the expenditure, however, increased more than tenfold from 3.4% during the Election Q-2 to 44.2% in the Election Q-1. As the election quarters passed by, the rate of increase in the expenditure was on a downward trend, dropping below 10%, even as low as -10%. This indicates a strong sign of conventional PBC in the expenditure.



There is no sign of PBC observed in both revenue and expenditure.

II. APPENDIX TO CHAPTER 3

1. Calculation of Fiscal Impulse

Estimation of Potential GDP

The first step to calculate Fiscal Impulse is to estimate Potential GDP. Among various methods to estimate potential GDP, I adopt the Hodrick-Prescott filter widely used in macroeconomics due to its simplicity especially in a real business cycle theory to separate the cyclical component of a time series from raw data. The well-known criticism to the HP filter is that it tends to lead spurious results due to the ad-hoc character of the filter. It should be noted that the HP filter is considered to be more appropriate for the estimation of past cycles rather than prediction of business cycles in future. This is because I employ the HP filter for estimation of potential GDP in the past. The GDP gap derived from potential GDP is presented with the recession periods of Business Cycles, published by the Bureau of Statistics Korea in Figure 4.4. It seems that the GDP gap value and the recession period cord relatively well together.

Calculation of Fiscal Impulse

The measurement starts by establishing a base period in which actual and potential GDP are judged to be the same. Following Heller et al.(1986), I selected a base period where potential output was close to the actual output. In this calculation, the base period is the second quarter of 1992. Government expenditure is termed cyclically neutral if it increases proportionately with increases in nominal potential output.

Equation (1) shows the decomposition of the actual budget balance $B=(T-G)$:

$$B = (t_0 Y^p - g_0 Y^p) - [t_0 (Y^p - Y)] - FIS \quad (1)$$

Where

$t_0 = T_0/Y_0$, the revenue ratio in the base period

$g_0 = G_0/Y_0$, a base-period expenditure ratio

Y = actual output in nominal prices

Y^p = potential output in nominal prices

T = government revenues

G = government expenditures

and FIS is a measure of the fiscal stance.

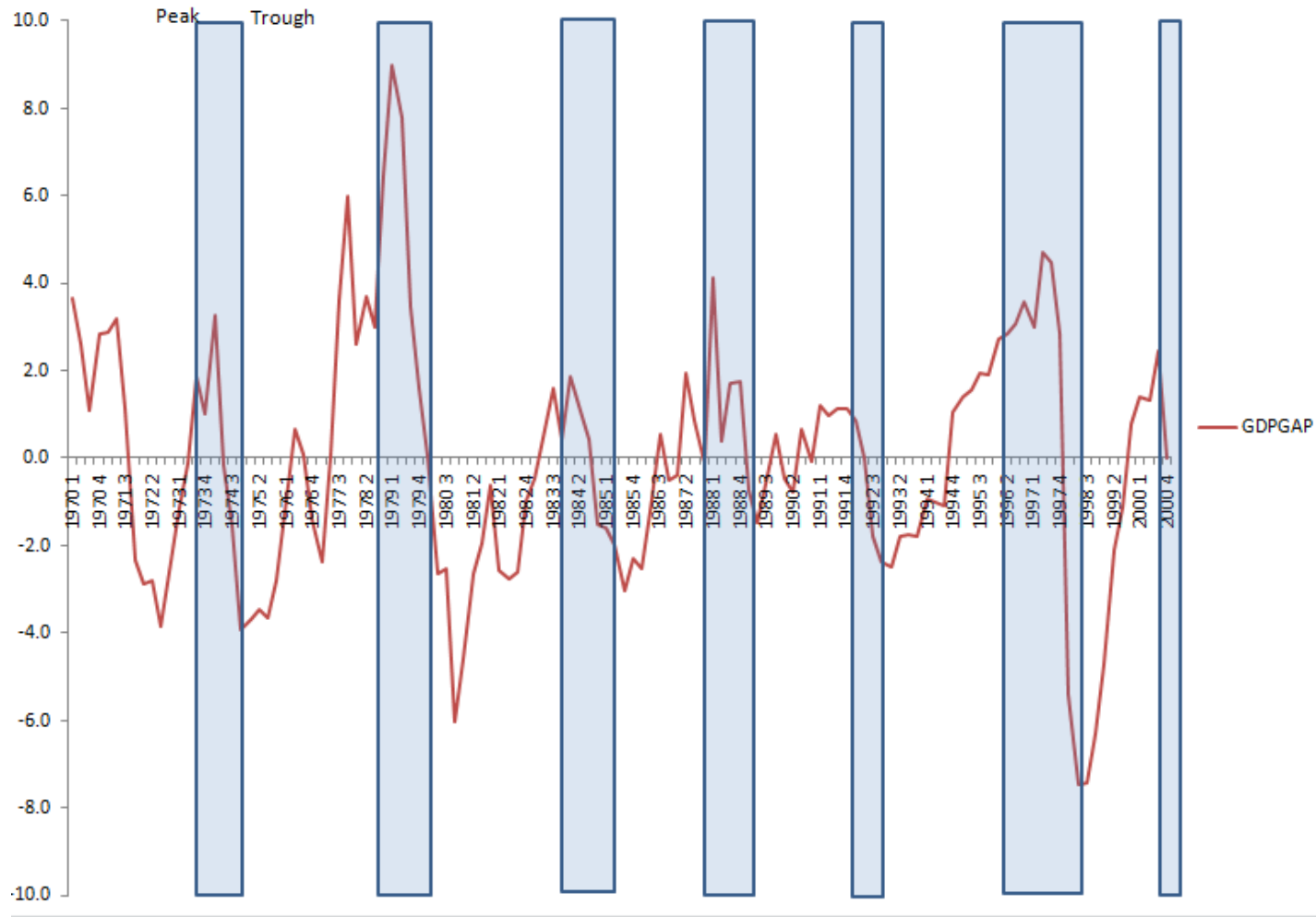
Equation (1) can be rewritten as

$$B = (t_0 Y - g_0 Y^p) - FIS = B_n - FIS$$

Taking the first difference of the fiscal stance measure, one obtains an absolute measure of the fiscal impulse, FI

$$\begin{aligned} FI = \Delta FIS &= (\Delta G - g_0 \Delta Y^p) - (\Delta T - t_0 \Delta Y) \\ &= -\Delta B - g_0 \Delta Y^p + t_0 \Delta Y \end{aligned}$$

Figure 4.7 GDP Gap and Business Cycles



2. ARIMA Procedure (Box-Jenkins Approach)

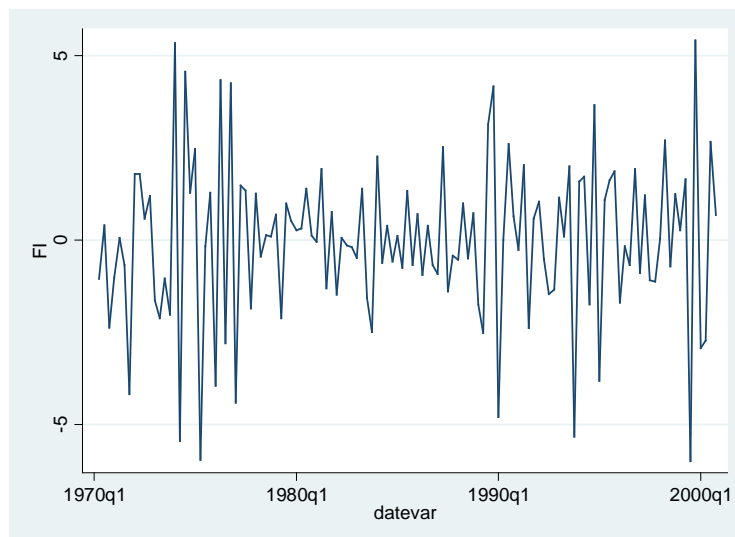
In general, the Box-Jenkins approach is most widely used in selecting an appropriate ARIMA model for the purpose of estimating and forecasting a univariate time series. This approach is comprised of three stages: (a) identification, (b) estimation, and (c) diagnostic checking. Based on this procedure, I illustrate the procedure with the Fiscal Impulse used as dependent variable in this chapter.

Identification

An investigation of graph and a comparison of the sample ACF and PACF to those of various theoretical ARIMA process may suggest several plausible model.

(1) Graph

The below line graph seems to be stationary as showing no significant patterns in the graph: white noise.



(2) Unit Root Test

To confirm the estimation from the above, I will test the time series data for stationary (unit root problem) using Augmented Dickey-Fuller test. Our null hypothesis (H_0) in the test is that the time series data has a unit root (non-stationary) while alternative hypothesis (H_a) that the series is stationary. The ADF statistics is -18.53 which is much smaller than critical values (-3.503, -2.889, and -2.579 at each 1%, 5%, and 10% level respectively) in case the number of observation is 122. (See below Table)

Thus we can reject the null hypothesis and hence can conclude that the alternative hypothesis is true, i.e. the time series has no unit root (stationary).

Table. Dickey-Fuller Test for Unit Root

ADF statistics	1% Critical value	5% Critical value	10% Critical value	No. of observation
-18.533	-3.503	-2.889	-2.579	122

(3) Correlogram

To seek suitable values of p in AR and q in MA in our model, we need to examine the correlogram and partial correlogram of the time series. As shown the below figure, there are one and two (or three spikes) in ACF and PACF (The lag 3 of PCAF is located around the significant limit). Since the ACF is tailing off to zero from lag 2 and the PCAF is tailing off to zero from lags 3 or 4, we can infer that the best candidate ARMA models for the time series are ARMA(2, 1) or (3,1). However, the ARMA lags cannot be selected solely by looking at the ACF and PACF. In the next step, we will decide which would be more suitable for the time series, using BIC values.

Date: 10/11/10 Time: 13:42
 Sample: 1970Q2 2000Q4
 Included observations: 123

Autocorrelation	Partial Correlation	AC	PAC	Q-Stat	Prob
		1 -0.481	-0.481	29.191	0.000
		2 0.053	-0.233	29.544	0.000
		3 -0.039	-0.165	29.743	0.000
		4 0.045	-0.059	30.010	0.000
		5 -0.048	-0.071	30.309	0.000
		6 -0.029	-0.116	30.419	0.000
		7 0.127	0.069	32.554	0.000
		8 -0.219	-0.177	38.992	0.000
		9 0.181	-0.008	43.407	0.000
		10 0.009	0.108	43.417	0.000
		11 0.053	0.179	43.802	0.000
		12 -0.138	0.015	46.454	0.000
		13 -0.055	-0.187	46.874	0.000
		14 0.111	-0.064	48.620	0.000
		15 -0.027	0.036	48.723	0.000
		16 0.030	0.038	48.852	0.000
		17 -0.050	0.002	49.209	0.000
		18 0.057	0.027	49.691	0.000

Estimation

To identify the best lags, we need to fit several models with different lag choices. To select the best suitable model for the series, we will choose the one with the lowest BIC (Bayesian Information Criterion) values among the below nine models. In the below output BIC matrix, the rows correspond to the AR degree (p) and the columns correspond to the MA degree (q).

	MA (q)		
	514.4458	514.3529	527.1042
AR (p)	514.2113	555.9783	558.9801
	514.3784	558.9979	557.9268

The smallest BIC value among the above modes is 514.2113 in the (2, 1) position. I confirm that it corresponds to an ARMA (2, 1) model.

Diagnostic Checking

Q- statistics and correlogram show that there is no significant pattern left in the ACFs and PACFs of the residuals, it means the residuals of the selected model are white noise.

Date: 10/11/10 Time: 13:48
 Sample: 1971Q1 2000Q4
 Included observations: 120
 Q-statistic probabilities adjusted for 4 ARMA term(s)

Autocorrelation	Partial Correlation	AC	PAC	Q-Stat	Prob	
		1	-0.015	-0.015	0.0269	
		2	-0.028	-0.028	0.1232	
		3	-0.053	-0.054	0.4793	
		4	0.048	0.046	0.7757	
		5	-0.004	-0.005	0.7776	0.378
		6	0.025	0.025	0.8579	0.651
		7	0.074	0.080	1.5739	0.665
		8	-0.116	-0.116	3.3273	0.505
		9	0.159	0.168	6.6483	0.248
		10	0.094	0.098	7.8233	0.251
		11	-0.014	-0.027	7.8504	0.346
		12	-0.214	-0.189	14.079	0.080
		13	-0.104	-0.131	15.556	0.077
		14	0.084	0.072	16.534	0.085
		15	0.058	0.060	17.006	0.108
		16	0.013	-0.019	17.031	0.148
		17	-0.077	-0.050	17.865	0.163
		18	-0.045	-0.049	18.151	0.200

With the above three steps, I selected ARMA(2,1) model for Fiscal Impulse. I used Stata 12 and Eviews 6 for the above procedure.

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