

CONTINUED STIMULUS POLICY

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With the view that expanding fiscal spending will be more effective than a tax reduction, the government has reaffirmed its policy direction for economic stimulus. Korea currently has one of the lowest tax rates in the OECD, and also has a relatively healthy budget situation. A tax reduction by itself would impact budgetary soundness, but in the current uncertain conditions may promote saving rather than spending by households or businesses. The IMF also recommended that increased fiscal spending is needed to stimulate the economy. Government spending accounts for an increasing share of the economy's growth, and advanced countries also use fiscal policy as a means of stimulating the economy.

To effectively invigorate the economy, fiscal policy should be accompanied by tax cuts. Fiscal policy should also be clearly delineated. Despite the economic slump, the tax burden in the last three years has reached its highest point, which has contracted the spending ability of households and companies. A decrease of direct taxes will increase household disposable income, and in the current low interest rate conditions, it would probably increase spending as well as savings. Korea's corporate tax rate is currently 28%, which is high compared to neighboring countries such as Taiwan (25%) and Singapore (15%), and a hindrance to competitiveness. Looking at Japan and the US, expanded fiscal spending in Japan failed to revive the economy, while the tax cut in the US was relatively effective as a boosting measure. Therefore, tax reductions should be considered for economic stimulus. In addition, fiscal spending should always be done according to plan, to prevent the budget from running counter to the economy as was seen in early 2001. **VIP**

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Table 1. Tax Burden in Korea

	Unit	1997	1998	1999	2000	2001
Total Tax	mil. won	88,333,430	84,947,456	94,244,219	98,177,400	19,349,516
GDP	100 mil. won	4,532,764	4,443,665	4,827,442	5,321,556	5,773,888
Tax Burden to GDP	%	19.5	19.1	19.5	18.7	20.7

Source: Ministry of Planning and Budget