PART 2.

KOREA
6

AGRICULTURAL LAND REFORM IN KOREA: A RETROSPECTIVE AND PERSPECTIVE REVIEW

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Introduction

Worldwide, land reform, like industrial and civil revolution, has served as an important determinant in the process of modernization. The reason for this could be that fundamental changes in the system of land ownership and land utilization profoundly affect the entire society, as this system has long shaped the basic structure of a country's economy. Moreover, in principle, land reform has liberated the much-exploited farming class whose human dignity has been abused over long periods of time. These are the universally common characteristics of land reform and one of the reasons it is frequently called the "agrarian revolution."

The land reform in Korea was no exception. Among the historical determinants that played a major role in defining the political, economic and social status of present day Korea, land reform would be one of the most recent, as it is based on the Land Reform Act put into effect on March 10, 1950.

The Korean land reform legally and compulsorily liberated farmers for the first time from the tenant landlord system that had dominated the country for centuries. It established the owner-operator farm system and abolished the colonial economic system. It also transformed land capital into industrial capital, which eventually became the foundation upon which Korean capitalism was built. The historical significance of the land reform in Korea is so great that it has been compared to the significance of Korean independence, re-gained in 1945.
Forty-two years have passed since the implementation of the land reform. During this period, the traditional form of agricultural society has changed radically, primarily because of the nation’s sustained high economic growth resulting from an outward-looking development strategy.

We are now at a stage where the need to question the continuing efficacy and validity of land reform arises. We need to determine whether the reform has been successful in accomplishing its intended goals: a reasonable distribution of farm land to farmers, the establishment of a self-sufficient farm economy, improvement in agricultural productivity, a better standard of living for farmers, and balanced development among the sectors of the national economy.¹

Many recent events, both international and domestic, are putting pressure on the Korean agricultural structure. Such factors as rapid developments in technology, the emergence of a high-technology industrial society, the wave of trade internationalization and the infamous Uruguay Round Negotiation of GATT, which is forcing the opening of the Korean agricultural market to foreign competition, the breakdown of the socialist system throughout the former USSR and East Bloc countries, are forcing us to consider adjusting our system of land ownership and utilization.

A vast amount of research regarding the process and achievements of land reform in Korea and the evaluation of its results has been conducted. In fact, there are more than 158 studies already available. The most comprehensive works are the History of the Land Reform (Editing Committee for Land Reform History, 1970) and the enormous Study on the History of Land Reform (Kim, 1989), and Anthology of Related Materials (6 vols.) published by the Korea Rural Economic Institute (KREI) in 1989. This latter work, by Kim Sung-Ho, et al. extends to 3,000 pages and took eight years from 1982 to 1989 to complete.

Many agricultural and land economists within and outside Korea have shown their strong interests in the studies on Korean land reform. Among them, Kim Sung-Ho and his colleagues (Kwon,

¹ Article 1 (the purpose of the Act) of the Land Reform Act legislated on June 21, 1949, and revised and promulgated on March 10, 1950.
1983) take a positive view toward the accomplishments of the land reform in Korea, while others (Kim, 1970; Yoo, 1975; Kim, 1981; Sakurai, 1976 and 1988) are more critical. The majority of those who have done research on the Korean land reform stand with the later group.

This study tries to review in summarized form the process of land reform in Korea, the changes it has produced, and the achievements it has made, in order to determine how the reform of the 1950s has historically affected the Korean land system, agriculture and economy as a whole, and to suggest potential future policy directions.

The Formation of the Korean Land System

Land System during Chosun and the Earlier Ages

Korea's land system has a long history and has changed through the years of old dynasties, as it was the fundamental political and economic basis of their existence.

Although the first record of a land system in Korea is that of the Kija dynasty (B.C.1122), a feudal land system based on state ownership of land emerged during the age of the Three Kingdoms (B.C. 57-A.D.663). The records also show that, during the Unified Shilla era (676-935), the feudal land system developed in Tang China was adopted. From the Age of the Three Kingdoms, the ruling echelon based their economy on the state ownership of land, although the land system differed with the development stages of royal authorities and the ruling system. During the age of the Three Kingdoms and the Unified Shilla era, the state structure was a collective clan state system which did not allow private domination over land. Therefore, land ownership right was exercised in a collective form.


By the time of the *Koryo* (918-1392) and *Chosun* (1392-1910) dynasties, a solid bureaucratic ruling system had already been established, and the levying of taxes on the land was an important source of national revenue and provided the economic basis for maintaining power. In this regard, the ownership of land was directly linked to the ruling system. The land was distributed to members of the royal family, the civil and military leaders, and *yangban* (nobleman) and bureaucrats, who were also given the right to collect taxes.

The distribution of land was determined by such criteria as the social status of the receiver, kind of job, and the reasons for distribution. As the years went by, the distribution process became more complex as questions arose, such as whether land ownership lasts a lifetime or only during the term of office, or whether it was hereditary.

The distribution of land, at the same time, marked a turning point in the authority of the king because it seriously undermined the system of state ownership of land. Therefore, the history of dynasties until the *Chosun* was one of a conflict between state and private ownership of land and the breakdown of the feudalistic and bureaucratic ruling system.

Whenever the ruling class needed to tighten its grip on leadership, it took steps to prevent the proliferation of private land ownership, the expansion of large farms, and tax evasion by instituting such measures as agrarian reform or the *Yangjeon* (land survey) project. Such measures ameliorated the situation, giving flagging finances a boost and improving the organization of the confused state land ownership system.

Typical of the agrarian reforms of the *Chosun* period was the *Kwajeon* system implemented in 1391 by the first king of the *Chosun* dynasty, who, immediately after assuming political power in 1388, set out to reform the internal affairs. Under this system, privately-owned land was confiscated, placed under the control of the state, and then redistributed to newly appointed bureaucrats in order to strengthen the king's power and at the same time destroy the economic base of those formerly in power. In order to do this, he reclassified the land for tax purposes according to its productivity. This reclassification of land was known as the *Yangjeon* project. Also, in 1390 he established an
agency specializing in this work and burnt all existing documents per-
taining to private and public lands.

In 1404, the second Yangjeon project was started to check on the
number of land-lots in the country. By King Sejong’s reign (1418-
1450), the state was able to impose taxes on all newly cultivated lands
and vast acreage that had been concealed during the process of privat­
ization at the end of the Koryo dynasty. The records show that the
total farmland in the country reached 1,625,234 kyuol.5

But by 1466, members of the ruling feudal class, who were also the
rent collectors under the Kwajeon system, began claiming the state-
owned land as their own, which once again resulted in increased
exploitation of the farmers. Therefore, the state abolished the
Kwajeon system and implemented the Jikjeon system, an another
form of agrarian reform. The Jikjeon system also involved distribu­
tion of land by the state, but the rent was collected directly by the
state, not the land holders. The state, after collecting the taxes, com­
penated the land holders.

However, in the latter days of the Chosun dynasty, the control of the
land by the central government disintegrated further and private own­
ership of land became more widespread. Especially after the Imjin
War in 1592, the centralized control by the government weakened
considerably. The land was devastated and agricultural productivity
shrank dramatically. Even the farmland under cultivation decreased
to only 541 thousand kyuol in 1611.

After the War, there was a tendency for land holding to be concen­
trated in the hands of a few feudal landlords. The situation gradually
worsened and tenant farming emerged, resulting in the differentiation

5. Kyuol was an old measurement of farm size, applied during the dynasties of
Korea. It designated an area from which a fixed magnitude of tax in kind (usual­
ly rice or grain) was collected, or a fixed level of crop production was attained,
or, at a later date, simply denominated an area of farmland. The magnitude,
therefore, differed by location, water availability, fertility of land and tax regula­
tion of the time, etc. During the Sejong reign it was to demarcate an area for
which about 20 Du (approximately 360 kiloliters) of rice (grain) was taxed.
Land size varied from 2,753 pyong (.993 ha) for 1st grade land to 11,035 pyong
(3.652 ha) for 6th (the lowest) grade land. (Editing Committee for Land Reform
of farmers and land owners. Exploitation under the tenant-landlord system continued until the end of the Chosun dynasty.

From the mid-Chosun dynasty, the state was the nominal land owner but in practice the land was controlled by private individuals. Even the sale and inheritance of land became common, although these transactions conveyed limited rights which did not constitute true ownership of the land.

The farmland system made "farmers the farming slaves while the state came to be the ultimate landlord and many other farmers became private slaves which made their lives more miserable." These circumstances brought about the farmers' uprising of Donghak-minran in 1894.

At the end of Chosun dynasty, Korea was exposed to foreign cultural elements which triggered the search for a more modernized land system with the aim of establishing a modernized tax system. In 1894, the government tried to make some reorganization of the land system but the attempt ended in failure. During the Imperial Daehan period (1897-1910), American experts were invited to provide technical advice and in 1898 conducted land surveys to facilitate land registration. But this practice was abolished two years later because of foreign meddling with national affairs.

**Introduction of the Modern Farm Land System**

In 1910, after Japan colonialized Korea, the first project implemented was the reorganization of the farm land system. The reorganization aimed at exploiting the farmers. The Japanese established a land survey bureau in March that year and in 1912 they announced a land survey decree mandating a survey throughout the country. They also issued proclamations such as the real estate certificate decree and real estate registration decree to establish a legal basis for farm land possession. At the same time, they implemented the Korean civil decree which served as the foundation for the system of capitalistic private ownership of land.

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The reason Japan was so eager to start such projects was to organize the system to clarify land ownership as well as provide a legal basis for simple and precise transactions. This would enable them to take over the lands, especially the land possessed by the royal family and the state, more easily and swiftly and to collect land tax more effectively, thus increasing revenue.

The land survey project continued for 8 years from 1910 to 1918. It had three basic components: land ownership, land price, topography and terrain. In the survey of land ownership, location, type, lot number, and ownership were determined. In the survey of land prices, the price of land, rental fees, and the income made on that land were studied on a total scale which enabled them to establish land tax system.

The reports (Office of the Governor-General, 1918a and 1918b), published in 1918 after the completion of the project, list all the contents and the details of the survey which makes one realize the enormous amount of manpower and money that went into surveying all the land in Korea (some 19 million lots). The report also reveals that the total area of farm lands in Korea reached 4,871,000 chongbo.\(^7\)

Many researchers view this survey as one which had great significance in the history of the farm land system in Korea and they agree that this survey served as a turning point in the introduction of a modern land system—farm land ownership for the first time in Korea.

However, this survey created immense problems because it served Japanese colonial exploitation over Korea and because it aimed at generating colonial capital. Therefore, the exploitation continued until Korea was liberated from Japan to conduct its own land reform by its own government.

The Japanese land survey project legally recognized land ownership rights, but based these rights on a report system. The land holders needed only to report their land holdings to be granted ownership of the land, whereas the tenant farmers who had been cultivating the land lost their right to till the land and turned into mere tenant farmers.

\(^7\) A chongbo is approximately equivalent to a hectare.
Most of the royal and public lands and forests were confiscated and became state lands which were then turned over to the Japanese colonial company or to individuals. Land ownership quickly became concentrated in Japanese hands.

Despite the introduction of the new land system, the land rental rate, under which a half of the harvested crops was offered to the land holders, was adopted in the name of a new tenant rental rate, and this was a beginning of a new exploitive landlord system.

A polar differentiation phenomenon took place as the so-called “farming class” disintegrated. The newly emerged class of owner-farmers and tenant farmers who were the new petty land-owners had no choice but to sell their farmland because they could not keep up with the heavy taxes and the rising expenses aggravated by the introduction of a monetary economy. The tenant farmers even migrated to other places because they could not bear the burden of high rents, taxes and other public charges.

A new kind of tax system was created by reorganizing the existing tax system. It provided a more effective means of collecting farmland tax and brought additional revenue to the colonial government.

The exploitative land system and the destitute situation of Korean farmers is realistically and fully depicted in “Research on Tenant System” (Office of the Governor-General, 1932), “Studies on Japanese Ownership of Land” (Oriental Development Co., 1924 and 1936), and “Studies on Class Differentiation of Agricultural Society” (Park, 1933). World War I, the great depression of the 1930s and the extreme shortage of rice in Japan, combined to cause Japan to use Korea as a major source of its food supply (In 1939 alone, 1,070 thousand seok\(^8\) which was 40 percent of the total rice production in Korea was sent to Japan). During World War II, the economy was strictly controlled, and once again the burden fell upon the unfortunate Korean farmers who suffered greatly. Therefore, by the time the War ended, it was mandatory that a fundamental land reform take place.

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8. Seok is equivalent to a 144 kg bag of polished rice.
The True Nature of Land Reform

Political and Economic Background of Land Reform

On August 15, 1945, Korea was liberated from the colonial domination of Japan. Along with this drastic political change, the Korean economy was to be diverted from the colonial wartime economy into a democratic peacetime economy. However, the transformation was not easy in a short period of time, and unfortunately, not long after liberation the cold war erupted and the Korean peninsula was divided. Moreover, in the political and economic confusion which followed, it took a long time before a new government could be established and economic stability achieved.

<table>
<thead>
<tr>
<th>Year</th>
<th>Owner-operated</th>
<th>Part-owner operated</th>
<th>Tenants</th>
<th>Burnt-field farmers and laborers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1944</td>
<td>276,733</td>
<td>691,946</td>
<td>980,752</td>
<td>42,618</td>
<td>1,992,052</td>
</tr>
<tr>
<td></td>
<td>(13.9)</td>
<td>(34.7)</td>
<td>(49.2)</td>
<td>(2.2)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1945</td>
<td>284,509</td>
<td>716,080</td>
<td>1,009,604</td>
<td>55,284</td>
<td>2,065,477</td>
</tr>
<tr>
<td></td>
<td>(13.8)</td>
<td>(34.6)</td>
<td>(48.9)</td>
<td>(2.7)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1946</td>
<td>337,271</td>
<td>810,181</td>
<td>923,686</td>
<td>66,150</td>
<td>2,137,288</td>
</tr>
<tr>
<td></td>
<td>(15.8)</td>
<td>(37.9)</td>
<td>(43.2)</td>
<td>(3.1)</td>
<td>(100.0)</td>
</tr>
</tbody>
</table>


Basic structural changes in agricultural production were called for, and there was considerable pressure for farmland reform to be in line with the eradication of colonial remnants and the establishment of a nationalistic economy. However, this was a time of great political and economic confusion, and with conflict between the left and the right, and obstruction from the landlords, no clear policy could be agreed upon. Therefore, problems mounted before the new government was able to prepare, legislate and establish a legal basis for reform.
At the time of liberation, most petty tenant farmers in South Korea were struggling for survival because of disastrously high land rent. As seen in Table 1, in 1945, 1,065,000 farm households or 52 percent of the total 2,065,477 farm households, did not own any land. About 716,000 farm households, 35 percent of the total, tilled their own land but also had to cultivate rented land in addition because they could not survive on the land they owned. Only 284,000 farms, a mere 13 percent of the total, were owner-operated farms.

Of the 1,470,000 hectares of land cultivated by tenants, which accounted for 63.4 percent of the total farmland, the Japanese owned 230,000 hectares as shown in Table 2. During the period of U.S. Military Administration (USMA), there was insurmountable pressure to distribute the land once owned by the Japanese to the Korean farmers who were cultivating the land. Many people realized that the most important economic problem to be solved was to get rid of the colonial, semi-feudalistic land ownership system. The following factors led up to the land reform.

### Table 2. Land Ownership Situation, South Korea, 1945

<table>
<thead>
<tr>
<th>Classification</th>
<th>Upland</th>
<th>Paddy land</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total farmland</td>
<td>128(100.0)</td>
<td>104(100.0)</td>
<td>232(100.0)</td>
</tr>
<tr>
<td>Tenant Land</td>
<td>89 (70.0)</td>
<td>58 (56.0)</td>
<td>147 (63.4)</td>
</tr>
<tr>
<td>previously owned by Japanese</td>
<td>18 (14.5)</td>
<td>5 (5.0)</td>
<td>23 (9.9)</td>
</tr>
<tr>
<td>owned by Korean landlords</td>
<td>71 (55.5)</td>
<td>53 (51.0)</td>
<td>124 (53.5)</td>
</tr>
<tr>
<td>- landlords with more than 5 chongbo</td>
<td>43 (33.6)</td>
<td>14 (13.5)</td>
<td>57 (24.6)</td>
</tr>
<tr>
<td>- landlords with less than 5 chongbo</td>
<td>28 (21.9)</td>
<td>39 (37.5)</td>
<td>67 (28.9)</td>
</tr>
<tr>
<td>Owner-operated farmland</td>
<td>39 (30.0)</td>
<td>46 (44.0)</td>
<td>85 (36.6)</td>
</tr>
</tbody>
</table>


1. **Movement of the National Federation of Farmers Unions (NFFU)**

The NFFU, as the name implies, was a national organization uniting the nation's farmers. This group strongly advocated the confiscation
of land owned by the Japanese as well as land owned by the traitors who had sided with Japan. The NFFU demanded that these lands be distributed to poor farmers and suggested that the land rental be less than 30 percent of the harvested crop. In 1947 the NFFU drafted the South Korea Land Reform Act which included provisions for confiscating, without reimbursement, all lands held by Japanese and those who had collaborated with them, and further provided that such lands be given to Korean farmers. The NFFU insisted that there would be no true liberation and no true democracy unless Korea's land problems were solved. The NFFU demands attracted nationwide attention, and helped set off a wave of political demonstrations and social uprisings.

2. Positive Attitude of USMA toward the Land Reform

The U.S. Department of State and USMA had already established a basic policy regarding land reform as a part of the occupation policy. The USMA had tabled a draft of the Land Reform Act with the cooperation of the Interim Legislative Assembly, and the draft was later abrogated due to the dissolution of the legislative body. However, the USMA tried to take action to accomplish land reform by introducing policies such as tenant rent control on October 5, 1945 and confiscation and distribution of land owned by the Japanese on March 22, 1948.

3. Land Reform in North Korea

The communist regime in the northern part of the Korean peninsula initiated land reform throughout North Korea by confiscating and redistributing farmlands free of charge. This process continued from March 5 to the end of March 1946. Land reform was one of the first steps in constructing a so-called socialist collective farm. Land reform in north Korea resulted in a confiscation of 963,000 hectares (45 percent of the total farmland), which consisted of the land previously owned by the Japanese, land owned by non-farm people, land owned by landlords with more than 5 hectares, land owned by organizations, etc. These lands were distributed to 680,000 farm households (60 percent of the total farm households) which included farm laborers, farmers with no farmland, very small-scaled farmers, etc. This reform could be one of the external factors influencing the land reform in South Korea.

Article 86 of the Constitution, enacted and announced on July 17, 1948, stipulated that “Farmlands shall be distributed to the farmers; the distribution method, limit of possession, type and restriction of ownership to be decided by law.” This article defined the basic principle of the farmland system and land reform, giving a direction to the land policy in Korea.

5. Land Policies of the Korea Democratic Party

The Korea Democratic Party had its support base among the rich people of the Kyonggi (central) and Honam (southwestern) provinces, officials of the Japanese colonial period, and the landlords. The party with the strong influence over local police forces emerged as the strongest group fighting against the leftist elements. The party had a stable financial status and was the main power in the establishment of the independent Korean government. On September 16, 1945 when the party was formed, the party proclaimed a policy of “rational reorganization of the land” which stated that the land formally owned by the Japanese and landowners’ land procured by the government would be redistributed to the tenant farmers on the principle of owner-operated farms. The land prices to be paid by the government were to be decided on a diminishing rate with a long-term payback period. The party consistently supported the private ownership of land and the principle of procurement and compensated distribution of land. But at the same time, the party also defended the interests of landlords since its supporters were the rightists fighting against north Korea and the communists. The party played a leading role in the political environment and was a direct participant in initiating the land reform.

6. Land Reforms of Japan and Taiwan

After World War II, Japan and Taiwan implemented land reform which was based on compensated procurement of farmland from landlords and compensated distribution of land to farmers. Under Japanese land reform system in effect between 1946 to 1951, the distribution ceiling was 3 hectares on the average. Taiwan implemented land reform immediately after they moved from the mainland with
such measures as the so-called 37.5 regulations. The land reforms in Japan and Taiwan could be considered an external factor influencing land reform in Korea.

7. Korean People’s Aspiration for Land Reform

The only solution for the small farmers wishing to liberate themselves from the burden of the high land rents that was a remnant of feudalism and Japanese colonialism was to separate themselves from the feudalistic land domination relations and become owner-operated farmers. After World War II and the liberation from Japan, land reform become an important issue in the agricultural sector. It also served as an impetus for the farmers to open their eyes to the concept of land ownership and self-sufficiency.

The Process of Land Reform

1. Sale of Vested Farmland

After independence from Japan, the tenant farmers demanded lower rent before demanding land ownership. After only two months, on October 5, 1945, the USMA announced a statute on “Tenant Rent Control.”

The fact that the USMA was so quick to take action on the primary process of implementing land reform was an indication of how serious Japanese exploitation of Korean farmers had been. The high tenant rent rate imposed by the Japanese can be found nowhere else in the world. Therefore, the USMA realized that there would be no prosperity or stability in Korea unless they could find a solution to this problem. The statute stipulated that: i) in principle, tenant rent shall be paid in kind, ii) tenant rental rates should not exceed one-third of the total harvest, iii) unilateral cancellation of a tenant contract by one party is invalid, and iv) new contracts in which farm rent exceed one third of yield cannot be made.

On September 25 and December 6, 1945, the USMA enacted two statutes mandating that all the properties owned by the Japanese, including farmlands, companies, houses and financial institutions, be placed under government control. The farmlands were managed and controlled by a newly-established public corporation called the “New
Korea Corporation” which was to redistribute the land to meet the growing demands of the Korean farmers. There were strong demands for land reform from the political groups of farmers such as NFFU which coincided with American policy. It was also seen as a possible positive influence towards easing the political and economic disturbances of South Korea.

The New Korea Corporation had under its control a total of 282,480 hectares or 13.4 percent of the total farmland in South Korea. The Corporation distributed 245,554 hectares of farmland to 727,632 farm households by 1952 and 88.5 percent of these households had completed their payment to the Corporation. The total payment was to be made in cash equivalent to 300 percent of the annual yield of the land in 15 equal installment payments over a period of 15 years. Tenant farmers, farm laborers, and refugee farmers from North Korea and overseas were given less than two hectares of land per household. The distribution served as a direct precedent and decisive factor in the introduction of the land reform in Korea.

2. *Enactment of Farmland Reform Act*

With the establishment of the Korean government on August 15, 1948, the government started work on the foundation of the Land Reform Act. In January 1949, a proposal made by the Ministry of Agriculture and Forestry passed the Cabinet Council meeting with some revisions and was tabled by the National Assembly on February 5 of the same year. The National Assembly, realizing the importance of the land reform project, made a proposal supplementing the government’s proposal. This was the bill drafted by the Industry and Labor Committee of the National Assembly.

The bill passed the National Assembly on April 28 amidst much controversy and criticism, but was rejected by the government. However, it was confirmed by the National Assembly on May 15 and promulgated by the government on June 21. On October 25, the amendment was tabled to the plenary session of the National Assembly and passed on March 10, 1950. On March 25, 1950 the enforcement decree was enacted and on April 28 a detailed enforcement regulation was enacted and promulgated.
The main content of the Land Reform Act promulgated in 1950 states that i) adequate distribution of farmland to farmers should be made according to the Constitution, ii) the living standards of farmers should be upgraded through a self-reliant farm economy and increased agricultural productivity, and iii) the balanced development of the national economy should be achieved. The government purchased farmlands from the landowners: i) who were not farmers themselves, ii) who weren't self-operating farmers, and iii) who owned more than the ceiling of 3 hectares. The government distributed the land to those farmers: i) who were self-operating, ii) who owned much less farmland than they could till, iii) families of patriotic martyrs with farming experience, iv) those from overseas, and v) farm laborers.

The following lands were excluded from government purchase: i) farmland operated by an owner-operator with less than 3 hectares, ii) the owner-operated land with perennial plants, iii) farmlands used by the government, public agencies and educational institutions, iv) farmlands operated by schools, religious groups, and public welfare organizations, v) land used for special purposes by research institutions, vi) less than 0.2 hectare of farmland per grave, and vii) incomplete reclaimed land or tidal land and land reclaimed or cultivated after the enforcement of the Land Reform Law.

The price of the procured farmland was to be equivalent to 150 percent of an average annual yield and in case of perennial plants, the price was determined by the market price. A special redemption was added to the land for reclamation, drainage and other lands for special uses. Compensation for procured farmland was made with land securities where the volume of the main crop harvested that year was known. The payment was made by yearly installments spread over five years and was paid in won annually by calculating the legal price of the crop. The securities could be used for business enterprises with government guarantee.

9. Small piece of farmland usually adjacent to a family grave yard and called Wito in Korea. Traditionally, land ownership of Wito is retained by the family but land use right was given to the tenant who in return takes care of the family grave yard, including the cleaning, grasscutting, and a couple of yearly grave yard ceremonies in memory of the deceased ancestors.
The payment the government received for the distributed land was equal to the amount of the redemption. It was also collected in yearly installments spread over five years but in special cases, payment in a single sum or prolongation of the payment period was possible.

3. Distribution of Farmland

The government promulgated the Land Reform Act on March 10, 1950 and announced the detailed regulations for implementation on April 28. The survey on farm household economy which started on June 21, 1949, focused on gathering information on the land. The government issued a notice of land distribution by farm household. The survey revealed that there were 363,131 hectares of paddy fields and 237,917 hectares of upland or a total of 601,049 hectares of farmland to be distributed under the Land Reform Act, excluding 232,832 hectares of vested farmland or land formerly owned by Japanese, which were distributed by USMA.

The result of land reform as of 1957 showed that 267,878 hectares of farmland and 202,144 hectares of vested land had been distributed to 952,731 farm households. In 1966, after the completion of the distribution, the distributed land totalled 550,911 hectares. Table 3 shows the distribution by the end of 1970 after the completion of compensation and redemption.

Table 3. Distribution of Farmland in Korea at the End of 1970
(Unit: 1,000 unit, 1,000 chongbo)

<table>
<thead>
<tr>
<th>Type</th>
<th>No. of farm households</th>
<th>No. of plot</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Paddy land</td>
<td>Upland</td>
</tr>
<tr>
<td>Procured famland</td>
<td>1,016</td>
<td>1,271</td>
<td>857</td>
</tr>
<tr>
<td>Vested &quot;famland</td>
<td>655</td>
<td>883</td>
<td>459</td>
</tr>
<tr>
<td>Total</td>
<td>1,671</td>
<td>2,153</td>
<td>2,151</td>
</tr>
</tbody>
</table>

Source: Korea Rural Economic Institute, 1989. 40 Years History of Korean Agricultural Administration Vol. 1, p. 81.

Note: 1) Vested farmland denotes land formerly owned by Japanese, but since 1946 taken over and distributed by USMA, and since 1950 distributed by Farmland Reform Act of the Korean government.
4. Redemption of Farmland

The redemption price to be paid by the farmers and the compensation to be paid to the landlords were decided according to a common magnification rate (CMR) announced by the government. The CMR was the ratio of 150 percent of an average annual yield, evaluated at the legal grain price (government procurement price of 1949) from an average farm selected by the local government over the rent price on the land ledger. The farm land price was the magnification rate uniformly multiplied by the rental price. Therefore, the redemption price on the document given to the farmers and compensation price on price securities given to the land owners were all noted in amounts in kind. The compensation and redemption period were to be made by yearly installments spread over five years. The farmers were to pay back the government annually one-fifth of the amount in kind while the government paid one-fifth of the land price by calculating the legal price of the crop. After the completion of the redemption, the farmers could register the ownership of the land.

The first redemption of land began in 1950 with the payment made from summer crops. The redemption results in the 5 years of the redemption period, 1950-1954, reached 792,609 tons, which was only 69 percent of the target volume of 1,147,332 tons. However, 2 years later in 1956, 81.2 percent of the redemption target was achieved. The fundamental reason for this could be found in the economic difficulty experienced by farmers during the Korean War. The traditional indifference to ownership registration was another reason.

In 1952, the 2nd Amendment to the Land Reform Act was passed. The amendment stipulated that the repayment in crops be changed to cash redemption to alleviate the burden placed on farmers. Also, the redemption period was extended 3 years to 1957. The promulgation of this amendment accelerated the completion of the land reform project, as did a provision establishing the compensation basis for farmland auxiliary facilities. Furthermore, the unpaid portion of redemption could be collected on a compulsory basis under the National Tax Collection Law.

But in reality, it was difficult to enforce compulsory collection against petty farmers. Therefore, a special law was passed in 1968.
The major provisions were as follows: i) unpaid redemption be paid at legal grain price of 1950, the distribution year, ii) although transfer of distributed land registration before the final payment was not permitted, it was allowed after the payment was completed. Due to implementation of these special measures, redemption was completed in 1970.

5. Compensation for Land Price

The compensation for land granted to the landlords was equal to the redemption price of land paid by the farmer. However, according to the compensation amount, the land price certificate was issued with the diminutive rate applied. If the compensation amount was less than 75 seok (unhulled rice), the total amount had to be paid without application of the diminutive rate. If the amount exceeded 75 seok, the deductible amount increased progressively. In the case of over 10,000 seok, 47 percent of the excess amount could be deducted. This diminutive rate was applied only to general compensation, and not to special compensation, auxiliary facility compensation or to perennial plant farm compensation. Even in the case of general compensation, schools and welfare foundations approved by the government were exempted from the diminutive rate.

The land price compensation was divided into three categories: i) general compensation, ii) special compensation, and iii) auxiliary facility compensation. The general compensation rate was applied to general farmland. The special compensation rate was for special farmlands such as tidal land, reclaimed land and farmlands owned by educational foundations. For special compensation, additional compensation was made in addition to the general compensation.

The auxiliary facility compensation was to compensate for facilities such as marshes and ponds, farm roads, waterways directly needed for farming and farmer’s huts, compost facilities, thrashing facilities, water pump facilities, constructions and other irrigation facilities related to cultivation. These were specially calculated in regards to the market price, but the first compensation was made in September 1958, 8 years after the promulgation of the Land Reform Act.
By 1954, the legal compensation deadline, only 49.8 percent of compensation had been made and 85.1 percent of compensation was completed by 1960. In the case of redemption, the compensation procedure was almost completed by the end of 1968 with the enactment of a special law which was promulgated on March 13, 1968. The total volume of compensation including all three categories of compensation was 1,216,000 tons, and the monetary volume reached 2,072,392,000 won. General compensation accounted for 87.3 percent of the total compensation, special compensation 0.6 percent and auxiliary facility compensation 12.1 percent, respectively.

6. Land Reform of Reoccupied Area

With the armistice which ended the Korean War in July 1953, new problems arose regarding the land which had been part of North Korea before the War. The reoccupied land accounted for about 5 percent of the total land of South Korea. This area had already undergone land reform in 1946 under North Korea’s land reform program, and so there was plenty of reason for controversy over the ownership rights and tenant rights among the original landlords, tenant farmers, and the farmers who settled on the land after the armistice.

The Korean government promulgated a Presidential Ordinance; “Special Clause for the Implementation of Land Reform in the Reoccupied Area” on April 10, 1958. Under the new ordinance, land reform was implemented in this area from April 20, 1958. The ordinance stipulated that: i) distribution and procurement of land will be based on the present landlords and present farmers as of December 1, 1956, ii) compensation and redemption will begin with the summer crop of 1958, and iii) determination of the land price and other matters will be based on the 1950 Land Reform Act.

According to this law, 3,783 chongbo of farmland had been distributed to 8,254 households. Among them, there were 2,881 chongbo of general farmland and 904 chongbo of vested farmland.
Achievements of the Land Reform

Establishment of Owner-Operated Farm System

The Korean Land Reform had two major purposes: i) to establish an owner operated farm system and ii) to transform land capital into industrial capital. These intentions on the part of the Korean government were well expressed in the Land Reform Act which stated that the act was i) to endow the agricultural economy with self-sufficiency by the reasonable distribution of farmland to the tillers and ii) to induce land owners who had sold their land to the government to participate in various business activities which were likely to promote the development of the Korean economy.

Much of the past analysis of the land reform of 1950 has focused on the results of the redistribution of tenant farmland, the basic methodology of enforcement, and accomplishments in terms of the establishment of owner operated farms. A national survey of the status of the farm economy conducted in June 1949 prior to the reform, showed that 601,049 hectares of land were being farmed by tenant farmers and were subject to redistribution. However, according to reports published when the reform was completed in 1950, only 317,000 hectares of this land or about 52 percent, had actually been distributed.

Even when the 317 thousand chongbo of the land, which was distributed by the reform, were combined with the area owned formally by Japanese and sold by the government prior to the reform, the figure stood at only 41.8 percent of 1,447 thousand chongbo of tenant area of the end of 1945, the year when Korea was liberated. In this sense, reform fell far short of its goal.

The conservative landlord class of the time was compelled to comply with the land reform laws because of the prevailing social climate, but they did so with great reluctance and tried to protect their vested interests to the best of their ability. To some extent they were successful, and because of this there was criticism of the land reform program, particularly since there was an almost immediate remergence of tenant farming. However, the basic problem did not come from the resurgence of tenant farming, but rather from the existing tenant farm land which had been concealed and was uncovered in the process of
the reform. When speaking of tenant farm land, we must strictly distinguish that which remained after the reform from that which began after the reform, and the latter must be recognized as a post-reform phenomenon. This distinction must be clearly understood and taken into account if the reform is to be correctly assessed.

Table 4. Trend of Owner Operated Farms, 1945-50
(Unit: thousand chogbo and %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total farmland</th>
<th>Owner operated (ratio)</th>
<th>Tenant Land</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Privately owned</td>
<td>Gov't owned</td>
<td>Private Gov't sale</td>
</tr>
<tr>
<td>1945</td>
<td>2,226</td>
<td>779(35.0)</td>
<td>1,176</td>
<td>271</td>
</tr>
<tr>
<td>1947</td>
<td>2,193</td>
<td>868(39.6)</td>
<td>1,054</td>
<td>271</td>
</tr>
<tr>
<td>1948</td>
<td>2,132</td>
<td>1,305(61.2)</td>
<td>755</td>
<td>72</td>
</tr>
<tr>
<td>Jun.21,1949</td>
<td>2,071</td>
<td>1,398(67.5)</td>
<td>673</td>
<td>601</td>
</tr>
<tr>
<td>Apr. 1950</td>
<td>1,971</td>
<td>1,739(88.2)</td>
<td>232</td>
<td>232</td>
</tr>
<tr>
<td>Total</td>
<td>627</td>
<td>271</td>
<td>317</td>
<td></td>
</tr>
</tbody>
</table>


Table 4, which is based on the results of an analysis by KREI (KREI, 1989; Kim et al., 1989), shows that at the end of 1945 only 35 percent of Korea’s farms were owner-operated. From 1945, the proportion of tenant farmed land steadily decreased, and a sharp increase in the proportion of farmers who owned the land they were farming occurred when the vested government land was sold to the public. The percentages rose from 39.6 percent in late 1947 to 61.2 percent by the end of 1948. This trend continued. In June 1949 the figure stood at 67.5 percent and as of April 1950, reached 88.2 percent.

Such an increase in the proportion of owner operated farmland reflects an important fact: of the 1,447 thousand chongbo of tenant land at the end of 1945, 1,215 thousand chongbo were actually turned into owner operated farmland in spite of the fact that only 604 thousand chongbo were legally sold or distributed by the government. It also means that 610 thousand chongbo of tenant land were sold by landlords and the total area sold by the landlord was slightly larger than that sold by the government.
The disposal of tenant land by landlords was not made voluntarily. They were forced to sell the land because the social situation made the enforcement of farmland reform unavoidable. If the distribution or the sale of the land by the government was the direct result of the reform, the voluntary disposal by the landlords was the indirect effect of the farmland reform. The fact that 88.2 percent of the land has been turned into owner operated farms compared with 35 percent in 1945, means that the owner operated farm system had finally been realized in Korea. It cannot be denied that Land Reform was the historical revolution in Korean farm land system.

Incidently, it was generally believed that the price of the land sold by landlords was much higher than that of the government distributed land, but that was not true. According to KREI reports (Kim et al., 1989), in general land was sold at a price equal to one third of the annual grain yield or 50~80 percent of the market prices, the price of tenant land was discounted by 30 percent, and the installment payments were spread over 2~3 years. Once a contract was signed between the landlord and farmer, the landlord had given up his rights even if the farmer did not pay what was due according to the contract. A total of 610 thousand chongbo of farmland was turned over to farmers during 1946-49. Naturally, such a large supply of land brought about a sharp decline in land prices due to the limited purchasing power of tenant farmers.

In sum, private land holders made a positive contribution to land reform not only because they sold land at a lower price than the government did, but also because massive sales brought land prices down further, the result being that the transition from tenant famers to owner operated farms was greatly facilitated.

The foundation of the owner operated farmland system was made possible through both redistribution and sale of the tenant land by the landlords. This change, in turn, brought about the dissolution of both the landlord system and tenancy, and also fulfilled the farmers' long-standing desire of owning their own farmland. It greatly contributed not only to the promotion of agricultural productivity but also to the democratization of agrarian society.
Transformation of Land Capital to Industrial Capital

The formation of industrial capital with compensation to landlords was one of the major goals of farmland reform. However, it was a difficult task to achieve. There was economic confusion and depression in the aftermath of the Korean war, and no substantial business sector which could attract the landlords' capital. In addition, most landlords had no business experience. While transformation of landlord into entrepreneur was not viable, nevertheless the land securities issued to landlords made some contribution to the formation of industrial capital.

Repayment to the government for the property which reverted to the government could be made not only in cash but also by the land securities. At that time, the securities for installment payments spread over 5 years were often traded at discounted prices, even down to less than the half of their face value. In this respect, if an entrepreneur purchased the securities at half of their face value and paid with the securities for the distributed property, it meant that he paid only half of the original price for the property he bought from the government (Sakurai, 1988).

This was the beginning of capital formation through the land securities. The breakdown of the total amount of the compensation paid for the land and the property which reverted to the government by 1968, when the compensation to landlords was completed, is shown in Table 5.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Volume (tons)</th>
<th>Value (thousand won)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of compensation</td>
<td>1,316,111</td>
<td>2,072,392 (100%)</td>
</tr>
<tr>
<td>Payment for the Gov't owned property</td>
<td>456,288</td>
<td>960,366 (46.3)</td>
</tr>
<tr>
<td>Payment for the distributed land</td>
<td>19,941</td>
<td>40,099 (1.9)</td>
</tr>
</tbody>
</table>

Of the total compensation, 46.3 percent was used as a payment for government owned property. The Korean economy in Japanese colonial days was dominated by Japanese who monopolized capital and blocked the formation of Korean national capital. Later, the land securities issued in the process of the farmland reform paved the way for the first Korean securities market. Furthermore, the utilization of these securities by businessmen to acquire the government owned properties reflected the fact that the formation of Korean capitalism was a reality.

In this regard, the criticism that the reform failed is valid in only one sense that the reform failed to turn former landlords into entrepreneurs. Even after the landlord class disintegrated, 46 percent of the securities held by this class played a decisive role in the formation of industrial capital by providing the monetary foundation. Some of the positive effects were reduced because of the inflation after Korean war. Since that time, Korea has depended largely on foreign capital in its pursuit of economic development. That does not mean, however, that the historical accomplishments of the reform, the abolition of tenancy and the formation of capital, can be denied. As a whole, farmland reform ended the regressive landlordism which had grown since 1945 and laid a foundation for Korean capitalism, which included the agricultural sector.

Other Accomplishments

The side effects of the reform, whose original goal was the establishment of owner operated farms, need to be reevaluated. The tenant landlord system, which was ended by the reform, had been the structural base of the socio-economic system of Korea for several hundred years. It was also the foundation for the Japanese colonial economy and the material base of the prevailing ideology of the time. Therefore, the reform was a major historical event, which draws a line between pre- and post-liberation. The reform affected all sectors of Korean society, political, social and economic. The importance of the reform is exemplified by the fact that the land reform emerged as the biggest issue in the right-left conflicts after Korean liberation.
From this point of view, even though it cannot be substantiated, some of the broad impacts of the reform would include the following.

1. The prolonged rule of the Korean Liberal Party under the Syngman Rhee regime (1948-1958) can be at least partly attributed to the land reform which they initiated (Kim et al., 1989).

The 1946 land reform in North Korea laid the groundwork for the Soviet power base in the same way that the land reform in South Korea induced the farmers, who had received land from the government, to trust and give strong support to the initiator of the reform. Furthermore, the reform also brought about the collapse of the Korean Democratic Party, which was led by Honam landlords from the southwestern part of Korea, a traditional tenant farm area. At the same time, the reform strengthened the Liberal Party under the leadership of former President Syngman Rhee. The shift of the political power base from Honam to Youngnam (southeast) was a direct result of the farmland reform in South Korea.

This interpretation is substantiated by the fact that agriculture was the dominant industrial sector of the time, and the reform was quite popular with the farmers because land ownership could be easily acquired. It is also supported by the fact that the Korea Democratic Party collapsed after the 10 year rule of the Rhee regime, although, of course, other political and economic factors also need to be taken into account.

The farmland reform protected farmers from both post-war confusion and the ideological threat of North Korean communism. It was true, of course, that the land reform and agricultural policy of the socialist economic system attracted landless farmers. North Korea attacked South Korea without any warning on June 25, 1950, when the reforms initiated in April of that year were being actively implemented. Farmers in the North Korean communist army occupation zone heavily suffered from political propaganda and the maneuvering of the North. North Korean documents found by U.N. forces in North Korea, showed that one of major goals of the North Korean attack on the South on June 25 was to break up or weaken the South Korean farm reform. In any case, the land reform helped prevent the ideological instability of farmers and maintain a free democratic system. This was another important contribution of the reform to the development of Korean society.
2. The Reform made a great contribution to the development of Korean culture and education.

Article 27 of the enforcement decree of the Farmland Reform Act stipulated that “Land donated to public organizations, educational or charitable, shall be excluded from distribution.” There are no accurate statistics, but this provision was used to exclude much of the privately owned farmland as well as public land held by nationwide counties from the redistribution. Such land was often sold with the approval of the government. The money earned from these transactions was then donated to the educational or charitable institutions. As a result, the number of persons who finished their secondary education increased by 8.4 fold and the number of college students by 10 fold during the period of 1945-55. While the reform did not liberate the tenant farmers completely from poverty, it did expand their opportunities for regular education. They became a very important human resource in the rapid economic development of Korea in 1960s and some of them played essential roles in the process (Kwon, 1983; Kim et al., 1989).

3. The Reform Act included such goals as the promotion of agricultural productivity, the establishment of self-supporting system in the farming sector, and the structural improvement of the agricultural economy.

According to Kim (Kim, 1981) there was no substantial improvement in the productivity of the major staple crops during the 10 years immediately following the reform. He attributed this primarily to the overall confusion in Korean society during the Korean War and the ensuing recovery period of 1950-57. However, he also cites the lack of follow up measures, such as the promotion of related technology, increased supplies of farm inputs and capital investment, tax and financial support, and the establishment of an effective marketing system as contributing factors.

On the other hand, Kwon (Kwon, 1983) points out that, during the period of 1946-55, 1.55 million households of tenant farmers and owner-tenant farmers, which had accounted for 75 percent of the total farm households, acquired the land which they had cultivated and, after making payments, were still able to earn net profit. In other words, the farmers who bought the distributed land could secure a net profit which was twice greater than their share of the profits as tenant
farmers. In this way, the reform helped to improve and promote the economies of Korean farm households.

4. The reform made it possible for the government to collect enormous amounts of grain from the farmers as repayment and redemption for the distributed lands. This significantly contributed to securing the stable government food supply and management policy. Repayment could be made in cash in addition to grain, but payment with grain was the usual method. The policy decision to make grain repayment as the principle method payment was made for the following reasons; i) there was an acute shortage of government food supplies, and as the Korean War had just broken out, a large amount of military provisions were needed, ii) if the grain had been purchased at market prices, it would have required complicated procedures and processes to adjust the purchasing prices in accordance with the fluctuation of prices, and iii) it helped to prevent inflation which might have stemmed from the release of vast amounts of grain purchasing funds. The payment in grain was advantageous to the government in every respect.

As repayment by grain was a bigger burden to farmers than repayment in cash would have been, the government had been accused of using the reform as a way to secure food for government use. However, with this method of repayment, the government was able to secure a stable supply of food for government use and effectively control economic fluctuation (KREI, 1989b).

5. The government took in 3,959 million won from land sales to farmers and paid out 2,072 million won to the former landlords. Thus, after the first round of land reform projects was completed, the government had 1,887 million won left over. This surplus fund enabled the government to continue with land reform projects even after the five year redemption repayment period had ended. In addition, the government was able to embark on other useful projects, such as the development of an irrigation system, in which it invested 1,701 million won. It should be recognized that this investment constituted a considerably large improvement in the production base for the agricultural sector arising from land reform (KREI, 1989b).
Changes during the Post-Farmland Reform Era

In the nearly half century that has passed since farmland reform began in 1950, many changes have taken place, particularly in the status of land ownership and in the utilization of land. Some of the most important changes are reviewed here.

1. Rapid increase in land ownership by non-farmers and lease farms

Both land owned by non-farmers and leased farm households have increased very significantly. The ratio of leased farmland to the total, as shown in Table 6, increased from 8.0 percent right after 1950 farmland reform to 17.6 percent in 1970, to 21.3 percent in 1980 and up to 37.4 percent in 1990. Also, the ratio of leased farm households to the total jumped to 64.7 percent in 1985 from 26.4 percent in 1960.

Table 6. Trend of Leased Farmland and Land-leased Farmhouseholds, 1945-90, Korea
(1000 ha, 1000 households)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total farmland</th>
<th>Leased land</th>
<th>Ratio (%)</th>
<th>Total</th>
<th>Owner operated (%)</th>
<th>Partially leased (%)</th>
<th>Leased (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>2,207</td>
<td>1,470</td>
<td>66.0</td>
<td>2,019</td>
<td>14.1</td>
<td>40.1</td>
<td>45.8</td>
</tr>
<tr>
<td>1949</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1959</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1960</td>
<td>2,025</td>
<td>273</td>
<td>13.5</td>
<td>2,349</td>
<td>73.6</td>
<td>19.6</td>
<td>6.8</td>
</tr>
<tr>
<td>1970</td>
<td>2,298</td>
<td>408</td>
<td>17.6</td>
<td>2,483</td>
<td>66.5</td>
<td>23.8</td>
<td>9.7</td>
</tr>
<tr>
<td>1975</td>
<td>2,240</td>
<td>307</td>
<td>13.7</td>
<td>2,379</td>
<td>65.6</td>
<td>30.4</td>
<td>4.0</td>
</tr>
<tr>
<td>1980</td>
<td>2,196</td>
<td>461</td>
<td>21.3</td>
<td>2,155</td>
<td>53.9</td>
<td>39.7</td>
<td>4.4</td>
</tr>
<tr>
<td>1985</td>
<td>2,144</td>
<td>654</td>
<td>30.5</td>
<td>1,926</td>
<td>35.3</td>
<td>62.7</td>
<td>2.0</td>
</tr>
<tr>
<td>1990</td>
<td>2,109</td>
<td>788</td>
<td>37.4</td>
<td>1,767</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Sources: Ministry of Agriculture, Forestry and Fisheries, 1945-90. Statistical Yearbook of Agriculture, Forestry and Fisheries.
Although, this trend did not continue during 1970 to 1975 and the leased area decreased by 4 percent, since 1977, the total area of leased land has again been steadily increasing. There were slight differences in the lease-lessee relationship as compared with the traditional landlord-tenant relationship. In the past, the leased farm was a means of living, but these days, it has been adopted as a way to improve economies scale in farming.

The ownership of leased farms is shown in Table 7. The government owned 2.6 percent of the land, 36.6 percent was owned by farmers, and 60.8 percent was owned by non-farmers. Merchants and social institutions account for the largest proportion of non-farm owners. The average size of the leased farm owned by landowners was 863 pyong which is equal to about 0.288 hectare. Their average lease income stands at 300 thousand won. This implies that despite the relatively high portion of leased farm there were few parasitic landlords who make a living from tenant rent as landlords did during the past.

Table 7. Ownership of Leased-Farmland by Occupation, 1985

<table>
<thead>
<tr>
<th>Occupation of Owner</th>
<th>Ownership obtained by</th>
<th>Inheritance</th>
<th>Donation</th>
<th>Purchase</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and public land</td>
<td>2.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Farmer</td>
<td>36.6</td>
<td>65.5</td>
<td>4.9</td>
<td>29.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Non-Farmer</td>
<td>60.8</td>
<td>58.7</td>
<td>8.8</td>
<td>32.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Public service</td>
<td>9.2</td>
<td>64.0</td>
<td>1.0</td>
<td>35.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Salaried men</td>
<td>11.1</td>
<td>69.9</td>
<td>3.2</td>
<td>26.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Wage earner</td>
<td>2.9</td>
<td>65.2</td>
<td>0.8</td>
<td>34.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Commerce</td>
<td>19.9</td>
<td>61.3</td>
<td>4.1</td>
<td>34.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Manufacture</td>
<td>1.9</td>
<td>51.6</td>
<td>-</td>
<td>48.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Social Institutions (educational, religious)</td>
<td>15.8</td>
<td>36.6</td>
<td>37.7</td>
<td>25.7</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>61.1</strong></td>
<td><strong>7.4</strong></td>
<td><strong>31.5</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Farmers are bearing a heavy economic burden stemming from farm-land leases. As of the end of 1985, for instance, the number of lease farm households was 1,216 thousand households, or 64.7 percent of the total farm households. As they pay an average of 419 thousand won per year per household, or 11.3 percent of a household income, as farm rent, the annual total of the rent hovers over 509.5 billion won. The amount of rent is increasing every year. In 1983, for example, the total amount of the rent stood at 299.7 billion won, but in 1984 it grew to 434.5 billion won, recording a 58.8 percent increase in just 3 years period.

As of 1985, 2.3 percent of the rent reverted to the government and 34.6 percent was transferred to farmers as farm household income, but 63.1 percent, which was 312.5 million won, was conveyed to non-farmers. Such flight of agricultural income to non-agricultural sectors is definitely a great loss to the farming sector.

The first reason for the high increase in farm leasing is that remaining tenant farms, after the reform of 1950, as well as loopholes and other incomplete enforcement of the reform, left room for a new type of unlawful farm lease. In other words, tenancy in newly developed-reclaimed farmland remained untouched during the reform. Repayment also aggrevated indebtedness of farmers, providing the structural basis for the resurgence of tenancy even after the reform. And no follow-up measures were formulated for the remaining tenant farmland and recurring tenant farms which had not been covered by the reform.

The second is that the Farmland Act, the institutional mechanism that would maintain the owner operated farm system, stopped short of full legislation. The existence of sufficient farm laborers was a pre-condition for the establishment of a self-supporting farm system. The rapid industrialization of Korea, however, drew the labor forces from farming to other sectors, and the resulting labor shortage in the agricultural sector forced land owners to lease their farmlands. In addition, there were no legal measures such as the farmland law to suppress the increase of lease farms caused by the rising land ownership by non-farmers. The Korean government has tried 7 times since 1957 to legislate the farmland law, but has failed to do so.
That the proportion of the farmland owned by non-farmers rose to 60 percent of the total leased farms is attributable to the fact that proper administrative measures have not limited the land ownership by non-farmers because no farmland law was passed. Even if land ownership by non-farmers is prohibited and the farmlands owned by non-farmers are transferred to farmers, the leasing of farmland will continue, as in the case of Japan and Taiwan. Thus, the farmland act would not be able to repress the emergence of the leased farm itself.

The third and fourth reasons for accelerating farmland lease are the rapid increase of farmland prices and worsening profitability agricultural production. These issues are reviewed in tandem with the trends of farmland prices in the next section.

2. Farmland price hike and holding of farmland as personal assets

Two analyses by KREI\(^\text{10}\) show that during the period 1964-89, farmland prices, which includes paddy fields, uplands and orchards, jumped 135 fold from 106 \text{won/pyong} to 14,334 \text{won/pyong}, an average yearly increase of 21.7 percent. The real farmland price deflated by wholesale price index based in 1985 rose 11.9 fold from 1,171 \text{won/pyong} to 13,296 \text{won/pyong}, an average yearly increase of 10.4 percent. In terms of the land price trend, land prices showed a steep climb of 30~50\% percent a year from 1972 to 1977, peaked in 1978, and became relatively stable from 1982 until 1987. In 1988-1989 land prices again rose sharply. Such land price increases were attributable to the rapid development and industrialization of the Korean economy, and the fast progress of urbanization, which greatly expanded the demand for farmland from both non-agricultural and agricultural sectors. The rapid upturn of land prices was brought about during the period of 1975-78 and 1987-89, during economic booms. The increment range of the land price increases was higher in urban suburbs than in rural areas, and higher for orchards and uplands than for paddy land. The price rose steeply when the farmland was located

### Table 8. Trend of Actual Prices and Capital Earning Prices of Paddy Land (per pyong), 1965-89, Korea

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual price (A)</th>
<th>Net profit of land (B)</th>
<th>Interest rate (C)</th>
<th>C.E.P (D=B/C)</th>
<th>Relative price (E=A-D)</th>
<th>Capital return of rent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>won</td>
<td>won</td>
<td>%</td>
<td>won</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1965</td>
<td>159</td>
<td>20</td>
<td>26.0</td>
<td>77</td>
<td>82</td>
<td>12.6</td>
</tr>
<tr>
<td>1966</td>
<td>173</td>
<td>25</td>
<td>26.0</td>
<td>96</td>
<td>77</td>
<td>14.5</td>
</tr>
<tr>
<td>1967</td>
<td>185</td>
<td>29</td>
<td>26.0</td>
<td>112</td>
<td>73</td>
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<tr>
<td>1968</td>
<td>194</td>
<td>32</td>
<td>25.0</td>
<td>128</td>
<td>66</td>
<td>16.5</td>
</tr>
<tr>
<td>1969</td>
<td>214</td>
<td>40</td>
<td>24.0</td>
<td>167</td>
<td>47</td>
<td>18.7</td>
</tr>
<tr>
<td>1970</td>
<td>253</td>
<td>43</td>
<td>24.0</td>
<td>179</td>
<td>74</td>
<td>17.0</td>
</tr>
<tr>
<td>1971</td>
<td>279</td>
<td>71</td>
<td>22.0</td>
<td>323</td>
<td>△44</td>
<td>25.4</td>
</tr>
<tr>
<td>1972</td>
<td>399</td>
<td>78</td>
<td>15.5</td>
<td>503</td>
<td>△104</td>
<td>19.5</td>
</tr>
<tr>
<td>1973</td>
<td>644</td>
<td>85</td>
<td>15.5</td>
<td>548</td>
<td>96</td>
<td>13.2</td>
</tr>
<tr>
<td>1974</td>
<td>1,008</td>
<td>158</td>
<td>15.5</td>
<td>1,019</td>
<td>△11</td>
<td>15.7</td>
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<tr>
<td>1975</td>
<td>1,556</td>
<td>177</td>
<td>17.0</td>
<td>1,041</td>
<td>515</td>
<td>11.4</td>
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<tr>
<td>1976</td>
<td>2,109</td>
<td>262</td>
<td>17.0</td>
<td>1,541</td>
<td>568</td>
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<tr>
<td>1977</td>
<td>2,926</td>
<td>341</td>
<td>15.5</td>
<td>2,200</td>
<td>726</td>
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<tr>
<td>1978</td>
<td>3,212</td>
<td>316</td>
<td>18.5</td>
<td>1,708</td>
<td>1,504</td>
<td>9.8</td>
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<tr>
<td>1979</td>
<td>3,478</td>
<td>380</td>
<td>18.5</td>
<td>2,054</td>
<td>1,424</td>
<td>10.9</td>
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<tr>
<td>1980</td>
<td>3,757</td>
<td>280</td>
<td>22.0</td>
<td>1,273</td>
<td>2,484</td>
<td>7.5</td>
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<tr>
<td>1981</td>
<td>4,597</td>
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<td>2,937</td>
<td>1,660</td>
<td>11.2</td>
</tr>
<tr>
<td>1982</td>
<td>5,054</td>
<td>613</td>
<td>13.0</td>
<td>4,715</td>
<td>339</td>
<td>12.1</td>
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<tr>
<td>1983</td>
<td>6,143</td>
<td>598</td>
<td>10.0</td>
<td>5,980</td>
<td>163</td>
<td>9.7</td>
</tr>
<tr>
<td>1984</td>
<td>6,778</td>
<td>746</td>
<td>10.0</td>
<td>7,460</td>
<td>△682</td>
<td>11.0</td>
</tr>
<tr>
<td>1985</td>
<td>7,318</td>
<td>783</td>
<td>10.0</td>
<td>7,830</td>
<td>△512</td>
<td>10.7</td>
</tr>
<tr>
<td>1986</td>
<td>7,873</td>
<td>872</td>
<td>10.0</td>
<td>8,720</td>
<td>△847</td>
<td>11.1</td>
</tr>
<tr>
<td>1987</td>
<td>8,320</td>
<td>983</td>
<td>10.0</td>
<td>9,832</td>
<td>△1,512</td>
<td>11.8</td>
</tr>
<tr>
<td>1988</td>
<td>11,159</td>
<td>1,298</td>
<td>10.0</td>
<td>12,980</td>
<td>△1,821</td>
<td>11.6</td>
</tr>
<tr>
<td>1989</td>
<td>15,022</td>
<td>1,319</td>
<td>10.0</td>
<td>13,193</td>
<td>1,832</td>
<td>8.8</td>
</tr>
</tbody>
</table>


Note: Net profit of land = Gross revenue - (Management costs + Family labour costs + Capital service costs).

Interest rate = Interest rate of agricultural enterprise fund of the National Federation of Agricultural Cooperatives.

C.E.P = Capital earning price = Profit of the farmland divided by interest rate.

△ : denotes minus value.
near a residential area and when the possibilities for diversion of farmland to a non-farming purpose was high.

In case of paddy land prices, the relationship between market prices and capital earning prices or profit of the farmland divided by interest rate, is described in Table 8. According to Table 8, since 1974, the upturn of market prices created the price discrepancy between the two prices, leading to increase in the relative price, or the price difference between the two prices. This price discrepancy continued to grow until 1983 and its impact expanded greatly the leasing of farmland. In other words, since the latter half of the 1970s, the proportion of leased farm has increased as the market price of the land rose to the level at which the earnings (capitalized earning prices) of farmland no longer show any connection with actual land price; thus, the ownership of farmland became retained customarily as a mean of holding assets and gaining the speculative profit caused by unproportionally increased land prices.

3. Increased diversion of farmland to non-farming purposes and the enactment of the Farmland Preservation Act

With the beginning of the first 5 year economic development plan in 1962, the Korean economy grew rapidly. In 1967, the second 5 year development plan and the decree on national land development indicated the government's policy turn toward the promotion of industrialization. Industrialization and urbanization began to spread over the country in accordance with the government's policy of distributing the industrial base to the local areas. In the process, the demand for non-agricultural land rapidly increased, resulting in a decrease in farmland area.

The total farmland area was 2,230 thousand hectares in 1968, but continued to decrease, down to 2,140 thousand hectares in 1987. This was a decrease of 10 thousand hectares per year. Considering, however, that the national land area increased from 9,840 thousand hectares in 1960s to 9,920 thousand hectares in 1987 and that the new farming area was created through reclamation and development, more than 10 thousand hectares of farmland were diverted to non-farming purposes each year. In the process of diversion, the land suitable for farming
usually was turned into a residential or factory site, resulting in the severe disintegration of the agricultural production environment because of the destruction of irrigation facilities, pollution and the damages by blight and harmful insects.

The law on preservation and utilization of farmlands was promulgated in 1972 and enforced from January 1 of the following year. The purpose of the law was to prevent the diversion of farmland for non-farming purposes and to rationally control the diversion to facilitate the effective utilization of the land as well as to promote agricultural productivity. The approval by the governor of a province was required to convert the farmland to other purposes, to transfer the land ownership for diversion for non-farming purposes, or to create superficies and lease right. If government institutions or local governments wanted to convert farmland to accommodate public or related facilities, they had to get approval from the Minister of Agriculture, Forestry and Fisheries. From 1973 to 1987, after the law went into effect, 21,787 hectares were allowed to be converted for non-agricultural purposes. However, as the law did not cover farmlands whose utilization was covered by other laws and decrees, its effects were minimal considering the fact that the rate of approved reduction of farmland was a mere 22.5 percent.

At the end of 1975, the government revised the law and included a provision on the designation of “absolute” farmland, further strengthening its control over farmland diversion. From March 7, 1981, the farmland conversion fund system was newly introduced.

The definition of absolute farmland is i) land developed by public investment, ii) land equipped with farming facilities and iii) farmland as a group which has been designated by the Minister of Agriculture and Fishery to control its diversion and to adjust its utilization. The remainder was classified as “relative” farmland.

As of 1987, 1,360 thousand hectares out of the existing 2,140 thousand hectares of farmland were designated as absolute farmland, making the designation rate 63.5 percent. Paddy land accounted for 1,010 thousand hectares and upland, 350 thousand hectares. The percentage of the paddy land designated, 74.7 percent, was much higher than the 44.5 percent for uplands.
4. Setback in efforts to legislate Farmland Law

The Farmland Reform Law promulgated in 1950 provided the democratic framework for the Korean farmland ownership system and was a milestone in the history of Korea’s land management system.

The Reform Law, however, was only a temporary decree to carry out a particular project. Although it set in place the methodology and process of reform, it did not have long-term legal effects. Therefore, to maintain and develop a owner operated farm system which was a major accomplishment of the farmland reform, a Farmland Law which would calibrate the basic points concerning utilization and ownership of farmland needed to be developed.

The Korean government raised the issue of farmland legislation as soon as the legal reform period expired in 1958 (originally it was 1955, but was extended because of the Korean war), and made 7 unsuccessful attempts to pass new legislation. No substantial agreement was made on the definitions of related terms, qualification for land holding, transaction of farmland, lease of farmland, preservation and utilization of farmland, farmland committee, judicial person or cooperatives of farming, etc. There were wide differences of opinion on such issues as land ownership, the ceiling on landholding, and the restrictions on leased farms. The reason the Korean government’s attempts to pass new legislation have resulted in failure every time during last 43 years is that the basic structure of the farmland system is an issue directly related to the people’s interest. In addition, it was difficult to harmonize the different positions of each individual, each sector of Korean society, and related lawmakers, as such diversity could not be easily accommodated by a single unified law.

5. Constitutional provisions pertaining to farm leases and subsequent institutionalization

Article 122 of the amended constitution of the 5th Republic, which was announced on October 27, 1980, stipulated that “Tenancy is prohibited by law. Leasing of farmland or managing of farmland on consignment in order to promote agricultural productivity and effectively utilize farmland will be allowed by the law.” This amended constitu-
tional provision was the first judicial recognition of farm lease and land management on consignment, and was a judicial revolution, considering the fact that the former constitutional provision, Article 118, only stated “tenancy is prohibited by law.”

In 1986, the Korean government, on the basis of the amendment, formulated Farmland Leasing Management Law that controlled the farmland leasing relationships from October 1, 1987. The law included the provisions on the institutionalization of farm leasing, farmland management committees, and farmland transactions. It stated that a written contract was the principle way to lease land; that the contract period should be over 3 years; that the contract must be reported to the administrator of the town within 60 days after the contract was signed; and that the rent ceiling would be set by a related decree of town. The farmland management committee, comprised of 5~30 people, would be appointed and established within each township and would deal with such issues as the review of rent ceilings, arbitration of conflicts, and confirmation of farmland transactions.

The law was instituted to accommodate the mobility of land resources caused by unbalanced land ownership, changes in management, and diversification of occupation and way of living. It acknowledges legally and practically the status of farm leasing, taking into account the land-to-tiller principle, declaration of prohibition of tenancy, and a series of trials to legislate the land act. At the same time, it guarantees the ownership of non-farmers on the vested farmlands and protects the right of farmland lessees. It also maintains lease rents at an appropriate level. In the long-run, it seeks to gradually realize the land-to-tiller principle.

6. Introduction of the Farmland Preservation Zone System

The special decree on the development of the agricultural and fishery sectors of 1990 provided new momentum to the development of a farmland management system in Korea. In order to reach a fundamental solution to long-standing problems in the agricultural and fishery sectors by initiating plans and counter measures, the law presents a legal mechanism that allows agricultural policy to be implemented to promote the development of agricultural and fishery industries, which
have been neglected in the process of the economic development, as well as to cope effectively with the sweeping changes brought about by the internationalization of the nation's economy.

To effectively utilize and protect the farmland and to promote agricultural productivity, the law classified in detail the farmlands, including the cultivated zone and green belt, by designating the agricultural promotion zone which is comprised of the agriculture proportion area and the agriculture preservation area. For all agriculture promotion zones, an intensive investment is encouraged for farming facilities.

The special function zone established by the National Land Use and Management Law, and the Town Planning and Zoning Act adopts a zone management system. In comparison, the current Farmland Preservation and Utilization Law uses a plot preservation system which restricts the diversion of farmland for other purposes by reviewing the approval of diversion by parcel.

As of 1989, the farmlands included in the town planning totaled 319 thousand hectares, including 287 thousand hectares of green belt area and 32 thousand hectares of residential or commercial area. The farmland area included in planned industrial sites, residential sites and tourist sites reached 74.7 thousand hectares. Overall figure is estimated to be 393.4 thousand hectares. The zone preservation system designates good quality farmlands as a zone and protects them in terms of quality and quantity, and also pursues systematic and comprehensive development of farming villages according to local characteristics. The rational use of land resources is obtained when a certain area is secured and preserved as a zone where agricultural production activities by farmers are sustained.

**Current Issues and Policy Direction**

**The Current Issues of the Farmland System**

The current goal of the Korean farmland system is, first, to establish a new farmland system that can sustain and improve what was achieved by the existing Land Reform Act of 1950, which set the basis for the modern Korean farmland system. Second, the new farmland...
land system should be able to take into account changes which occurred after the Reform. And, finally, the new system should be able to enhance the long-term development of the economy of the country as well as the socioeconomy of rural areas. Any new policy must satisfy these three points.

The Land Reform Act of 1950 is the basis for the current land tenure system. The Land Reform Act originally aimed to heighten agricultural productivity and seek social stability through the establishment of owner-operated farms based on the land-to-the-tiller principle. The principle makes only farmers eligible to own farmland. It also restricted eligibility of the people who can purchase farmland. The Act also established that 3 hectares is the maximum size of a land holding. As a result, a large number of people were able to gain a livelihood, and the income disparity among farm households was relatively small until the rapid industrialization and urbanization in the 1970s.

In an attempt to attain food self-sufficiency, the “Farmland Conservation and Utilization Law” was enacted in 1972. This law divided land into two categories, i.e., “absolute farmland” and “relative farmland.” The former aims at permanently preserving and regulating the use of certain farmland, restricting the conversion of land to nonfarm uses, whereas the latter only requires prior approval by local government for conversion. This contributed to the country’s ability to attain self-sufficiency in its food supply and has also helped protect the environment.

The government’s continuing efforts to keep the price of rice high and to develop a farmland infrastructure enabled the rural community to enjoy a level of income similar to that of workers in non-agricultural sectors until the mid-1970s. However, due to rapid economic growth, income disparity between urban and rural area has been increasing since the late 1970s and the standard of living in the rural community has lagged behind.

Some people argue that reviving the agricultural sector is not possible, in view of farming’s low productivity. However, the government’s policy of placing so much priority on the non-agricultural sectors and pursuing export-oriented industrial policies may also be blamed for contributing to rural difficulties.
Others say that our traditional small farm structure played an important role in the weakening of our agricultural sector compared to other sectors. This small farm structure was able to continue because the main structure of the land system abided by the rules of the Land Reform Act of the 1950s. Since 1958, the government made several unsuccessful attempts to enact a new farmland law in place of the 1950 Land Reform Act. Their failure to do so was due to the fact that the basic structure of the farmland system, which was to be stipulated by the farmland law, was directly linked to the national consensus and interests of people. It was not easy to develop a farmland system that was in harmony with the reality and the ideal.

Attempts to replace the old law persisted, although they proved to be unsuccessful. Unable to enact a new law, the government partially revised the existing Land Reform Act or, when deemed necessary, added land-related provisions to other new legislation. During the 1980s, the need for enacting such new farmland law was strongly felt. Agricultural price fluctuation, the theory of comparative advantage, the rapid rural exodus, and the increase in the number of the aged led to shortages in the rural labor force. This, in turn, brought about high farm wages and higher farm prices. The number of absentee landlords increased and the amount of leased land jumped as a result of the aforementioned phenomena.

In time, land prices exceeded the earnings from the land. Moreover owning land became a way to expand one's assets. By the beginning of the 1990s, leased farmland increased to 788,000 hectares or 37.4 percent of the total farmland. In other words, the number of hectares under lease now exceeds the 695,000 hectares distributed during the Land Reform and the American military administration by 100,000 hectares.

69 percent of leased land is owned by landlords in rural areas or absentee landlords, who are strictly speaking non-farmers. The rent paid to these non-farmers was estimated to be about 500 billion won in 1989. High land prices along with high rent added to the cost of agricultural products and thus resulted in diminishing farmer's morale. The government did not have any means to regulate these vast areas of leased land.
This may be due to the lack of a farmland law. However, the reappearance of tenants (both remaining and revived tenants) and non-farmer’s farmland was constitutional because land was either legally inherited or donated. This could not be prevented by land reform alone, and it can not be meant that the Land Reform had failed. Rather, it was because a land law to maintain the spirit of the Land Reform had not been present.

A need to revise land law was urgently called for. However, arguments for and against revising the regulations on land ownership and the upper ceiling restriction were numerous and uncompromising. The government, therefore, reluctantly enacted in 1986 the Farmland Lease Management Law which was to be a part of a comprehensive farmland law.

However, in order to be prepared for the full-scale liberalization of the agricultural market in the 1990s and in order to strengthen international competitiveness, structural adjustment is a must. This will alter the existing farming scale system to pursue either a big scale or small technology-intensive scale managerial system.

The 3 hectares upper ceiling restriction in farmland holdings based on the land-to-the-tiller’s principle has had an adverse impact on the reform of agricultural structure by insisting on small scale farm structure. This limits the size (property) of developing farm holdings, restricts farmland mobility, brings income disparity between rural and urban communities, and makes it hard for farm households to accumulate capital through expanding assets. Moreover, by restricting the eligibility of ownership of farmland based on the land-to-the-tiller’s principle, the aforementioned results do not appropriately correspond with the process of development in the owner operated farms.

On top of that, increased speculation on farmland and raising farmland prices prevents the improvement of the agricultural structure through restricting farmland mobility. The current regulation-oriented farmland preservation policy also does not meet the demand for land accompanies the process of industrialization and urbanization.

Opinions that the existing farmland policy undermines the development and vitalization of the agricultural industry prevail. It is advisable that the government, as a consequence, takes bold measures to correct and revise the system in order to bring it into line with the current economic situation.
Policy Direction for the Future

The new land system should depart from the Land Reform Act and should be formed in a way to satisfy the national needs as well as individual interests.

The first step is to revive the agricultural sector while protecting the environment, and to secure an appropriate amount of farmland in order to supply enough food to the general public. This should also focus on preserving maximum green areas through farming. Second, the government should attract various industries and public facilities to the rural community to stimulate development and to heighten interest in the rural community. Policies should focus on turning the rural area into an enjoyable place to live.

Among the many difficulties facing the government, however, the most urgent task is to improve the farmland system in order to promote farmland mobility and to develop policies which will receive support for expanding the operational scale of farms. Therefore, a revised land system should be flexible enough to face changes in the economic situation and to gain the consensus of the people while still adhering to the land-to-the-tiller principle.

In this respect, then, the first issue we must consider is whether to maintain the land-to-the-tiller principle. As it was mentioned earlier, the owner operated farm system was established based on the land-to-the-tiller principle of the 1950 Land Reform Act.

The rent for leased land is likely to fall due to the diminishing impact of the land-to-the-tiller principle. This phenomenon, therefore, is projected to be more profitable than actually purchasing land. Accordingly, the government should devise preemptive measures to curb land speculation while at the same time expand and strengthen the farmland utilization system, which should include the zoning of agricultural development areas.

Second, the government should allow ownership of farmlands to be diversified. Those new to the profession of cropping, sericulture, livestock or fisheries should be eligible to own farmland and be considered farm households in accordance with the Law on Special Measures for Development of Agriculture and Fisheries, and subsequently, should be qualified to receive assistance from the govern-
ment. In addition, bold new policies like recognizing eligibility for farmland ownership for anyone wishing to purchase land for the purpose of farming should also be provided along with accepting farming companies as farm households if they own and plan to use farmland.

Presently, financial aid policy for purchasing farmland and farmland transaction projects is designed to reduce the amount of land held by absentee landlords. This should be further enhanced in order to provide active support for specialized farming and expand the scope of successors qualified to inherit agricultural property. In turn, this will prevent the subdivision of farmland by inheritance or donation.

The third contentious issue is the much discussed upper ceiling restriction which has been applied since the beginning of land reform. The current three hectares ceiling should be lifted for actual farmers.

The government should concentrate on realizing efficient operation of farms through the introduction of full mechanization carried out by a specialized elite work force. By doing so, shortcomings of the structure of the Korean agricultural system can be overcome and it can remain competitive in the coming liberalization of the agricultural market. Thus, the 20 hectares upper ceiling proposed by the government should be considered and studied for application.

Fourth, the government should regulate the rent and price of farmland based on an average net profit of land. In addition, some kind of a system in which the real value of the farmland is determined by reflecting the assessed value of the land to the official price should be provided.

Fifth, the government needs to enhance farmland mobility by increasing supply and creating demand for land. In order to increase supply, a property tax on land other than that held by farmers should be raised. Also, a long-term lease system for small scale farmers should be supported so that it is practiced more widely. In addition, the government and the Agricultural and Fisheries Development Corporation should purchase idle land and sell it in small parcels to provide more opportunity for farmers to own their own land.

To create demand, the government is required to concentrate on easing the qualification for financial assistance. This would assist farm households when purchasing land. Also, the government should consider installment plans for long-term leases and assistance for vitalizing cooperative farming activities, including a contract system for specific farm labor service.
Moreover, the government should consider imposing lighter property taxes on farmers as well as exempting them from acquisition and registration fees when purchasing land.

Finally, the government should diversify the utilization of land according to regional location to meet social needs, first by dividing farmland into areas suitable for farming and areas not recommended for farming.

In areas where farming is recommended, intensive developments in the infrastructure and specialized farming should be considered. Also, small scale technology-intensive farming should be tried in other areas where farming draws low profit and is difficult to be mechanized. And the efficient use of other areas which are likely to remain idle due to the shortage of a rural work force and the difficulty of mechanization should be taken into consideration.

In summary, by dividing farmland into three categories of competitive farming area, technology-intensive small scale farming or specialized farming area, and area not suitable for farming, Korea will be able to maximize the use of land resources and vitalize the economy of the rural communities.
Appendix: Current Measures for Farmland

In August 1993, the Korean government announced “Reform Measures of the Farmland System.” and referred the measures to three public hearings. The government intends to legislate the “Farmland Law” pertaining to the proposed measures by December of this year. However, the positions of major political parties on these measure have not been firmly made. The enactment of the Farmland Law would depend on the reviewing process in the National Assembly. The main points of the measures are as follows:

1. Extending Ownership of Farmland

- Observing the principle of “farmland ownership to tillers” stipulated in the Constitution, the scope of “tillers” is to be extended to include agricultural research institutes, producers of seedlings and other input, and producers' associations.
- To promote commercial farming enterprises, the ownership of farm land by farmers' corporation is allowed up to 100 hectares.
- Within the agricultural promotion area, the maximum allowable ownership of farmland is to be increased from 3 to 20 hectares.
- The purchase of farmland for non-farming purposes is allowed when there is an approval on the diversion of land use.

2. Harmonization Between Use and Preservation

- All farmlands are classified into the agriculture promotion area. The authority to designate them, and for each area to formulate a detailed land use plan and corresponding investment plan, is left to the local government.
- The diversion of farmland to urban use is to be systematically planned in the multi-use area.
- The administrative procedures for the diversion of land use is to be simplified with a clear basis, and the capital gain obtained from diversion or the development charge is to be allocated to rural development.
REFERENCES


----. 1989. *40 Years History of Korean Agricultural Administration.*
URBANIZATION, INDUSTRIALIZATION AND THE TRANSFORMATION OF LAND PROBLEMS

Sung-Bae Kim

Introduction

This study addresses the transformation of land problems in the process of industrialization and urbanization, more generally economic growth, in Korea. Except for the period of agricultural economy, land issues are largely regarded as by-products of various economic activities. Land is considered a factor of production for housing, industrial buildings, roads, etc. Land issues, therefore, tend to be viewed as secondary concerns.

But, as a country’s economy grows, a transformation of land problems occurs. Since economic growth accompanies industrialization and industrialization, in turn, results in urbanization, land prices in urban areas rise due to the economic growth. The faster a country’s economic growth and concomitant urbanization and the more concentrated the urbanization pattern, the sharper the rise of urban land prices. The rising land prices coupled with absence of adequate policy responses often transforms the nature of land. People demand land not just for the economic activities, but for purely speculative purposes as well. This further raises the price of land.

As the nature of land transforms, so does the problem of land. Since land is an indispensable resource to accommodate various activities necessary for economic growth, high land value restrains expansion of these activities and thereby hinders further growth of the economy. Unless land needed for these activities is supplied adequately, the economic growth of a country cannot be sustained. Given the concentrat-
ed land ownership pattern, land price increases caused social inequalities to increase. Land transactions aiming at large profits often divert valuable capital resources from productive sectors. Considering all these problems related to land, land issues must become a prime concern.

Besides this introduction, this paper proceeds as follows. Section 2 begins with a descriptive analysis of the structure of the Korean land market. Section 3 attempts to identify factors which played a significant role in the formation of the current land market structure over the industrialization period. Section 4 examines the current land issues facing Korea which results largely from the interplay between these factors and the land market. The final section concludes with a brief discussion of future land policy.

The Structure of Korean Land Market

This section describes the structure of the Korean land market. In this description, we focus on four facets of land market: the current status of national land use, the pattern of urbanization, the value of national land, and land ownership patterns. The guiding aim of this descriptive analysis is to provide readers with a broad picture of the Korean land market.

National Land Use Pattern

It is generally considered that national land use pattern is an important determinant of the nature of land problems. Broadly speaking, national land use patterns can be characterized by concentration and decentralization. Concentrated land use patterns can normally be observed in the countries which have been experiencing rapid economic growth. The dispersed land use pattern, on the contrary, can be observed in the countries whose economies are either in a mature and stable stage or in an incipient stage dominated by agriculture. The land use pattern of a country, therefore, lies in a continuous spectrum of concentration and dispersion depending upon the country’s economic stage.
Korea shows an extremely concentrated national land use pattern due primarily to its rapid economic growth which has occurred over the past few decades. Table 1 shows the national land use pattern of Korea. In 1990, total land area of Korea was 99,272 km\(^2\). Of these, the largest proportion of 66.1% was devoted to forest and the second largest of 21.6% to agriculture. The remaining 7.9% was land for rivers and other purposes. Surprisingly, the land for urban purposes was just 4.4% of the total land areas.

The fact that only a small fraction of land was devoted to the urban purposes may reflect the harsh topographical condition of Korea. It is more likely, however, that the uneven land use pattern was caused by the concentration of development activities in a few large cities which, in some sense, was unavoidable during the economic growth period.

Table 1.  

<table>
<thead>
<tr>
<th>Type</th>
<th>Area (km(^2))</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>99,272</td>
<td>100.0</td>
</tr>
<tr>
<td>Agriculture(^a)</td>
<td>21,484</td>
<td>21.6</td>
</tr>
<tr>
<td>Forestry</td>
<td>65,654</td>
<td>66.1</td>
</tr>
<tr>
<td>Residential</td>
<td>1,909</td>
<td>2.0</td>
</tr>
<tr>
<td>Industrial</td>
<td>218</td>
<td>0.2</td>
</tr>
<tr>
<td>Public(^b)</td>
<td>2,113</td>
<td>2.1</td>
</tr>
<tr>
<td>Others</td>
<td>7,894</td>
<td>7.9</td>
</tr>
</tbody>
</table>

Note: 1) Agricultural land comprise rice paddy field & dry field.  
2) Public land consists of areas for road, railroad, water, parks, playground & schools.

Pattern of Urbanization

The uneven land use pattern of Korea was more or less caused by its urbanization process. The urbanization of Korea, as illustrated in Table 2, can be characterized by its speed and unique pattern. Not only has urbanization proceeded very rapidly, but it also occurred in a concentrated fashion in a small number of large cities.
In 1960, urban population in Korea was 6,997,000 which was about 28% of the population in the nation as a whole. Since then, urban population has grown consistently and rapidly; it amounted to 32,397,000 in 1990 which account for 75% of the national population. The tremendous growth of the urban population, 360% over 30 years, is undoubtedly regarded as extremely rapid compared to the experiences of other countries.¹

Most conspicuous in this growth trend is the concentration of population in the Seoul metropolitan area (SMA). In 1960, the population of the city of Seoul was 2,445,000 amounting to just 9.7% of the national population and became 10,627,000 in 1990 which was 24% of the national population. If we consider the population of SMA, the concentration of population becomes more prominent. While the population in SMA accounted for 21% of nation's population in 1960, it rose to 43% in 1990. Thus, almost half of the national population was residing in SMA.

The concentration of population can be more clearly revealed by the statistics on population density. The population density of the nation as a whole was 438 persons/km² in 1990, whereas in the 6 largest

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1. In the case of U.S., it took almost 50 years for the urban population to grow from 50% to 73% of the national population. In Sweden, it took 50 years from 45% to 80%. Even in Japan, which is considered to have experienced rapid urbanization, the growth of urban population from 20% to 72% took over 40 years (The Research Group on Urban Policy Science, 1989).
cities it was 1,528 persons. In particular, Seoul was 17,555 persons, 40 times the national average. In contrast, population density of rural areas was 142 which was just one third of the national average.

A question, then, arises about what the impacts of such an urbanization pattern are on land markets. First, among other things, the rapid urbanization has resulted in uneven land use patterns, due to intrinsically inelastic urban land supply. Since urban land supply implies not just the provision of raw land, but the provision of various urban infrastructure such as roads, schools and parks as well, the supply of urban land is inelastic. Thus, it is often the case that urban land is in short supply especially in the process of rapid urbanization and economic activities concentrate in the existing urban areas.

However, this does not mean that the rapid urbanization is the only reason for uneven land use patterns. While such factors as agglomeration and scale economy, which are often raised as reasons for the concentration of economic activities, are still important, the speed of urbanization can be an important factor in determining the land use pattern of a country.

The rapid urbanization can also exert an influence on land prices. This is because the value of land as a factor of production is closely related to population density. If population density is high, land rent is high because of difficulties involved in substituting other factors for land in the production process. Since the price of land is a discounted value of land rent, it follows that land value is high if population density is high. In fact, it is very likely that high density countries would have higher land prices than low density countries. And land price in the region with high population density would be very high. This suggests that land price of Korea would be high, even if land speculation (often criticized for increasing land prices) was absent.

**National Land Value**

The Korean land market can also be characterized by its high land value. Since the level of land value is not absolute, but relative, we examine the level by comparing the national land value with GNP. This comparison can be meaningful because land is a factor of production that is paid for with a share of the output produced in a country.
But we need to be careful in this comparison. Since the price of land is a discounted value of the future income streams from land, it is the value of a stock. On the other hand, GNP is the value of one year's production and thus it is the value of a flow. For this reason, it is difficult to compare these two numbers without any modification. It would be preferable to use the value of one year's worth of land service—the land rent—in this comparison. Due to the difficulties involved in obtaining data on the land rent, however, we use the land price instead.

Given these limitations, Table 3 compares the national land value with the GNP. In 1975, the national land value was 16.8 trillion and 1.9 times of GNP. Since then, the land price has grown consistently: in 1988, the ratio was 7.8, in 1989, 9.2 and in 1990, 9.6.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land value</td>
<td>16.8</td>
<td>936.9</td>
<td>1,295.7</td>
<td>1,614.5</td>
</tr>
<tr>
<td>GNP</td>
<td>9.1</td>
<td>123.5</td>
<td>141.1</td>
<td>168.0</td>
</tr>
<tr>
<td>Land value/GNP</td>
<td>1.85</td>
<td>7.59</td>
<td>9.18</td>
<td>9.61</td>
</tr>
</tbody>
</table>

Source: 1. Mills and Song, 1979, p.103  
3. Kim, Tae-dong, 1990, p.32  

Why has the ratio grown over the years? Two reasons are normally cited to explain the increase in the ratio. High economic growth rate may be one reason. If a country's economy grows fast, the capital would be accumulated and labor quality improved. If this occurs, the value of land is likely to rise because land becomes scarcer in this process. Second, a low discount rate can contribute to the growth of the ratio. Since the value of land is discounted income streams from land, low discount rate implies higher land value if other things are equal.

We can explain Korea's high land prices by these factors. To begin with, we may explain high land price with the high economic growth rate which Korea has shown thus far. In addition, low discount rate may have contributed to the high land value. The discount rate, while
varying depending upon economic circumstances, can normally be low, if the interest rate and land related tax rate are low. In the case of Korea, the interest rate decreased from 15.5% in 1975 to 11.5% in 1990, thereby lowering the discount rate. Also, while the absolute rate of land taxes stayed constant, their relative rates have decreased substantially over the period. However, we do not expect that these factors explain everything. It is clear that some other factors such as land speculation must contribute to the increase of land value.

The second feature of Korean land value would be regional variations. As shown in Table 4, most of national land value is accounted for by the urban land. The land areas of the major 6 cities accounted for 3% of national land, but their value amounted to 65% of the

<table>
<thead>
<tr>
<th>Region</th>
<th>Area (km²)</th>
<th>Land value (trillion won)</th>
<th>Average (1,000won/pyong)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nation</td>
<td>99,262</td>
<td>1,614.5</td>
<td>54.2</td>
</tr>
<tr>
<td>Major cities</td>
<td>2,938</td>
<td>906.1</td>
<td>1,019.8</td>
</tr>
<tr>
<td>Seoul</td>
<td>605</td>
<td>550.1</td>
<td>3,009.6</td>
</tr>
<tr>
<td>Busan</td>
<td>526</td>
<td>135.4</td>
<td>851.2</td>
</tr>
<tr>
<td>Daegu</td>
<td>456</td>
<td>81.7</td>
<td>592.7</td>
</tr>
<tr>
<td>Incheon</td>
<td>313</td>
<td>51.4</td>
<td>542.5</td>
</tr>
<tr>
<td>Kwangju</td>
<td>501</td>
<td>41.7</td>
<td>275.4</td>
</tr>
<tr>
<td>Daejun</td>
<td>537</td>
<td>45.8</td>
<td>282.0</td>
</tr>
<tr>
<td>Provinces</td>
<td>96,324</td>
<td>708.4</td>
<td>24.5</td>
</tr>
<tr>
<td>Kyunggi</td>
<td>10,769</td>
<td>235.3</td>
<td>72.5</td>
</tr>
<tr>
<td>Kangwon</td>
<td>16,898</td>
<td>42.5</td>
<td>8.6</td>
</tr>
<tr>
<td>Choongbuk</td>
<td>7,437</td>
<td>36.5</td>
<td>16.2</td>
</tr>
<tr>
<td>Choongnam</td>
<td>8,317</td>
<td>55.3</td>
<td>21.8</td>
</tr>
<tr>
<td>Jeonbuk</td>
<td>8,052</td>
<td>53.1</td>
<td>21.8</td>
</tr>
<tr>
<td>Jeonnam</td>
<td>11,812</td>
<td>45.5</td>
<td>12.9</td>
</tr>
<tr>
<td>Kyungbuk</td>
<td>19,443</td>
<td>87.8</td>
<td>14.9</td>
</tr>
<tr>
<td>Kyungnam</td>
<td>11,771</td>
<td>117.5</td>
<td>33.1</td>
</tr>
<tr>
<td>Jeju</td>
<td>1,825</td>
<td>34.9</td>
<td>63.1</td>
</tr>
</tbody>
</table>

Source: Ministry of Construction, 1991
national total. Even more surprising is that the value of Seoul approaches 34% of the national total, though it accounts for 0.6% of national land. On the contrary, except for the Kyunggi province which is adjacent to Seoul, the remaining 8 provinces accounted for just a small fraction of the national land value, despite their large areas.

This differential pattern of land value is attributable to the concentration of economic activities and people in the urban areas in general and Seoul in particular. In fact, the population proportion of Seoul is in large measure comparable to the proportion of land value for which Seoul accounted. In addition, about 28% of college students in the nation are attending the schools in Seoul. Furthermore, 56% of total savings are made and 37% of hospitals are located in Seoul. Considering such concentrations, it is not surprising to see the proportion of land value for which Seoul accounts.

But the implications arising from the regional variations of land value must not be overlooked. First, the land value differential can enlarge differential in household wealth and cause the regional disparity to grow. For example, those who own a 20 pyong house in Seoul can be more affluent than a farmer with 10,000 pyong rice paddy. In addition, the difference in housing prices can hamper labor mobility. Especially in the industrial society, interregional labor mobility can be an important ingredient to the sustained economic growth. But the big differential in housing prices often hinders such labor movements and thereby restrains the economic growth of the region with high housing prices.\(^2\)

**Concentration of Land Ownership**

Distinct features of Korean land market can also be revealed by the land ownership pattern. Table 5 shows the ownership pattern of privately owned land. Of the total privately owned land, 65.2% of the land was occupied by the top 5% landowner and 76.8% by the top 10%. If we disagregate land ownership pattern by city, we may find

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2. One recent study on the U.S. revealed that high housing prices in Boston were one of the most important reasons for the economic recession of the region (Case, 1992).
more unequal distributional pattern in large cities such as Busan and Daegu.

Even more surprising is to see that ownership pattern is also unequal in the case of residential land, a fact contrary to the common perception. As shown in table 6, about 59% of residential land was owned by the top 5% of landowners. The most extreme concentration of ownership is revealed in forest land of which about 98% was owned by the top 10% landowners. Hence, if some forest land was converted to urban purposes in the process of urbanization, it is likely that the owners of the land enjoyed substantial capital gains from land value increases.

What would be problems stemming from such unequal land ownership patterns? At first glance, one might argue that this is not a problem since land should be owned by someone in the capitalist countries where private land ownership is guaranteed by constitutions. But there are problems to which we must pay attention. First, the concentration of land ownership can distort the wealth distribution pattern. Rapid urbanization accompanies various land development activities and these activities, in turn, create substantial gains from land value increases. In a situation where land ownership is distributed unequally, the gains from the land value increases are also unequally distributed. This could be more acute in the situation where urbanization proceeds very rapidly. Even worse, if the mechanism to recapture

---

**Table 5. Distribution of Land Ownership by City, 1988**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of total land area</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Top 5% of owners</td>
</tr>
<tr>
<td>Total land area</td>
<td>65.2</td>
</tr>
<tr>
<td>Seoul</td>
<td>57.7</td>
</tr>
<tr>
<td>Busan</td>
<td>72.3</td>
</tr>
<tr>
<td>Daegu</td>
<td>72.6</td>
</tr>
<tr>
<td>Incheon</td>
<td>64.2</td>
</tr>
<tr>
<td>Kwangju</td>
<td>55.7</td>
</tr>
<tr>
<td>Daejun</td>
<td>65.1</td>
</tr>
</tbody>
</table>

Table 6. Distribution of Land Ownership by Land Use, 1988

<table>
<thead>
<tr>
<th>Land Use</th>
<th>Percentage of total land area</th>
<th>Top 5% of owners</th>
<th>Top 20% of owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total land area</td>
<td>65.2</td>
<td>87.6</td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>59.7</td>
<td>72.5</td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>35.1</td>
<td>53.1</td>
<td></td>
</tr>
<tr>
<td>Dry field</td>
<td>29.5</td>
<td>69.8</td>
<td></td>
</tr>
<tr>
<td>Paddy field</td>
<td>31.9</td>
<td>72.7</td>
<td></td>
</tr>
<tr>
<td>Forest</td>
<td>84.1</td>
<td>97.7</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>61.3</td>
<td>85.7</td>
<td></td>
</tr>
<tr>
<td>Other uses</td>
<td>64.8</td>
<td>81.4</td>
<td></td>
</tr>
</tbody>
</table>


gains from land value increases are deficient, most capital gains accrue to the owners of the land. Since it is generally true that landowners are in a better position in term of household wealth than those who do not own land, wealth inequality can be widened.

Second, the unequal distribution of residential land must be regarded as a serious problem because this land is a factor of housing production. Mills and Song pointed out that rapid increase of land value may decrease the concentration of wealth ownership.3 Their argument is based on the presumption that residential land is less unequally distributed than other important assets since residential land is a factor of housing production, and housing ownership tends to be common. But the concentration of residential land ownership, as we saw in Table 6, not only can oust the possibility raised by Mills and Song but, more importantly, can be an obstacle for housing production. Thus, the problems arising from the concentration of residential land ownership could be very serious indeed.

Evolution of Korean Land Problems

In this section, we attempt to identify factors which have contributed to the formation of the Korean land market structure. Two types of factors are considered. Those exogenous to the land market are the path of Korean industrialization, macroeconomic policies and centralized administrative system. The other factors endogenous to the land market are misdirected government responses to the already intensified urban land problems.

Unbalanced Path of Industrialization

The industrialization path which Korea has followed over the last few decades can be characterized by extreme imbalances in several areas. In this development process, agriculture was largely neglected, export became the major engine of growth, and large firms assumed a leading role in economic progress. Centralized administrative systems and concentrated political power facilitated such an unbalanced industrial development. The resulting urbanization pattern was an excessive concentration of people and economic activities in a small number of large cities.

1. Decline of Agriculture

One of the most conspicuous phenomena observed in the process of industrialization is the decline of agricultural sector, as shown in Table 7. In the 1960s when Korea started its economic take-off, agriculture accounted for about 75% of the national employment. Since then, this proportion has declined consistently as the economy moved to advanced stages and in 1990, the proportion came to be just 18%. This translates into a 112% decline in absolute numbers despite overall economic growth.

What would be the impacts on land markets caused by the decline of the agricultural sector? First, the decline of agriculture has spurred urbanization to proceed much too fast and, thus, influenced the national land use pattern. Since the decline of agriculture has made rural-urban migration easier by lowering the wage level in the agricultural sector, urbanization proceeded more rapidly than otherwise
Transformation of Land Problems

Table 7. Employment Trend (1,000)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>8,521</td>
<td>9,574</td>
<td>13,706</td>
<td>18,036</td>
</tr>
<tr>
<td>Employment</td>
<td>(100.0)</td>
<td>(100.0)</td>
<td>(100.0)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Arg.,Fishing</td>
<td>6,373</td>
<td>4,834</td>
<td>4,658</td>
<td>3,292</td>
</tr>
<tr>
<td>&amp; Forestry</td>
<td>(74.8)</td>
<td>(50.5)</td>
<td>(34.0)</td>
<td>(18.3)</td>
</tr>
<tr>
<td>Mining &amp;</td>
<td>410</td>
<td>1,369</td>
<td>3,095</td>
<td>4,928</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>(4.8)</td>
<td>(14.3)</td>
<td>(22.6)</td>
<td>(27.3)</td>
</tr>
<tr>
<td>SOC &amp;</td>
<td>1,291</td>
<td>3,371</td>
<td>5,952</td>
<td>9,816</td>
</tr>
<tr>
<td>Service</td>
<td>(15.2)</td>
<td>(35.2)</td>
<td>(43.4)</td>
<td>(54.4)</td>
</tr>
</tbody>
</table>


would have been the case. In the situation where the provision of urban infrastructure do not keep pace with the speed of urbanization, it is likely that land use patterns become more concentrated because economic activities and people tend to locate existing built-up areas.

In addition, the decline in agricultural productivity caused urban land prices to rise. Since the low productivity of agriculture enlarges the gap between the prices of urban land and agricultural land, agricultural land tends to be converted more easily into urban uses. The larger the gap between the two prices, the more frequent the conversion. But the problems is that these conversions normally occur abruptly and disorderly. Being threatened with disorderly land use conversions, the government devised and implemented land use regulations in the hope that more orderly urban development pattern can be obtained. The land use regulations, while contributing to the control of disorderly urban expansion, may contract the supply of urban land. As the supply of urban land is constrained, the gap between the demand for and supply of urban land grows and urban land prices rise further.

2. Outward-oriented Industrial Development

Land market can also be influenced by the industrial development strategy a country adopts. This is because the degree of urban concentration varies depending on whether a country's economy is inward-
oriented or outward-oriented. Since much of the land problem has bearing on the degree of urban concentration, it follows that the industrial development strategy may determine the nature of land problems.

Let us examine more specifically. Because any economy needs to secure sufficient market area for the disposition of its output, shortage of market area may hinder the growth of the economy. If an economy is inward-oriented, its growth may be constrained severely by the market availability because the domestic market can easily be saturated. On the contrary, an outward-oriented economy securing market area worldwide is unlikely to be constrained for the same reason. Since industrial growth tends to concentrate in urban areas, the outward-oriented economy must have high urbanization rate and more concentrated land use patterns.

The Korean economy can be characterized by the extreme emphasis on outward industrial development strategy. From the late 60s, export had grown yearly by 20-40% and this trend, though interrupted a few times, has continued until recently. As a result, the volume of export ranked 101th in the world has moved up to 13th in 1990. Such a magnitude of growth in export has undoubtedly contributed to the growth of the Korean economy, but this growth itself has caused uneven land use patterns, as discussed above. Furthermore, since one of the key ingredients of the Korean economic growth was good quality labor forces, economic activities further concentrated in the large cities where labor forces can easily be secured. If the Korean economy had adopted inward-oriented industrial development strategy, land use patterns could have been more balanced although the economic growth would have been slower.

3. Industrial Organization

The size of firms which has played a leading role in the economic growth can be a factor in determining the structure of land market. In an economy where large firms play leading role in economic growth, we can normally observe more concentrated land use pattern. This is because industrialization led by large firms is likely to bring about the concentration of people and economic activities in a small number of large cities.
Generally, large firms tend to locate in large cities. The location of large firms, in turn, influences that of small firms since they are functionally linked each other. For this reason, in an economy where large firms play a leading role in economic growth, it is not surprising to see an excessive growth of a few large cities and therefore uneven land use pattern.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nation</td>
<td>51.0</td>
<td>58.9</td>
<td>44.6</td>
</tr>
<tr>
<td>Seoul</td>
<td>57.5</td>
<td>53.8</td>
<td>29.3</td>
</tr>
<tr>
<td>Kyunggi</td>
<td>58.7</td>
<td>58.8</td>
<td>37.7</td>
</tr>
<tr>
<td>Busan</td>
<td>62.1</td>
<td>66.0</td>
<td>48.9</td>
</tr>
<tr>
<td>Kyungnam</td>
<td>55.0</td>
<td>77.9</td>
<td>69.5</td>
</tr>
<tr>
<td>Kangwon</td>
<td>40.1</td>
<td>33.2</td>
<td>33.7</td>
</tr>
<tr>
<td>Jeonnam</td>
<td>29.1</td>
<td>43.5</td>
<td>40.7</td>
</tr>
<tr>
<td>Jeju</td>
<td>9.4</td>
<td>6.3</td>
<td>27.6</td>
</tr>
</tbody>
</table>


It is well known that the prime force of Korean industrialization was relatively large firms. Table 8 shows the changes in the proportion of labors working in the firms classified by the number of employees. In 1970, about half of labors were working at the manufacturing firms with employment of 200 and more. Since then, the ratio has grown markedly and by 1980, the ratio approached 59%. Recently, the ratio has declined because of the changing industrial structure. But these statistics appear to indicate that the economic growth of Korea has been led by the large firms, especially between 1970 and 1980. This is the period when urban population has grown most drastically.

If we examine regional distribution of firms with employment of 200 and more, we may reach the same conclusion. As shown in Table 9, over 70% of manufacturing firms with employment of 200 and more tend to locate in the two largest metropolitan areas, SMA and the
Table 9. Distribution of Firms with Employment 200 and over

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nation</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Seoul</td>
<td>38.1</td>
<td>20.2</td>
<td>25.4</td>
</tr>
<tr>
<td>Kyunggi</td>
<td>13.9</td>
<td>23.7</td>
<td>26.3</td>
</tr>
<tr>
<td>Busan</td>
<td>19.4</td>
<td>17.8</td>
<td>10.3</td>
</tr>
<tr>
<td>Kyungnam</td>
<td>7.6</td>
<td>15.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Kangwon</td>
<td>1.7</td>
<td>0.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Jeonnam</td>
<td>2.8</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Jeju</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Others</td>
<td>15.5</td>
<td>19.9</td>
<td>27.5</td>
</tr>
</tbody>
</table>


East-South region comprising Busan and Kyungnam province. Thus, we may confirm our presumption that large firms tend to locate around metropolitan areas. We can also confirm that urban concentration could be more conspicuous in the economy characterized by the preponderence of large firms.

**Macro-Economic Policy and Land Market**

While the impacts on land market of the factors mentioned thus far are very significant, equally important is the macro-economic policy. We may normally classify macro-economic policy into monetary and fiscal policies, but the one exerting more significant influence on land market is monetary policy. In general, monetary policies comprise a money reserve requirement system, currency control, etc. But here we examine the role played by capital market control, which the Korean government has steadily implemented in the process of industrialization.

1. **Macro-Economic Policy and Land Price**

The control of the capital market is a tool often employed by government in the process of economic growth to direct the flow of capital. But capital market control often causes land price to rise. If capital
market is under government control, real interest rate is normally lower than market rate and few financial goods may be developed. Unless financial goods, which attract capital, are available in the market, the increased liquidity is likely to be driven into the real estate market and, therefore, land prices rise.

In addition, if the real interest rate is low, then there may be excess demand for money. In this situation, the growth of money implies much lower real interest rate and causes land prices to rise. Furthermore, if the capital market is under government control, it is true that the stock market cannot be developed sufficiently enough to attract capital. So whenever the money stock is in over-supply, the real estate market becomes very active and the outcome would again be a rise in the prices of land.

Korea is not an exception. In the process of economic growth, government control of capital market has been prominent. The capital market has been under strict government control up to the present. It is only very recently that liberalization of capital market became the subject of discussion. In addition, the stock market has not played a proper role as a drawing market; rather it has been a circulation market. While the stock market has developed significantly over the years due to the government efforts, it has not played a proper role in the industrialization process. For these reasons, whenever the money stock increases, the Korean real estate market becomes very active.

To validate this assertion in the Korean context, we examine the trends of land price changes over the industrialization period. This is pertinent because the relationship between excess liquidity and real estate boom can be observed from the trends in land price changes. There were three peaks of land price changes. The first peak was recorded in 1969, when Korea was experiencing rapid industrialization and urbanization. In relation to the land price peak, we may identify two important events that occurred around that time. One event is the construction of the Seoul-Busan expressway which unfortunately invited massive investment on land in the areas around the express way. The other, more important one, is a large increase in money supply which the Korean government deemed inevitable to overcome the shortage of capital necessary for industrialization. As a result, from 1965 to 1970, total money stock grew at the annual growth rate of
60%. Unfortunately, a large portion of money created during the period was poured into the land market and caused the land price to rise.

The second peak came around 1978. It was during this time that the emphasis of industrialization policy switched to the promotion of heavy and chemical industries. The major cause of the land price hike was a real estate boom which resulted from sharp increases in money stock created to support heavy industry and inflow of foreign currency due to the Middle-East construction boom. In this time, the rate of land price increases in major cities was almost 80% in 1978. Particularly, land price in Seoul increased by 136% in the same year. But the land price hike was not confined within urban areas; but it began to spread all over the nation.

The third peak was recorded in 1988. The major reason for the hike was the rapid growth of exports and large trade surplus between 1986 and 1988. The resulting inflow of foreign currency caused excessive liquidity in the Korean money market. This excess liquidity triggered land price increases around 1988. The increase was accelerated by the announcement of government development plans for the southwestern region of the country and the Olympic Games.

In sum, all three land price peaks appear to have occurred more or less in relation to the macro-economic condition of Korea. Whenever the money stock is in oversupply, they tend to be driven into land market and the increases of land prices follow. But it is important to note that the booming of land markets may have been spurred by the absence of proper land policy measures which could make investment on land not quite different from other investment alternatives.

2. Macro-Economic Policy and Land Ownership Pattern

While macro-economic policy, especially the capital market control, caused the land price to increase, it also contributed to the enlargement of land ownership disparity. As mentioned previously, the Korean government directed the flow of capital into the hands of a few privileged individuals and corporations in the name of capital efficiency. Normally, the interest rate for this type of loan was extremely low and the amount was more than enough for their investment. Those who got such loans often used part of the capital for the investment on land and reaped the gains from land price increases.
The Korean government condoned this type of investment under the name of capital accumulation. It even considered the buying and selling of land as an important mechanism through which capital accumulation, needed badly for industrial development, could be achieved. As a result, these individuals and corporations became the owners of large amounts of land.

In addition, since land is an important source of collateral when one secures loans from financial institutions, wealthy individuals and corporations alike seek to own land for this reason. This further contributes to the concentration of land ownership.

Finally, due partly to the rising land value and partly to the absence of adequate policy measures to recapture gains from land value increases, land became one of the most profitable investment alternatives. But not everyone get opportunities to invest in land. It is an excellent investment alternative only for those who can afford capital required for the investment. This is another reason for the unequal distribution of land ownership.

Centrally Controlled Administrative System and Land Market

Centralization of the administrative system, which has been in many respects instrumental to Korean economic growth, has affected the land market. As the literature on the relationship between urbanization and economic development has already asserted, centralization of the administrative system can give rise to the concentration of economic activities and population in the capital region. This is because centrally controlled administrative systems tend to favor the expansion of public services in capital regions. It is this difference in the level of public services that accelerated the rural-urban migration and brought about uneven land use pattern.

The centralization of the administrative system also implies that it is beneficial to locate around the capital region for economic activities. Since permits, licenses and valuable information necessary for eco-

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nomic activities can be obtained more easily in capital region, it is beneficial for firms to locate near them. Also, in the culture where permits and licences are normally acquired through personal contact, it is essential for firms to be close to the capital region. Furthermore, rudimentary transportation and communication networks often make the proximity to capital region a prerequisite for business success. As a consequence, centralization of administrative system has brought about the uneven land use pattern and particularly, the excess growth of the capital region.

**Land Policies and Land Market**

In an attempt to accommodate rapid urbanization and to control sharply rising land prices, the Korean government devised various land policy measures. Unfortunately, these policy measures were more or less created without a clear understanding of the underlying causes of land problems and without explicit attention to probable side-effects. As a result, while it is true that these policy measures contributed to the alleviation of urban land problems in a few selective areas, they often aggravated other problems.

As we discussed previously, the Korean government has implemented various land use regulations in the process of industrialization. Land use regulation is normally implemented to provide public goods and control negative externalities. In the case of Korea, however, numerous land use regulations were devised and implemented not only for these purposes, but also for the control of urban expansion. Being accumulated over the industrialization period, the current land use regulation system became very redundant and rigid. Even worse, these regulations are still administered centrally, though the land use issues are basically local in nature. Because of these deficiencies, it is fair to say that the current land use regulations system do more harm than good, though it has contributed to the control of disorderly urban expansion to date. Especially, it appears to create the shortage in the supply of urban land and cause land prices to rise.

The second policy measure in question is the control of land price. Specifically, the Korean government attempted to control the price of land through the land transaction permit system in which the optimali-
ty of land price level is one of two conditions to be met for a land transaction to be permitted. Direct control of land price, however, cannot suppress land price, but rather it causes a gap between market price and controlled price. The results from this exercise are two-fold. On the one hand, controlling the land price can reduce land supply and thereby enlarge the shortage of urban land. On the other hand, by widening the difference between actual market price and controlled price, this measure incited illegal land transactions which become common in the Korean land market.

Finally, the most serious shortcoming of Korean land policy was the ineffectiveness of land taxation as a mechanism to recapture gains from land value increases. The taxes assessed on land ownership stage suffer from extremely low effective tax rate because the tax base amounted to just small fraction of market price. Taxes imposed when the land transaction occur are also regarded ineffective because of various exemption and deduction provisions. For these reasons, land taxes in Korea could not achieve the stated objectives of land taxation such as supression of land speculation, stabilization of the land prices, and rectification of wealth inequality. Consequently, the investment on land became one of the most lucrative alternatives and land speculation widespread.

Emerging Economic Issues

Due partly to the uneven land use patterns caused by the unbalanced industrialization and partly to the absence of properly devised land policy measures, various economic issues related to land market have emerged. Of these, most significant is the problem of wealth disparity caused by the highly concentrated land ownership pattern. Also, extremely high housing prices continuously erode housing affordability for average workers and thereby push up wage levels. Difficulties involved in the provision of social overhead capital (SOC) have become the major cause for rising production cost, thereby hindering sustained economic growth. Patterns of household consumption and saving are also altered due to the land price increases. All these changes naturally become a serious threat to sustained economic growth.
Rising Inequality of Household Wealth

Previously, we mentioned that land ownership pattern became more unequal in the process of economic growth. The real problem, however, is that the skewed land ownership patterns may cause the disparity of wealth to be enlarged. In other words, in the case where the gains from land value increases are not properly recaptured, the rapid growth of land prices implies widening of wealth inequality.

In order to examine this assertion, we estimated the size of gains from land value increases and their distributional pattern. Table 10 shows the total gains from land value increases over the last few years. According to our estimates, the total gains created on the land subject to property tax were 10.9 trillion won in 1985. Since then, the size of capital gains has grown substantially. In 1988, they amounted to 67.7 trillion which was 54.9% of GNP, 135.4% of total wage income, and 171.2% of total manufacturing production in the same year.

An important question to be addressed, then, is how these capital gains are distributed. Table 11 reveals the distribution of capital gains created on privately owned land by the type of landowners. Of the total gains created on the land in 1988, over 90% accrued to individu-

| Table 10. Comparison of Capital Gains on Land with Economic Indicators (billion won) |
|--------------------------------------------|-----------|-----------|-----------|-----------|
| Capital Gains (1)                         | 10,923.0  | 12,341.6  | 34,806.6  | 67,902.0  |
| GNP (2)                                   | 78,088.4  | 90,543.9  | 105,629.8 | 123,579.2 |
| 1/2 (%)                                   | 14.0      | 13.6      | 33.0      | 54.9      |
| Disposable Income (3)                     | 71,122.5  | 82,696.4  | 96,378.9  | 112,404.5 |
| 1/3 (%)                                   | 15.4      | 14.9      | 36.1      | 60.4      |
| Wage (4)                                  | 31,968.9  | 36,259.0  | 42,911.5  | 50,139.8  |
| 1/4 (%)                                   | 34.2      | 34.0      | 81.1      | 135.4     |
| Manufacturing Output (5)                  | 24,530.4  | 29,566.4  | 34,783.2  | 39,654.9  |
| 1/5 (%)                                   | 44.5      | 41.7      | 100.1     | 171.2     |

al landowners; the remainder went to corporations. If we disaggregate the capital gains accrued to individuals by ownership status, about 60% accrued to the top 5% of landowners. If we consider the 25% of landowners, the proportion approaches about 86%.

Table 11. Distribution of Capital Gains

<table>
<thead>
<tr>
<th></th>
<th>1985 (%)</th>
<th>1986 (%)</th>
<th>1987 (%)</th>
<th>1988 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital gains</td>
<td>10.923</td>
<td>12.342</td>
<td>34.807</td>
<td>67.902</td>
</tr>
<tr>
<td>Corporation</td>
<td>1.081</td>
<td>1.320</td>
<td>3.471</td>
<td>5.771</td>
</tr>
<tr>
<td>Private</td>
<td>9.842</td>
<td>11.022</td>
<td>31.335</td>
<td>62.132</td>
</tr>
<tr>
<td>Upper 5%</td>
<td>6.417</td>
<td>7.186</td>
<td>20.431</td>
<td>40.510</td>
</tr>
<tr>
<td>Upper 10%</td>
<td>7.569</td>
<td>8.476</td>
<td>24.097</td>
<td>47.779</td>
</tr>
<tr>
<td>Upper 25%</td>
<td>8.937</td>
<td>10.008</td>
<td>28.453</td>
<td>56.415</td>
</tr>
</tbody>
</table>


If we assume that all these gains accrue to individual landowners, each individual would enjoy gains of 75 million won, if he is in the 5%, and 44 million won, if in the 10%. These figures are about 33 times and 19 times the average per capita income in 1988, respectively. This clearly indicates that if land price rises rapidly, the wealth inequality becomes wider, as most of gains from land value increases accrue to the wealthier group of landowners.

**Housing Affordability Issue**

If the land price rises, so does the price of housing. If this is true, the increases of land prices may deteriorate the housing affordability of low-to-middle income households. But the validity of this argument may be disputable. According to economic reasoning, land is a factor of housing production and thus it is only with the increases of housing demand that the price of land rises, not the other way around.

This reasoning, however, can be valid only if the supply of land would be made flexibly. In reality, due to the inelastic nature of land supply, an increase in land price causes the price of housing to rise.
Moreover, this reasoning may not be pertinent to the case of the land market because of the dual nature of land. People demand land not just as a factor of production, but as an investment alternative as well. If land is demanded as an investment alternative, it is likely that the price of land could increase without an increase in the demand for housing.

Thus, unless there are efforts from government to increase the supply of land, it is certain that the land price increase can be reflected in the housing price. If the housing price increases, the housing affordability of low-to-middle income classes may deteriorate, thereby pushing up the wage level. This becomes a serious problem, particularly for a labor intensive economy like Korea. It is noted even in the case of the U.S., the high price of housing hindered the inflow of labor forces and caused labor shortage, which eventually became the bottleneck for economic growth.5

**Difficulties in the Provision of Social Overhead Capital**

That land price increases may impede the growth of the economy can also be evidenced by the difficulties involved in the provision of SOC. The studies by Hirshman and Lewis have already emphasized the importance of SOC in economic growth. The investment in SOC not only creates principal ground for economic development, but also brings about regional multiplier effects. For these reasons, the investment in SOC is considered essential for national and regional economic development. Indeed, one of the most important contributions made by the Korean government is the steady provision of SOC during the period of economic growth.

Recently, however, due primarily to rapid increases in land prices, the land cost for SOC has grown enormously. This made the provision of SOC to be extremely difficult. Moreover, if land price rises continuously, the provision of SOC becomes more difficult in the years to come. Thus, we must not disregard this possibility if we intend to sustain the growth of the Korean economy.

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Table 12 shows the trends in the construction costs of expressways over the years. The construction cost of 1 km of Kyung-bu expressway amounted to 110 million won in 1968. Due mainly to the increases in land price, the cost for Kuri-Taeguewon expressway, which is expected to be completed in 1993, approached 27,000 million won. This indicates that the construction cost has grown 270 times over the past 25 years. While the increase of construction cost can also be accounted for by the increase in labor and other costs, a large portion of increase was caused by the increase in land prices.

<table>
<thead>
<tr>
<th>Expressways</th>
<th>Cost/km</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyungin(Seoul-Incheon)</td>
<td>1.1</td>
<td>1968</td>
</tr>
<tr>
<td>Kyungbu(Seoul-Busan)</td>
<td>1.0</td>
<td>1970</td>
</tr>
<tr>
<td>Honam (Daejun-Suncheon)</td>
<td>0.9</td>
<td>1973</td>
</tr>
<tr>
<td>Namhae</td>
<td>1.3</td>
<td>1973</td>
</tr>
<tr>
<td>Youngdong</td>
<td>1.4</td>
<td>1975</td>
</tr>
<tr>
<td>Kuma</td>
<td>2.9</td>
<td>1977</td>
</tr>
<tr>
<td>Buma(Busan-Masan)</td>
<td>15.0</td>
<td>1981</td>
</tr>
<tr>
<td>Jungbu</td>
<td>29.0</td>
<td>1987</td>
</tr>
<tr>
<td>Singal-Ansan</td>
<td>76.0</td>
<td>1992</td>
</tr>
<tr>
<td>Pankyo-Kuri</td>
<td>103.4</td>
<td>1992</td>
</tr>
<tr>
<td>Kyungin(Seoul-Incheon)</td>
<td>142.0</td>
<td>1993</td>
</tr>
<tr>
<td>Seohaean(Incheon-Ansan)</td>
<td>214.0</td>
<td>1993</td>
</tr>
<tr>
<td>Kuri-Taeguewon</td>
<td>270.0</td>
<td>1993</td>
</tr>
</tbody>
</table>


Changing Patterns of Consumption and Saving

The increase in land prices may alter the household consumption and saving patterns. To be specific, in a growing economy, a part of household wealth could be created by the increases of land prices. This is not only because the land supply is normally inelastic, but also because the economic growth augments household income and income growth, in turn, increases land demand. If this occurs, house-
holds will consume more while reducing savings, because they would regard as the same the growth of wealth from land price increases with those from increased saving. Since the increases in consumption caused by land value increases imply the shortage of capital for future investment, it will have a negative impact on the economy.

It is interesting to note that the increase of consumption would be greater in the country where land values account for a large portion of national wealth. It is also noted that the increase of consumption would be unevenly distributed spatially, if the structure of land value are unevenly distributed. In the case of Korea, it appears that the land price increase can influence significantly the household consumption pattern since the ratio of land value to GNP approaches almost 10. Furthermore, uneven spatial development patterns may deepen the disparity in the distribution of consumption in favor of a few large cities. Considering these possibilities, it is undeniable that the land price increase will act as a restraint on the growth of the Korean economy in the years to come.

**Conclusion and Policy Implications**

The discussion thus far has clearly shown that as a country's economic growth proceeds, a transformation of land problem occurs. Once considered the by-product of economic growth, land issues become critical to a country's sustained economic growth. The discussion has also shown that land issues have arisen not just from the operation of the land market itself, but more from the general economic development path. The underlying causes of the land problem, thus, must be seen in light of the process of industrialization and the resulting pattern of urbanization.

Many land problems are often intensified by macro-economic policies that are designed without explicit attention to their impacts on land market. Government responses are sometimes misdirected, since they were developed in the absence of a clear understanding of genuine causes of land problems.

Given these considerations, policy implications for the future become clear. First, we must recognize that land policy measures
intended to influence the land market directly have limitations in solving many land problems. It is more likely that land policies designed to solve land problems do harm than good unless they are drawn from clear understandings of the industrialization process and urbanization pattern. Thus, it seems important to delineate the problem areas which land policy measures can effectively tackle. And land policies must be designed to solve the clearly defined problems.

Second, it appears that if urban land market is to function properly, it is a prerequisite that a well-designed national spatial policy must reorganize the spatial development pattern of a country. What this implies is that land problems should not be tackled just from the narrow perspective confined to the land market. Rather, they should be dealt with from a much broader regional development perspective, since the balanced spatial development, if achieved, may lessen significantly the intensity of urban land problems.

Third, macro-economic policies, their main goal still being the enhancement of macroeconomic performance, should be designed with an explicit recognition of their impacts on land market. Particularly important in this regard is liberalization of capital markets. Liberalization of capital market will restore the interest rate to a normal level and thereby decrease the price of land. It will also activate the financial market and facilitate various financial goods to be created. These financial goods will absorb the liquidity increases which otherwise would have driven into the real estate market.

Consequently, it is only with this synthetic approach that we can expect serious land problems in Korea to be resolved and further economic growth to be sustained.
REFERENCES


PLANNING THE USE OF LAND IN KOREA

Tae-Il Lee

Introduction

Korea's land policies have been so obsessed with anti-speculation measures in the past few decades that they tend to miss perhaps the foremost objective in any land policy—to make the best use of limited national resources (Lee, 1990). The increase in the price of land is inevitable, to a certain extent, in a society where the urban population and urban economic activities grow at an alarming rate. But if it is becoming intensified primarily because of bad speculation, and the prices increase far beyond the reasonable range, it surely deserves special attention from the policy makers (Lee, 1992).

The situation of the land market in Korea since the late 1960s has been wild enough to be regarded as appalling, at least to the eyes of government officials and the general public. Subsequently, there have been numerous government reactions in an effort to curb the price increases and control speculation. The policy measures adopted, however, have been so fragmented and near-sighted that they seldom reached the root of the problems. On the contrary, the lack of coordination among these short-term policy measures often have aggravated the problems and further distorted the situations. As such, the problems of land price hike and speculation continued and the government responded with more emergency measures. In fact, the land policy tools the Korean government has adopted during the last two decades are so numerous and diverse that one could easily call it a department store of anti-speculation measures.

Traditionally, the development and investment in lands have carried a rather negative perception among the populace probably because
they involve dealings with laborers and are sometimes associated with dishonest tricks. The same notion has persisted and further intensified in the speculation-obsessed policy environment of the 70s and 80s. It was natural to see, therefore, the large scale land developments being left to the government and public sector, and thus it was also easy to blame the government for any backlogs in the supply of land resources to new demanders. Although substantial speculative factors still remain, part of the blame for the recent land price spiral is attributed to the stringent land use regulations and lagging development (Son, 1990).

Now that the upwardly moving land price is stabilized, at least temporarily, concerns are shifting towards the supply side, and particularly to land use planning systems. In fact, it has long been argued that we have to expand the supply of land in order to have a better grip on the price since the recently introduced new policy measures (under the so-called “Gong-kae-nyum” or “Public Concept in Land”) largely focus mainly on managing the demand side.

Some argue that despite the strong measures to control the excessive demands, the land market in Korea is still quite tight and that the multiple layers of land use plans and regulations do place artificial constraints on the supply of new lands into the market. The arguments continue that we, therefore, need to relax or remove much of the current land use planning regulations so that the landowners can use their lands more freely. The idea is more or less concommitant with the world-wide spread of the free-market oriented deregulation movement.

At the same time, there is growing apprehension among the professionals and policy makers, as well as concerned citizens, that irresponsible deregulation of even the fundamental land use control mechanisms might lead to a chaotic eroding of essential natural resources and a return to a speculative land market. In light of this recent debate, it makes sense to review the evolution of the land use planning systems in the country and think about future directions as to the most appropriate level of government intervention in the use of land, particularly in the Korean context.
Planning the Use of Land

Pre-Modern Days

As is the case for most of the traditional Oriental societies, the planned use of private lands was an unfamiliar concept seldom applied (before the 20th century), except for some distinct purposes like segregating the residence of nobilities from commoners, or locating the palaces. It is quite understandable when we recall that land ownership has been, for most of pre-modern history, in the hands of the King or the State. Land policies in those days, therefore, were primarily concerned with the allocation of the rights to cultivate the state lands. Records of planning the use of lands for different kinds of activities are rarely found (Kim, 1984).

Introduction of Modern Planning Concepts

It was under the Japanese Colonial Government that the modern concept of planning was first introduced onto the lands of Korea. The City Planning Decree of 1934 inaugurated the modern-day land use planning with 4 urban land use zones that were designated in the new towns of Najin and Jinhae, and 2 years later in other major cities including Seoul.

The introduction of planning ideas was the last piece of a colonial policy package of spatial nature that included the first modern national survey of the territory during 1917-1920, and subsequent land title registration, and land taxes (Kim, 1984). It was through these measures that the modern concept of private property rights was firmly established. The rural to urban land conversion method, called land readjustment, was also introduced during the same period.

Although it should be recognized that the colonial government did play an instrumental role in introducing new concepts for the better management of the nation's land resources, many speculate that the real motive was primarily to make lands more accessible for colonial purposes.
Planning vs. Regulation

The real irony, however, lies in the kind of planning mechanism that has been introduced to this high-density, land-poor country. Generally, there seem to be two distinctive approaches in managing the use of private land: the positive (active) "planning approach" and the negative (passive) "regulation approach" although both come under the same broad categorization of "planning" in the general literature (Lee, 1990).

The first approach is frequently found among many European countries' land use management and planning systems. With this approach, government's elaborate and capable planning mechanisms actively lead the way in formulating the overall land use pattern by controlling any uses or developments that are not explicitly expressed in the plan, usually very detailed and strictly binding.

It is generally accepted that without detailed plans prepared by the local governments, it is virtually impossible to use the land, public or private (Department of Environment, 1989). Examples are numerous: Local/Action Area Plans in U.K., P.O.S. in France, Destination Plans in the Netherlands, and Bebaungsplan in Germany, to name a few. It is believed that by utilizing these planning systems, together with rather efficient land tax systems, they were able to maintain very stable real-estate markets and keep their urban developments nice and compact, leaving ample open spaces for future use and conservation.

In contrast to the first approach, the second-negative regulation approach-basically comes from laissez faire, free-market oriented ideas. In this approach, individual private interests tend to override any public or communal welfare interests and as long as the private use of land does not seriously hamper neighbors, it is generally respected (Caldwell, 1987).

To put it differently, the allocation of land for different purposes and the shaping of overall urban development patterns are left entirely to the hands of individual "rational" citizens; therefore, the government's role is reduced to monitoring what goes wrong. The zoning plans, most frequently seen and perhaps the only meaningful document in this approach, roughly divides the land into several zones and districts with some minimum level of regulation as to what kind of activities can or cannot be carried out in each zone. These are hardly comparable to those found in European planning documents.
With this approach, private property rights are protected, and future land use patterns become unpredictable for efficient planning of urban services. In fact, the planning aspect is so severely limited in this approach that only some marginal regulatory function remains.

Zoning regulation in the U.S. initially started as a means to protect property values by controlling the infiltration of undesirable activities or races. The same tradition still persists, although not very explicitly (except in exclusive zoning ordinances, like one-acre lot zoning or other types of fiscal zoning, where it becomes very obvious). Therefore, it is far from being a tool devised to turn the planned ideas into reality.

It becomes clear now, at least to the author's mind, that what Korea needed for the efficient management of her limited land resources was the first approach of the positive planning system. Unfortunately, however, the Japanese did not select the European model of land use management but rather followed the American approach, when it first adopted the concept. Korea was also unlucky that it had to accept whatever the colonial government had prepared for it.

It still remains as a puzzle to some why Japan chose to copy the American model of land use management, while the country has more similarities with European countries in terms of the size of land and other socio-physical characteristics, and the Japanese are well known for their liking of anything European. It was indicated, however, that the Japanese government initially intended to follow the French system, but the National Diet at that time decided to resort to a much simpler and more flexible one.

It could be speculated that perhaps it had much to do with the traditionally strong coalition between the landed class and the politicians, which also partially explains the notorious real estate problems in Japan, Korea and, to a lesser extent, in Taiwan—all former occupied territories of imperial Japan.

Building-up of Land Use Regulation System

In 1962, the Korean government initiated its own set of planning mechanisms and building codes in order to manage Korea's land resources, after the total chaos following the liberation in 1945 and
the subsequent war. The real substance of these policies, however, hardly differed from the previous ones of the colonial times. Even then, the economy was stagnating, and the whole country was so poor that the only noticeable activities in the area of planning were either small-scale redevelopment of war-torn city centers or continuation of a few new residential developments in the fringe areas that had been interrupted during the war.

The City Planning Act, and the Building Codes of 1962, and the Land Readjustment Project Act of 1966 comprised perhaps the most important framework of spatial management in those days. Besides the technical criteria concerning the building structures, significant portions of both the City Planning Act and the Building Codes are devoted to the zoning of urban lands and the lists of permitted or denied uses for each zone. Subjects like local land use zoning and the use regulations themselves are provided within the central government’s legislations, presaging a heavily centralized and inflexible administration of land use regulation mechanisms in later days.

The planning of urban land uses in each municipality utilizes the same 4 basic zones (residential, commercial, industrial, and green—further divided into 12 subzones as of present) and identical restrictions regardless of the size or character of each individual municipality. Also, the areal size of the each zone designated is very large and the regulations rather ambiguous, leaving them open for precarious interpretation. In fact, the wide range of permissible land use activities sometimes made zoning practically meaningless and allowed the prices to reach unreasonably high levels. As such, the chances of developing a well-organized and integrated community through the application of these measures are minimal.

Rural portions of the country’s land have been virtually left outside the spatial policy arena with the exception of the agricultural land reform of 1949-1953. It was primarily aimed at redistributing farm-lands more evenly among the rural farming households and thus bears no particular significance as far as the use of lands are concerned.
Spatial Management Since the 70s: Policies and Limitations

*Mushrooming of Special Acts*

Since the early 1960s, as the country pushed forward to escape from poverty through government-led industrialization, there have been several efforts to make it easy for firms and factories to initiate and expand. Existing land use plans and development procedures were perceived not only as being inefficient for the purpose, but even detrimental, and the government issued a series of promotional “special” acts. The Promotional Act for Industrial Complex Development, and the Promotional Act for Encouraging Regional Industrial Estate Development are two examples.

Spatial policies and plans were used largely as tools to back up the accelerating economic growth, and their existence was not necessarily for the proper management of the nation’s precious natural resources (Lee, 1990). There was even a period when environmental conservation issues (a primary objective of land use management policies), could not be raised publicly in the fear that these issues might delay industrialization programs.

Also, in an effort to accommodate swelling urban populations, similar promotional legislations have been issued to expedite urban expansion basically through fringe area conversions. The Act on Land Readjustment Projects, the Promotional Act for Housing Construction, and the Promotional Act for Housing Sites Development are a few of them. These “special” legislations supercede the relevant existing laws and ordinances, and enable the firms or the developers to go about the process rather quickly without going through all the necessary steps.

On the one hand, this group of special legislations surely helped the country to accelerate the growth of the total economy. On the other hand, however, they distorted the existing legal framework concerning the management of the nation’s land resources. The layers of conventional and special development plans, many preferential exemptions, and a group of aspatial policies that have bearing on land uses made the whole procedure of development very complicated and rendered the traditional land use regulations useless. Furthermore, by allowing
the easy conversion of fringe lands for urban purposes, these special acts encouraged the firms and individuals with inside information to buy land before development and amass huge speculative profits.

**Anti-Speculation Measures and Land Use**

In the course of Korea's land policy development during the past few decades, perhaps one most significant area of concern has been speculation and the management of unearned capital gains from the land price appreciation. The series of anti-speculation measures did affect the overall land use configurations in many ways, although they were not designed to do so.

Numerous measures, however, were conceived and implemented without any consideration of the possible effects, direct and indirect, they might impose on other sectors of the national economy. In fact, they seldom looked beyond their own scope of concern—the price of land and the market itself. The anti-speculation measures also lacked any kind of locational planning dimensions when they were being formulated. As such, two major sides of land policy have been operating virtually independent of each other despite their seemingly close relationship.

Problems related with the rapidly rising land prices and speculative markets were not taken seriously by the policy makers and the general public until the mid-70s. The nation was so engrossed in the total economic growth that many distributional problems arising from rapid industrialization and urbanization tended to be overlooked.

In the absence of any appropriate policy measures, early speculators who had access to information on development plans of existing urban centers or new industrial complexes could make great fortunes. The rumors spread and while public voices blamed those speculators, many individuals and firms alike began to join this game of "property investment," at the same time and devour the quick money from it.

To deal with the situation, land policy per se (they are actually anti-speculation measures) began to appear in the form of special decrees or announcements beginning in the mid-70s. They took these particular forms, according to the government, in order to attack the problem...
immediately, not allowing the speculators the time usually needed to go through the formal legislative processes. But the reality is that the government regarded the issue of price hikes and the speculation as something passing and responded with short-term measures simply to erase the symptoms.

As the land policy evolved around these special announcements and special policy decrees, the perception of land problems and the approaches to the problems tended to be rather superficial and near-sighted. The effects of these announcements have been short-lived and most of them did not reach the root of the problems. Also, since the special announcements were usually prepared in a hurried manner, they tended to be shopping lists of all the conceivable measures, not necessarily taking into account the implementation feasibility, viability as lasting policy tools, or the possible negative side-effects they might impose on the operations of other policies.

Still fresh from the bad memories of nationwide real estate speculation in the late 70s, land prices soared again in the late 80s. Although the rate of increase itself was not the highest Korea has ever seen, the absolute level of prices was such that the social and political problems they generated, not to mention the economic ones, posed a serious potential threat to the national integrity.

Thus, the focus in land policy problems quickly shifted towards the issue of distribution. The government recognized very well that, if not properly taken care of, such distributional issues could shatter the nation socio-politically as well as slow further economic development. The package of land policy measures under the so-called "Gong-kae-nyum" (Public Concept in Land) in the late 80s came into being with these considerations as a backdrop. Progressive taxation on large landholdings, a ceiling on residential land for urban households, and a rather severe tax on unearned capital gains from land are the key measures of the policy package (Research Committee on Public Concept in Land, 1989).

**Growth Management of the Capital Region**

Another group of government policies, although assessed as being futile in retrospect, were a number of growth management strategies
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and the nationwide land use planning system. As commonly observed in many developing countries, Korea's urbanization process has been marked with lopsided concentration of population and activities in Seoul and its surrounding capital region (Walton, 1992).

To alleviate the socio-economic, as well as the defense problems due to the excessive concentration in Seoul, Korean policy makers have tried to control the further expansion of the capital region with a number of strategies: population redistribution plans within the capital region; designation of green belts, where virtually no development is allowed around the major urban centers; strict regulation of large-scale developments within the capital region; and regional incentives and development programs under a series of Comprehensive National Development Plans, among others.

Besides these spatial policies, there emerged a whole group of other policy measures, largely aspatial in nature, which have had inevitable effects on the use of lands, virtually from all the ministries to offset the imbalanced development of the country. They all seem to punish, in one way or another, anything that is in the Capital Region or planning to move in.

They may have worked as intended in the sense that they made it rather difficult and costly to be inside the Capital Region. But as it turns out, some of these growth-containing measures were not fully integrated with the macro-economic policies and frequently found themselves in conflicting situations. And, very often, they were made helpless against the strong inertia of concentration under the economic growth-oriented efficiency drive. In other words, the demand side was not managed adequately to ease the tension in the Capital Region, while the supply side has been kept rather strictly controlled. It is not surprising to see many complaints being directed towards these growth management plans (Alexnder, 1986; Engle, Navarro and Carson, 1991; Mills, Song and Kim, 1986).

Powerful business groups, nonetheless, have managed to go around these measures through various channels. But these complicated, multi-layered policies did make it difficult for small, powerless firms and individuals to move around into the capital region. It is ironic that they provided grounds for the complaints from the powerful business circle to loosen the conventional land use planning regulations,
which, in the author’s opinion, really does not have much to do with the growth management of the Capital Region.

Some argue that, due to land use planning, a critical mismatch emerged between demand and supply in land use. Although it is true to the extent that a shortage in supply in the Capital Region exists, it is not the result of the land use plan per se. Instead, it may be due to the growth management strategies which tried to contain the growth of the region by regulating the large-scale new developments. The real question to be raised now is whether or not the Capital Region’s growth management policy was properly conceived in the first place and whether or not the country wishes to maintain the existing policy directives.

The serious mixing of two different kinds of spatial policies started to appear and cause confusion even among the policy-makers and professionals. Actually, it has served as the basis of recent arguments on overall deregulation in land use management (Son, 1990).

Since 1972, Korea has initiated yet another approach in managing its land use: designating use zones for all the pieces of land within the country. The National Land Use and Management Act stipulates that the entire territory of the country be divided into 10 land use zones with rather strict regulations that landowners must abide by.

It was a misconceived piece of policy, to put it simply, which is merely an extension of the idea of local land use plans and zoning ordinances, perhaps only applicable on a “micro” level by local governments. Zoning of the future use of the nation’s entire territory by the central government is practically impossible and has turned out to be simply a mapping of current land use. The plan, therefore, lacks a true “planning element” and very often has almost no room for accommodation of new activities (Lee, 1992). It is no wonder that the plan is criticized as being extremely rigid and conservative.

In sum, the results of nearly three decades of growth-oriented economic policies and the unsuccessful exercise of spatial policies, as far as the land use management is concerned, are threefold; an ineffective and yet complicated system of growth management mechanism contributing to the surging of generally negative sentiment against the whole idea of planning and land use management; extremely high real-estate costs for housing welfare and social overhead capital
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(infrastructure) provision as well as for the industries; and a worsened distribution of wealth and income due to speculative capital gains—an eventual restructuring of societal strata and degeneration of social norms leading to the collapse of value systems in general.

Possible Future Choices

Recent Movements for Deregulation in Land Use Management

Since the early 80s, there has been a noticeable movement among the conservative politicians around the world against government intervention in general. This swing back to the neoclassical ideology was caused initially by the overall economic difficulties being experienced among many nations. Much of the remedial actions were directed to reducing the role of the public sector and privatizing many government functions (Barnekov, Boyle and Rich, 1989; Lloyd, 1985; Pack, 1987).

Along the same vein, land use regulations by the government, particularly zoning, have become the target for vigorous scrutinizing as to their efficiency in managing the use of urban lands (Fischel, 1990). Many Western academics, mainly market economists, have argued that the utility of local land use regulations, including zoning, are not justified on efficiency grounds and therefore should be removed eventually. Their arguments have been primarily based on the surveyed increases in the price of housing in several communities in the U.S., which, according to them, are probably due to the constraints in supply caused by the regulations (Allison, 1986; Fischel, 1990; Pogodzinski, 1990; Sorensen, 1983).

Similar arguments are being put forward in Korea by a number of Korean economists. Their analyses are mostly confined to the Capital Region and they also base their discussions on the increases in the cost of housing and land (Mills, Song and Kim, 1986; Son, 1990). But, again, the situation in the Capital Region is unique in that it is very regional in nature and that the situation is actually what the policy was indeed prepared for; making it costly and thus unattractive to be in the Capital Region so that development concentration could be reduced. Business groups, often unhappy with the regulations the
government exerts on their properties, also quickly joined in and reinforced the voices.

There exists yet another group of scholars, at home and abroad, who do not seem to agree with the aforementioned arguments. The latter group of scholars criticize the former for not being able to show that land use regulation fails to do what it is supposed to do—internalize external costs. Besides the traditional reasoning with the theories of externalities and public goods, some even argue that land use regulations may create better residential amenities or may prevent impending disamenities. Hence, the higher housing prices could also be taken as evidence that the regulations are doing what they are intended to do (Fischel, 1990).

Arguments from both sides are abundant yet none of them is conclusive or convincing enough to alter the paradigm. To those economists who argue that land use controls are both inefficient and unnecessary, much empirical economic research does not support either conclusion while some other research points to the opposite conclusion. Land use controls can provide benefits that would be difficult to obtain under less coercive conditions. Abolition of zoning and related controls would eventually create a demand for alternative controls, and it is not clear that the alternatives are less costly to administer or more efficient in their effects than zoning (Fischel, 1990). Yet, the privatization and deregulation arguments seem to have been successful with politicians and business sectors in the U.K. under the Thatcher administration as well as in the Reagan administration in the U.S., in the beginning of the 1980s (Barnekov, Boyle and Rich, 1989; Gayle and Goodrich, 1990). Surprisingly, however, many assess the past 10 years of privatism in both countries as being disappointing and even distorting. The most frequent examples of privatized city management include a few scattered property development projects in areas selected for their commercial potential and profitability, and there have been no development efforts in those areas that exhibit the most acute and chronic urban problems. In fact, it is a common conclusion among many scholars that the whole privatization process resulted in worsened distribution and greater inequity across the society (Barnekov, Boyle and Rich, 1989; Hirschman, 1986; Judd, 1988; Starr, 1987; Wolman, 1986).
As far as orthodox land use planning is concerned, the past few decades have not been a favorable policy environment for the concept to take root. An extraordinary emphasis on total economic growth, almost like an obsession with the speculation issues, and the excessive concentration of everything in the Capital Region worked against the establishment of proper land use planning systems.

Moreover, the conceptual confusion between the local land use plans and the strategic growth management policies often misled the targets for complaints. Usually, the land use plans tend to receive much of the blame, when many of them actually should have been directed to the growth management strategies, like the capital region growth management policies.

Also, the extreme concentration of power in the central government and almost no development in the capacities of planning and resource management in the local governments have been the primary causes of inefficient or impotent land use planning in Korea. The core of every physical planning system is the local land use plans prepared by the local municipalities, which have the best knowledge about how their lands are being used and how they should be used according to their local needs. The past and even present local land use plans in Korea, prepared for submission to the central government, are usually rough maps of future land use pattern comprised of several land use zones, much of it different from reality. And yet, they do have binding regulations on land uses, causing many complaints from the landowners.

The national land use plan, misconceived in the first place, also has a negative bearing on the management of land use at the regional (macro) level. As mentioned previously, the plan has a tendency to stick to current land uses and, together with the other existing regulations, it makes the use of lands very difficult in any manner, especially where new demands continue to grow, as in the capital region. A rapid increase in the price for developable parcels of land thus becomes inevitable and motivates another round of speculative demands for quick capital gains, setting in place an endless vicious cycle.
More fundamentally, however, the operation of a land use planning system that is very passive and negative (American approach) for almost half a century has had the most devastating effects on the management of the nation’s land uses. More than anything, it has encouraged the development of a certain perception among the populace that planning is something that threatens their private rights and therefore is to be objected to whenever possible.

Taking into account the difficulties the landowners or users might have encountered in the past, it would still be premature to hurriedly remove many of the land use regulations without further, careful investigation. For one thing, the causes for the current situation are not simple; they are often complex multiplications of various factors and cannot be eased by simply removing the planning regulations.

The core of the problem lies in the ill-conceived planning systems which need fundamental overhaul rather than dismissal, and the disorganized array of spatial and aspatial policies which need to be streamlined and separated from traditional land use planning activities. In addition, many of the problems currently discussed may stem from poor administration of the related policies and not from the policies or plans themselves. Improvement in the administrative capacities at the various levels of government is equally critical.

As far as the land use planning system itself is concerned, it needs strengthening of real “planning” functions and of technical proficiencies. More specifically, some of the policy options we need to investigate further for better management of the nation’s land resources include: changes in the national land use planning system—into a national plan focusing mostly on conserving environmentally sensitive areas while detailed land use planning is left to the local governments; streamlining of spatial and aspatial policies which have a substantial impact on the way the lands are utilized—aspatial policies should employ aspatial tools to achieve their policy goals; clarification of the regulations from the growth management policy measures and local land use plans; strengthening the linkages between the planning mechanisms and the land tax measures—they should mutually complement each other and not conflict; and finally, a gradual but fundamental transition of land use planning philosophy from “negative” to “positive”—active and enhanced role of land use plan.
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RECENT URBAN LAND REFORMS IN KOREA: GOALS AND LIMITATIONS

Tae-II Lee

Introduction

Still fresh from the bad memories of nationwide land speculation in the late 1970s, land prices soared again in the late 1980s. Although the rate of increase was not the highest Korea has ever seen, the absolute level of prices was such that the social and political problems they generated posed a serious potential threat to national integrity.

For example, the total sum of the value of the nation's land resources was estimated to be more than 9 times the size of the GNP in 1990, much higher than the figure for Japan where high prices of real estate have been notorious. And the magnitude of total capital gains from land price appreciation in 1989 alone was estimated to be 35% more than the total aggregate income earned by all urban workers in the same year (Research Committee on Public Concept in Land, 1989).

At the same time demands for equal or equitable distribution suddenly burst onto the surface with the inauguration of a more flexible government. And the nation started to experience prolonged and sometimes violent labor conflicts. Even with fast rising wages, workers were dismayed to find that their income could not keep up with the rent or housing price increase, while landlords displayed their sudden wealth by indulging in extravagant consumptive behaviour. The government recognized very well that, if not properly taken care of, such distributional issues could shatter the nation socio-politically, as well as slow down future economic development.
From 1987 to early 1989, when the land price trend began to show some signs of letting up, the government started to introduce a set of policy measures which were relatively comprehensive and longer-term in perspective. New policy measures adopted in this period are popularly called "To-Ji-Gong-Kae-Nyom" and are interpreted as measures to enhance public interest in land-related matters. They include the Comprehensive Landholding Tax, a new system of land value assessment, reinforced land transaction regulations—especially of the agricultural and forestry lands, and three completely new measures that some regard as rather radical—the Ceiling on Urban Residential Land per Household, the Development Charge, and the Land Value Increment Tax.

These policy changes were introduced because the government realized that it was futile to attempt to control land price itself and started to look at the underlying factors that determine the prices in the market. Although not completely free from old beliefs, the new policy measures adopted in the late 80s were designed to reduce the unnecessary or excessive pseudo-demands for holdings and encourage them back into the market.

Supply side, although not a primary concern, was also considered by building a number of new residential towns within the Capital Region where the demand-supply disparity had been the greatest. Yet another important group of policy measures were those that would provide the basic and essential information necessary for successful implementation of all the policy tools, particularly the taxes. The most significant of these are the new land value assessment system, and reinforced land title registration system (Lee, 1990).

**Preparation for Policy Reform**

*Reference Land Value Announcement System*

In the past, a number of different official land price quoting systems were used by different agencies or ministries depending on the needs of their particular respective functions. Assessment of tax value for local property taxation was one, another was for national taxes such
as Inheritance and Gift Taxes, or the Real Estate Transaction Income Tax (capital gains tax), and a third was the Standard Land Price Assessment announced for compensation in public land acquisition. Although vastly different from one another, all of them were known to have made assessments far below the actual market values.

Problems with these official land pricing systems were two-fold. First, although each ministry had its own rationale for keeping its assessment at a certain level, most ordinary citizens were confused as to how the government was assessing their properties and were reluctant to accept the official price. A second problem was that land tended to be grossly under-assessed (roughly 15% of market value) and any of the policy tools, taxes included, could not exert intended effects based on such assessments. Even the most stiff nominal tax rate imposed very meager tax burdens for landowners (Lee, 1990).

Recognizing the problems and the limitations they impose on the implementation of policy tools, the government decided to unify all the government assessed land prices into one single system, and more importantly to have the assessment reflect the full market values so that any policy measures based on it would function as they were originally intended. Beginning in 1990, with the help of the land price calculation matrix tables which contain detailed ratios of price indices (for each of the major characteristics) between the sample parcels (assessed by professional valuers) and the rest of the neighboring plots, official land prices have been announced annually for each of 25 million taxable parcels in the country.

**Comprehensive Landholding Tax**

In line with the recent emphasis on regulating excess or pseudo demand for land holdings, the existing property tax (land portion) was revised so that progressive tax rates could be applied to large holdings. Basically, the tax is levied on the sum of the value of all landed parcels that are registered under the same owner. The Comprehensive Landholding Tax was intended to increase the tax burden of large landholders, thereby encouraging the disposition of excess lands back to the market. It was thus anticipated that the concentration of land ownership could be lessened and market prices lowered.
It was clear from the inception stages of the new tax, however, that the ordinary landowning citizens, including the owners of average-sized home, agricultural lands of the self-farming families, and factory sites of small business would have to be protected from the potential tax increase, or even subjected to a lower tax. Therefore, it was specifically targeted towards punishing the unnecessary, excessive holdings of land presumably held in anticipation of speculative price appreciations.

Nonetheless, there has been some debate in the initial period about the nature of the tax. Theoretically, property tax is a collection of charges of the landowners' benefits mainly attributable to the services of the local governments. As such, it should be free from any policy objectives other than those that are local in nature. The Comprehensive Landholding Tax, although much deviated from its original structure, is still a local property tax and the arguments above seem quite valid. While the argument did not gain much ground due to the overwhelming concern over the severity of the land problems, it still deserves another round of discussions in the near future.

Implementation of the new tax started in 1989, and it was made possible with the on-line computerization of all land registers and cadastral information within the country. On-line computerization of land information (limited to some basic items at the present moment) had been pursued since the mid-80s and was completed by late 1988, just in time for the new measure. The problem of under-assessment, however, was not resolved by this time, seriously limiting the effectiveness of the new tax (Son, 1990).

New Policy Reform Measures under the “Public Concept in Land”

Backdrop

Past policy efforts notwithstanding, real-estate prices in the 1980s continued to grow especially in the aftermath of the Olympic Games of 1988. The price of land, for example, tripled in some areas of Seoul and Busan within a span of just 2.5 years between 1988 and
1990. Other parts of the country experienced similar price inflation, although the location of land price hike was seen to be rather sporadic elsewhere.

There seem to be at least a few reasons to explain the phenomenon. First, there was an “administrative vacuum,” which spread rapidly with the “democratization movements” during the inception period of the Sixth Republic. Korean society in general was loosened, and people were able to avoid paying heavy capital gains taxes in one form or another. The second reason relates to rapidly increasing personal income. Wages and salaries rose by 15.5% in 1988 alone, and another 21.1% in 1989, suggesting that their inflationary effect could be serious. Much of the increase has resulted from labor movements, and had very little to do with any real increase in labor productivity.

The most critical factor, however, seems to be the excess supply of money in the management of the nation’s macro economy. There was simply too much money to go around. The rate of increase in money supply in the second quarter of 1989 was 19.9% over that of the first quarter. The rate jumped in the second quarter of 1990 by 22.9% relative to the first quarter. In fact, many times in the past, the Korean economy has seen that an excess supply of money eventually ends up in the speculative real-estate market, thus leading to cycles of land and housing price hikes.

The Korean government had conceived of a set of strong and comprehensive land policy measures to redress the cyclical upheaval of land problems, and, in 1989, it introduced three reform measures. Recognizing the close relationship between money supply and the real-estate market, however, the government also took measures to tightly control the money market when they introduced these new measures.

**Ceiling on Urban Residential Landholdings**

The primary goals of this new measure were 1) to encourage landowners to develop or dispose of their excess lands, 2) to make land ownership more accessible to more urban households (government statistics revealed in 1989 showed that the top 5% of the landowners were in possession of 65.2% of the nation’s total private
lands), and 3) to avail more lands for development. The measure was, in fact, a device to complement the one already in operation, the Comprehensive Landholding Tax. While the tax indirectly affects the behaviours of landowners, the new measure does so directly.

With land prices so high, what distinguishes the rich from the poor, in recent days, has become the ownership of real estate; thus, such a drastic policy has long been called for as an effort to achieve some sort of economic justice. It was not, however, considered as a violation of the constitutional private rights of the citizens, since the urban residential land in this highly urbanized society is the most essential basic resource that many people have to share. In other words, access to a plot of urban residential land has become a prerequisite for people's livelihood and welfare, just as the farmlands were in the agricultural society, which would necessitate public intervention to ensure fairer opportunities.

The Urban Residential Land Ceiling Act is applied only to the lands within the urban planning districts, and was initially put into effect in the six largest urban centers in 1990 with a grace period of 2 years. Only the residential plots (according to cadastral classification) are subject to the measure. More specifically, they include the following:
- lands where dwelling units are built inclusive of adjacent residential lands,
- lands being registered in the cadastre as “building plots” but not containing any built structures (idle lands)

No household or firm can own residential lands as described above in excess of the 200 pyong (660 square meters) limit set by the Act. A weighting system is applied when a landlord owns residential lands in more than one location. With only very rare exceptions, they will not be allowed to acquire additional residential lands beyond this limit. Those who already own in excess of this legally perm issable limit are asked to dispose of their excess lands. But when they insist on keeping such lands, they are then levied rather stiff “excess holding charges” which range from 6-11% of the market value of the excess amount; the charge is levied annually until the owner disposes of those lands.
Land Development Charge

In the course of rapid urbanization, land conversion has taken place as fast as the urbanization process itself. Large amounts of previously agricultural and forestry lands have been converted into urban uses, mostly residential and industrial, to meet the increasing demand for space. The land conversion process, however, has resulted in land price changes and has invited land speculators, who tend to hold lands until windfall profits are maximized.

These windfall profits, generated through the conversion process, have rarely been properly recaptured by the public in the past, despite the existence of related tax systems (Real Estate Transaction Income Tax, for example). Thus, most of the unearned capital gains went to either the landowners or developers, or both. This motivated people to go for more speculative holdings on non-urban lands in the fringe locations which, in turn, push the land prices further up.

The government tried to adopt a more solid legal basis in the recent amendments of the related legislations in order to effectively recapture the unearned development gains from speculative land owners and the developers. Different from the existing tax, it was intended to be applied wherever capital gains arise regardless of actual transactions; that is even during the possession of the same owner. The Land Development Charges and the Land Value Increment Tax are the tools adopted for this purpose.

The Land Development Charge is levied upon the developer of lands being serviced into residential, industrial, or leisure purposes with the approval/permission of central/local governments. Basically, the charge is 50% of the land value differentials before and after the project completion, with the actual development costs deducted. In principle, all the development projects should be subject to the Development Charges, but presently, charges are applied only to those projects which are large in scale and clearly generate or are expected to generate a significant amount of windfall gains. Currently, there are 28 such projects, some of which are listed below;
- residential land development projects
- industrial estate development projects
- infrastructure facilities development projects
- resort development projects
- other development projects as defined in the law.

The charges, however, will not be imposed or will be reduced to half on the government projects or the projects being undertaken on behalf of the government, local and central alike.

**Land Value Increment Tax**

The Land Value Increment Tax seeks to strengthen the windfall recapture system by taxing away a significant portion of unearned income from land value appreciation even before it is actually realized, thus deterring landowners from holding onto lands for speculative purposes. This system is somewhat similar to the now abolished Development Land Tax (DLT) of the U.K. or Land Value Increment Tax of Taiwan, in both form and legal intent.

The lands which are subject to this tax are idle lands presumably bought and held for speculative purposes and excess lands beyond the legally permitted ceiling in case of urban residential lands. One potential problem with this tax was that it is levied on the unrealized gains and thus violating the general taxation principle of “ability to pay.” For example, according to the initial proposal to tax all lands, one might have had to reduce his housing plot or his own farming paddy just to pay the tax if it happens to be his only property.

Thus, the target for this tax has become narrower, focusing only on idle or non-business lands. However, this reduction of target then produced another set of problems—that of overbuilding to avoid idle land classification and associated heavier taxes. Possible double taxation with the existing Real Estate Transaction Income Tax, however, could be avoided through a cross-deduction scheme.

The taxing period of this tax is 3 years, and a 50% tax is levied on the “excessive profits from lands” (land value increase over the national average during the 3 year period). However, when the land value increase of a certain district is so rapid that it exceeds 1.5 times the national average rate, the land in question is taxed annually instead of every 3 years.

The new tax was levied for the first time in June, 1991, and it affected 27,441 individuals and firms. 83% of the affected landown-
ers and 92% of the levied tax amount were located within the City of Seoul and the surrounding Capital Region. This reflects yet another problem of concentration of wealth as well as the rapid increase in land prices in this particular part of the country.

There has been strong resistance, naturally, among the affected landowners as to the huge amount of tax. Nonetheless, most of the complaints have been turned down in court and the taxes were actually collected. The tax had a tremendous impact on the market, albeit the roughness of the measure, sharply reducing speculation-minded land ownships.

The implementation of this new tax, however, has not been problem-free. There have been substantial cases of evasion efforts on the landowners’ side, such as building unnecessary improvements to avoid idle land classification. Besides being an aesthetic blight, much of this building activity exacerbated a shortage of skilled construction laborers and materials during a brief period of 1990-1992.

**Forced Disposal of Excess Lands by Corporations (Chaebols)**

Even with the announcement of the rather drastic new measures under the “Public Concept in Land,” the land market did not respond immediately and the price hike was prolonged for a while. The concerns of both policy-makers and the general public shifted to the huge corporations, which, despite their massive and organized real estate deals, tended to be overlooked in the past formulation of anti-speculation measures. Thus, on May 8, 1990, the government issued yet another special decree which specifically focused on the restrictions of real estate holdings and new acquisition by the large business corporations and financial institutions. It was based on a belief that without controlling these business groups’ dubious activities, it would be impossible to hold a firm grip on the real-estate market. Further, it was felt that by doing so, some form of equity could be ensured between the corporations and the individuals as far as land matters are concerned.

More specifically, the 30 largest business groups in the nation were ordered to voluntarily dispose of their holdings of non-business lands (which were estimated to be around 200 square kilometers
altogether); also, these lands would not be accepted as collateral for borrowing from the financial institutions. Similar treatments also were issued to the financial institutions.

This so-called "5.8 Decree" was implemented, however, without proper legal grounds, and the corporations could have protested but they did not. It was a symbolic piece of policy depicting very clearly, if not too harshly, the will of the government. By November 1991, most of the lands classified as "to be disposed" actually had been sold by the corporations themselves while some were carried over to the government disposal agency for execution by proxy.

**Interim Evaluation**

The recent real-estate crisis was particularly devastating and the increase in land price reached a level which threatened sustained economic growth as well as the citizens' welfare if left unchecked. The government's reaction in the late 80s was even stronger than before, reflecting their acute apprehension about the viability of the economic system itself. Also, the joint political support from both the ruling conservative party and the opposition party was one of rare cases in Korea's modern political history. New measures under the so-called "Public Concept in Land" thus emerged as fundamental remedies for desperate situations.

They were designed primarily to erase the speculative motivations and to significantly reduce the chances of gaining any development profits which had fueled speculation in the past. They were conceived of with the realization that past emergency-type policy measures did not address the causes of the problems. Furthermore, the lopsidedly concentrated land ownership statistics served to arouse the citizens' discontent with past policies and necessiated a different perspective in policy formulation.

As for the land price regulations, it was finally understood that direct suppressing of the price itself was not going to lead anywhere, and that it had to be manipulated more effectively through the workings of supply and demand. The new measures adopted are directed toward reducing the demand and expanding the supply, although the former aspect is more emphasized, and this approach is far more
refined than previous ones. For this alone, the overall package is being assessed as improved and the effects more or less successful, although not concrete as yet.

There have been, of course, various technical and administrative problems associated with the implementation of these new measures, but they have been largely regarded as minor and remediable caveats and their implementation has not been hindered. It is considered rather important to maintain a consistent stance in carrying out land policies of any kind because when there are signs of change or a weakening trend in policy implementation, the landowners may sit and wait for possible mitigation of the measures and thus do not respond to the current policy.

On the other hand, with the levying of the Land Value Increment Tax which punishes the vacant lands with a rapid increase in price, there has been a sharp shrinkage in developable raw lands within large urban areas and a surge of undesirable building activities, mostly in lavish consumptive service sectors. From an overall city planning and management point of view, it is a situation that has to be avoided. Further refinements of the measures and efforts to link them with land use planning and growth management strategies are being strongly suggested from circles of concerned citizens and professionals.

Another very important aspect which deserves due attention is the close and inevitable relationship the real-estate market shares with the management of the nation’s macro economy. Unfortunately, however, it has not been fully accounted for in past policy formulations and not sufficiently enough even during the course of the “Gong-Kae-Nyom” measures development. Past experience as well as a few scattered studies suggest that the movements in the real-estate market are more affected by macro economic factors, like money flow and interest rates, than by the factors indigenous to the real-estate market itself (Son, 1990; Evans, 1991).
Expansion of Land Supply to Complement the Reform Measures

Background Rationale

Since the recently introduced new land policy measures largely focus on managing the demand side, it has long been argued that we have to expand the supply at the same time to have a better grip on the price. There have been growing complaints, in fact, from the business circle as well as from individuals in need of more space have difficulty finding reasonably priced plots of land. They argued that, despite the strong measures to control the excessive demands, the land market in Korea is still a sellers’ market and unless there are sufficient alternative choices available elsewhere, the demander has to pay the price being asked, which are still very expensive.

Accepting that it is desirable to have some extra cushion in the market, government did make efforts to expand the supply. Initially, this took the form of developing five primarily residential new towns in the Capital Region, within commuting distance from Seoul, where the demand always overrides the supply. The new towns idea, however, was met with strong opposition from the planners’ circle, since it was thought to reinforce the already severe concentration in the Capital Region. Nonetheless, planning of the new towns started around the same time that the new land policy measures were being announced in 1989.

All five new towns—Bundang, Ilsan, Sanbon, Jungdong, and Pyungchon—are in the middle of development at the moment and already people have started to settle in a couple of these partially developed new towns. When they are completed in 1996, these five new towns are planned to provide roughly 30 square kilometers of newly serviced residential lands for housing. But these new towns are primarily residential, so the supply of other urban lands—industrial sites mostly—is still in short supply and the complaints continue, notably from business groups trying to make up what they had given up in May, 1990.

Besides the development of five new towns, which is strictly a public sector undertaking (KLDC) with a primary objective of providing
residential plots and housing, it has also been suggested that there should be some changes in the attitude towards the management of the nation's land resources to ensure that we have an uninterrupted flow in the supply of lands. These are mostly coming from the private business sector and they suggest a more laissez-faire stance in land use control, and deregulations in general (Fischel, 1990).

They strongly reflect the interests of a particular segment of the demanders and, to a certain extent, are somewhat contrary to the prevailing sentiment of the general public. Due to these diverse interests and sometimes conflicting views, many policy options are being discussed on an "idea" level and are not yet very concrete and specific. Following is a brief summary of the ideas that are being considered in relation to the expansion of the supply of lands.

**Change in National Land Use Planning System**

Currently, the National Land Use and Management Act stipulates that the entire territory of the country be divided into 10 land use zones with rather strict regulations that the owners of each parcel of land abide by. The system is basically an extension of the idea of land use plans and zoning usually operated on a micro level by local governments.

Since it is practically impossible for the central government to predict the planned use for each and every piece of land in the country, in reality, it frequently turns out to be a mapping of current land uses. Very often, therefore, it has almost no room for accommodation of new activities and has been called too rigid and conservative. A number of recommendations have been made for the revision of this planning system, and the government is also recognizing the necessity to do so.

A frequently proposed change is to make the planning system a two-tier structure. A macro-skeleton plan by the central government would roughly divide the country's land into several categories according to the intensity of (not the kind of) activities to be allowed in each of them; environmental concern will be the key factor in this grouping. The central government's plan will not directly regulate the use of each parcel of land; rather, it will have legally binding effects upon the local governments who will subsequently prepare detailed
zoning plans within the framework of the upper-level plan.

With this possible revision of the national land use planning system, it could be expected to give more flexibility in the nation's overall land use management while preserving the environmentally sensitive areas more effectively. In addition, by delegating the actual zoning and regulatory powers to the local governments, the system could become more responsive to the demands and needs of the users.

Relaxation of Farmland Conversion Regulations

Having been a country of an agriculture-based economy for a long time, there exists a stubborn sentiment among Korean policy-makers to overly protect farmlands from being converted into other uses. Although it has been repeatedly suggested that the current magnitude of total farmlands (roughly 21 thousand square kilometers) is far above the necessary level to produce enough staple grains to feed the population, past policies have made it nearly impossible to convert farmlands to other uses. There have been many cases, where the difficulties of conversion at the urban fringes distorted the pattern of growing urban centers.

This attitude is likely to face some different prospects in the near future. Recently, there have been some visible changes in the attitude among the farmers themselves, indicated by the discontent concerning the prices of their lands. They are not happy because their lands do not appreciate in value as fast as other lands, and they attribute this situation to the strict regulations on conversion of farmlands. Thus, the notion of land as an asset has come to override that of livelihood even in the minds of the farmers.

Considering various changing circumstances, including the concern of the farmers, the government plans to group the nation's entire farmlands into two categories; one for prime agricultural lands that need to be preserved and actively cultivated for corporate farming or other intensive production activities; and the other marginal farmlands which can eventually be converted for other uses. For re-grouped farmlands, sets of different policy treatments are being considered to maintain some degree of equity between the farmers whose lands will be kept agricultural and those whose lands shall be permitted for other uses.
**Utilization of Private Sectors**

In the past, land developments over a certain magnitude (3,000 pyong for most cases) have been exclusively handled by the public sector agencies, governments themselves or those acting on behalf of the government (e.g., KLDC). Such a system was thought to be equitable because a large amount of benefits were involved and in the process, in the absence of proper policy tools to deal with them, it was better kept under public sector management.

However, as the urbanization process picks up speed and the growing per capita income demands more and better spaces, it becomes increasingly difficult for the public sector agencies to keep up with the demand, both in terms of quantity and quality. Besides, the private sector firms themselves, despite their not-very-honest images held by the general public, claim that they have grown to the point when they could perform large scale development activities in a rather mature manner with sufficient funds and capable manpower.

Therefore, it is frequently suggested to open the land development market to diverse agents, both public and private and the so-called 3rd sectors (private-public partnerships, for example), for efficient and timely provision of quality spaces. The proposal is gaining some support nowadays with the adequate back-up of the betterment recapturing mechanism which would ensure that the distribution of windfall profits from the development would fall under government control.

**Conclusions and Future Prospects**

Cyclical up-surge of the land prices and concurrent spread of speculative activities have marred the real estate market in modern Korea, leading to a series of anti-speculation measures that had only short-term effects. The primary objectives of these measures have been direct regulation of land transaction and suppressing of the price itself. Although they might have had some initial impact when they were first announced, they did not last long. Sometimes, the side-effects not anticipated at the time of announcement soon became major obstacles for the smooth operation of land markets as well as for the nation’s overall economy.
Departing from the past practices of short-term emergency measures, a package of new land policies was adopted and implemented in the late 80s, and they do show some sign of improvement. Although there still exist some rough spots here and there, these new policies, together with the existing ones, do seem to contribute to stabilizing the land market in Korea and they will continue to do so as these measures continue to be refined and improved. A better understanding of the intricate interactions between the land market and other sectors of the national economy would significantly enhance the utility of the land policies.
REFERENCES


LAND DEVELOPMENT, TAXATION, AND THE ROLE OF LOCAL GOVERNMENTS: LESSONS FROM KOREAN EXPERIENCE

Jae-Young Son

Introduction

The issue of land deserves consideration from the field of local public finance, and vice versa, for at least two reasons. First, land, together with the structure upon it, is an important tax base for the local government. Second, because land is an essential input for dwelling and other productive activities, development of land is the first step in improving housing conditions and strengthening the local economy. However, frequently lacking expertise and funds for such a task, many local governments around the world seem to have common difficulties in financing required infrastructure investment.

This paper deals with this two-way link between land and local public finance in the context of Korea’s experiences. Our insufficient knowledge of other countries’ experiences limits the scope of this paper to one country, but it can nevertheless be informative to other developing countries. Going through an extremely condensed developmental process, Korea has seen a whole range of problems in transforming a traditional rural-based economy into a modern industrial economy centered around urban areas. In the process, land has been at the center of difficult economic and social problems. We hope this chapter serves as an indirect experience to other developing countries which have faced similar problems or may face them in the future.

Korea’s linkage of land and local public finance can only be understood in the context of efforts to solve the so-called land problem. The second section will describe Korea’s land problem and policy
responses. One may be surprised by the intensity of the problem and the variety of policy tools implemented to redress the situation. The third section addresses the land development methods which have attempted to overcome limited resources of local governments, and the fourth section deals with the land tax system. We will summarize the lessons from Korea in the last section.

The Land Problem and Policy Responses

The Land Problem

1. Rapid Price Increase

In the process of Korea’s rapid industrialization and urbanization, the price of land, especially that for current and potential urban use, has risen fast. During the seventeen year period since 1974, when the official land price survey started, the land price index has increased by 19.1 times for the nation. It is much higher for Seoul, where the corresponding figure is 37.2 times, and other major cities. Table 1 shows that land prices have increased swiftly indeed compared to most other economic indicators.

The price of land, an essential input for most production processes and an important form of wealth, has numerous and varied effects on the economy, and fast land price increases can cause severe distress for some segments of society. For instance, a high land price may mean higher housing prices to households, higher production costs to firms, and a greater fiscal burden for governments’ infrastructure investment. In the late 1980s, many low income families could no longer bear soaring rents, raising serious social problems.

2. Speculation

As a natural consequence of the persistent land price increases, land speculation has been rampant. Henry George strongly condemned the evils of speculation which we need not repeat here. From the policy maker’s point of view, speculation is a convenient scapegoat on which to blame land price increases and all the sufferings from it. However, speculation cannot be defined clearly enough to build operational policies upon it; this point will be addressed shortly.
### Table 1. Indices for Land Price and Other Economic Variables with 1974=100

<table>
<thead>
<tr>
<th>Year</th>
<th>Nation</th>
<th>Seoul</th>
<th>Land Price</th>
<th>Price Level</th>
<th>Money Supply</th>
<th>Real GNP</th>
<th>Stock Price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>CPI</td>
<td>WPI</td>
<td>M1</td>
<td>M2</td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1975</td>
<td>127</td>
<td>132</td>
<td>125</td>
<td>126</td>
<td>125</td>
<td>128</td>
<td>106</td>
</tr>
<tr>
<td>1976</td>
<td>161</td>
<td>153</td>
<td>145</td>
<td>142</td>
<td>163</td>
<td>171</td>
<td>120</td>
</tr>
<tr>
<td>1977</td>
<td>215</td>
<td>201</td>
<td>159</td>
<td>154</td>
<td>230</td>
<td>239</td>
<td>132</td>
</tr>
<tr>
<td>1978</td>
<td>320</td>
<td>474</td>
<td>182</td>
<td>173</td>
<td>287</td>
<td>323</td>
<td>145</td>
</tr>
<tr>
<td>1979</td>
<td>373</td>
<td>505</td>
<td>215</td>
<td>205</td>
<td>347</td>
<td>402</td>
<td>156</td>
</tr>
<tr>
<td>1980</td>
<td>417</td>
<td>572</td>
<td>277</td>
<td>284</td>
<td>403</td>
<td>510</td>
<td>150</td>
</tr>
<tr>
<td>1981</td>
<td>448</td>
<td>593</td>
<td>337</td>
<td>342</td>
<td>422</td>
<td>638</td>
<td>159</td>
</tr>
<tr>
<td>1982</td>
<td>472</td>
<td>644</td>
<td>361</td>
<td>358</td>
<td>614</td>
<td>810</td>
<td>170</td>
</tr>
<tr>
<td>1983</td>
<td>559</td>
<td>1016</td>
<td>373</td>
<td>359</td>
<td>718</td>
<td>933</td>
<td>191</td>
</tr>
<tr>
<td>1984</td>
<td>634</td>
<td>1253</td>
<td>382</td>
<td>361</td>
<td>722</td>
<td>1005</td>
<td>209</td>
</tr>
<tr>
<td>1985</td>
<td>678</td>
<td>1354</td>
<td>391</td>
<td>365</td>
<td>800</td>
<td>1162</td>
<td>224</td>
</tr>
<tr>
<td>1986</td>
<td>727</td>
<td>1404</td>
<td>402</td>
<td>359</td>
<td>932</td>
<td>1376</td>
<td>253</td>
</tr>
<tr>
<td>1987</td>
<td>834</td>
<td>1493</td>
<td>414</td>
<td>361</td>
<td>1069</td>
<td>1639</td>
<td>286</td>
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<tr>
<td>1988</td>
<td>1063</td>
<td>1911</td>
<td>444</td>
<td>391</td>
<td>1286</td>
<td>1991</td>
<td>321</td>
</tr>
<tr>
<td>1989</td>
<td>1403</td>
<td>2552</td>
<td>469</td>
<td>376</td>
<td>1516</td>
<td>2385</td>
<td>343</td>
</tr>
<tr>
<td>1990</td>
<td>1692</td>
<td>3348</td>
<td>509</td>
<td>392</td>
<td>1682</td>
<td>2795</td>
<td>375</td>
</tr>
<tr>
<td>1991</td>
<td>1908</td>
<td>3722</td>
<td>559</td>
<td>413</td>
<td>2301</td>
<td>3408</td>
<td>406</td>
</tr>
</tbody>
</table>


### 3. Concentration of Ownership

As the land price rapidly rises, land owners have reaped windfall gains that have aggravated the country's income and wealth distribution. One of the most striking findings by the Land Gongkaenyum Study Committee\(^1\) was the extreme concentration of land ownership.

\(^1\) The government set up the Land Gongkaenyum Study Committee in 1989 to formulate new land policy measures which would solve the land problem once and for all. Mostly based on the committee's report, the government introduced the residential land ownership limit, the development gains charge, and the excess profits tax on land. Literally, land Gongkaenyum is translated as "public concept in land," meaning that society has rights to restrict ownership, use, and disposition of privately owned land for the good of the public.
Table 2 shows that the top 5% of land owners hold 65.2% of all land area owned by individuals. The degree of concentration probably exceeded even the most pessimistic of previous estimates, and is far worse than any indicators of income distribution. The implications of concentrated ownership on distributional issues is clear.2

Table 2. Concentration of Land Ownership by Individuals

<table>
<thead>
<tr>
<th>Ownership Category</th>
<th>Percentage of Total Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 5%</td>
<td>65.2</td>
</tr>
<tr>
<td>I Top 10%</td>
<td>76.9</td>
</tr>
<tr>
<td>II 10-20%</td>
<td>10.8</td>
</tr>
<tr>
<td>III 20-30%</td>
<td>5.4</td>
</tr>
<tr>
<td>IV 30-40%</td>
<td>3.2</td>
</tr>
<tr>
<td>V 40-50%</td>
<td>1.9</td>
</tr>
<tr>
<td>VI 50-60%</td>
<td>1.0</td>
</tr>
<tr>
<td>VII 60-70%</td>
<td>0.5</td>
</tr>
<tr>
<td>VIII 70-80%</td>
<td>0.3</td>
</tr>
<tr>
<td>IX 80-90%</td>
<td>0.2</td>
</tr>
<tr>
<td>X 90-100%</td>
<td>0.0</td>
</tr>
</tbody>
</table>

All individual owners 100.0

Note: As of June 1988. All individual land owners own 66.1% of total national land.

Source: Land Gongkaenyum Study Committee (1989).

One study estimated that capital gains from land in 1988 amounted to 55% of GNP, 60% of disposable income, 135% of employee compensa-

2. Another important question is how such extreme concentration affects the land market. If the large land owners are exercising market power, the market cannot be relied on to achieve optimal allocation of land. However, no evidence suggests explicit or implicit collusion among land owners, and they seem to act as atomistic individuals in a competitive market. Despite the high concentration of ownership, the number of landowners, more than 500,000 in the top 5% bracket, is still very large. It is thus risky to claim that concentration of land ownership is the main reason for the rapid increase in land prices.
tions, and 303% of central government expenditures. If such massive capital gains are divided among land owners by ownership ratio, an average owner in the top five percent bracket received capital gains of 75 million won ($107,000), and one in the top ten percent 44 million won ($63,000). Compared with Korea’s per capita GNP of $4,127 in that year, one can understand the intense emotions surrounding issues related to land.

Korea has suffered aggravated labor relations since 1987, but this conflict over the distribution of production may have been pointless; without addressing the source of the large windfalls from land, it is futile to argue about income distribution.

Policy Responses

Evolution of Korean Land Policies

Before the mid-1970s, the nation was so engrossed in economic growth that the rapidly increasing land prices and their negative consequences tended to be overlooked. In the absence of appropriate policy measures, many land owners, especially speculators who had access to information on development plans, could make a great fortune. The public began to blame speculators on land price increases and the resulting problems, and land policy measures began to appear in special policy announcements in the mid-1970s. For instance, the Price Stabilization Policy Announcement in December, 1973 and the Emergency Presidential Decree of January, 1974, which aimed at alle-

3. Son (1990). It should be noted that these estimates come from a deliberate under-estimation. For a different approach see Lee (1990). Although the results are widely different, the policy implication is the same: the capital gains from land pose a serious distributional problem.

4. A special policy announcement is an expression of the government’s official position on and responses to a particular economic problem. Although it does not have legally binding contents, it states the course of action the government will take to cope with the problem. In a country where the government has had a great deal of power in allocating resources through budgetary and, to a larger extent, regulatory measures, the announcement has exerted an important effect on the economy. It is fair to say, however, its effect has diminished as size of the economy grew and room for arbitrary intervention shrank.
viating pains of the first oil shock, contained measures such as increasing the taxes on speculative gains and on luxury land holding.

The first policy measure specifically targeted at the property market was the Comprehensive Measures for Suppressing Speculation and Stabilizing Land Prices announced on August 8, 1978. At this time Korean construction firms were advancing to the Middle East construction market, and the massive inflow of foreign exchange caused inflation and land price increases. Various measures contained in the announcement such as regulations on land transactions, licensing real estate brokers, increasing the taxes on capital gains from property sale and on holding idle land, and creating the Korea Land Development Corporation were later formally adopted by laws and regulations. Since the late 1970s, the frequency of such special policy announcements and subsequent legislations has accelerated.

As the land policy evolved around the special policy announcements, the perception of the problem and the approach adopted in them were inherited by the land policy measures. The short-term objectives of the special policy announcements thus became those of the long-term policy. Two major objectives of land policy have been land price stabilization and suppression of speculation. Such goals may be politically useful in alleviating the malcontent of the general public, and considering the short-term effects of the special announcements, they may appear attainable even in the long-run. However, lack of long-run effectiveness of Korean land policy measures is evidenced by the rapid land price increase and recurring speculation.

**Land Policy Reforms Since the Late-1980s**

Land prices soared again in the late 1980s. Although the rate of increase was not the highest Korea has seen, its repercussions posed a serious threat to social and political stability. Even with fast rising wages, workers were dismayed to see their income lagging further behind rent or housing price increases, while property owners displayed their wealth by indulging in “excessive consumption.” The government recognized very well that if not properly taken care of, issues surrounding distribution could not only divide the nation politically but also become a bottleneck for further economic development.
From 1988 until early 1991, when price trends began to show signs of letting up, the government introduced one radical measure after another to fight the property price hike. It is fair to say that the government was desperate enough to adopt any idea which promised to help stabilize the land prices no matter what the long-term side effects might be. For now, we will only list them in Table 3, but many will be explained in detail in the following sections.

Table 3. New Land Policy Measures Since the Late 1980s

<table>
<thead>
<tr>
<th>New Land Policy Measure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Land Assessment System</td>
<td>• A sample of 300,000 land parcels appraised annually by licensed professionals.</td>
</tr>
<tr>
<td></td>
<td>• Assessment of 24 million land parcels by land price tables.</td>
</tr>
<tr>
<td>Comprehensive Land Tax</td>
<td>• Applying progressive tax rate, on the total value of land a person or a corporation owns nationwide.</td>
</tr>
<tr>
<td>Compulsive Registration of Land Transaction</td>
<td>• Requires of ownership-change registration.</td>
</tr>
<tr>
<td>Residential Land Ownership Limit*</td>
<td>• Setting the limit of residential Inad a household can own (660m² in major cities).</td>
</tr>
<tr>
<td>Development Gains Charge</td>
<td>• Charge amounts to 50% of development gain (the price of improved land - price of raw land - development expenses).</td>
</tr>
<tr>
<td>Excessive Profits Tax on Land*</td>
<td>• Tax amounts to 50% of accrued capital gains above the normal rate of land price increase.</td>
</tr>
<tr>
<td></td>
<td>• Levied mostly on idle land.</td>
</tr>
<tr>
<td>May 8th Measure</td>
<td>• Requires 50 largest conglomerates to sell land with no immediate business purpose.</td>
</tr>
<tr>
<td>Strengthened Transaction Regulations on Farmland &amp; Forest Land</td>
<td>• Requires real-user qualification for acquisition of farmland and forest land.</td>
</tr>
<tr>
<td>New Town Developments in the Capital Region</td>
<td>• Construction of five new towns around Seoul, which will have over 1 million residents by 1996.</td>
</tr>
</tbody>
</table>

Note: Those marked with* are the Gongkaenyum measures.
Evaluation of Anti-speculation Policies

1. Administrative Problems

As a practical matter, policies aimed at controlling prices are hard to enforce. For instance, the land transaction regulation has restricted buyers and sellers in trading land above certain prices, but instead of complying with the regulation, they submit false documents to get an approval for the transaction.

The anti-speculation policy has not succeeded either, for at least two reasons. First, the effective tax rates on the speculative land is far lower than the nominal rates because of the low assessment and provisions for exemptions and reductions. Second, it is hard to distinguish speculators or speculative land from innocent owners or land. In fact, it is not easy to define speculation in a way operational policy measures can effectively combat. Korean tax codes are full of elaborate criteria concerning whether a certain parcel of land or a land owner is speculative, but we have plenty of evidence that those rules are beyond the daily administrative capacity of tax authorities.

More seriously than enforcement, land taxes and other policy tools have become so distorted that they can hardly function as a tool for redistribution. While the current land policy has every regulation imaginable to punish speculators, land owners deemed to be innocent of speculation are "protected" and subject to low tax burdens. Most landowners successfully avoid unfavorable classification, and despite

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5. Acquisition tax, comprehensive land tax, transfer income tax, excess profits tax on land, and other policy measures contain their own set of criteria. In general, vacant lots are the first candidate, but authorities have found that speculative motives can be hidden behind tennis courts, driving schools, golf ranges, warehouses, pasture land, etc., and made rules for them. Also, if a lot is used under a certain density or yields rent too low for the land price, if farm land or forest land is owned by, for example, an industrial company, or if under certain portion of the property is not directly used by the owner, it is also suspected of speculation. In some cases, the use of proceeds from the property sale is looked into.

6. A speculator, as defined by laws and enforcement ordinances, must pay punitive taxes on acquisition, holding, and sale of land. Purchase of land can be prohibited or severely restricted if the motive is deemed to be speculative, and even compulsory sale of land can be ordered. Apart from legal arrangements, administrative measures such as tax investigation can be employed to punish a speculator.
the increasingly elaborate criteria, the capital gains accrued to the majority of land owners goes under-taxed.

In a word, based on superficial observation and catering to public emotion, speculation has been a main policy target in Korean land policy. As the land policy pursued this unattainable goal, measures addressing the more important problem, distributional consequences of land price increase, have been neglected for too long.

2. Theoretical Considerations

Land price levels are perceived to be too high, and that is interpreted as an evidence of a market failure. Based on this presumption, the government has tried to correct the supposedly failing market by various intervention measures. However, there is little concrete evidence to indicate that the price does not correctly reflect the scarcity of land. On the contrary, we believe that the trend and level of land prices can be explained by a basic supply and demand relationship. For instance, a rapid increase in land price can be explained by the increasing demand and the supply which has failed to meet such demand.

Population growth, changes in demographic characteristics, rising income, and growing economic activities imply increasing demand for urban land. Also, since land is an important form of wealth, any macro variables that affect size and composition of wealth will influence land price. Recent studies have confirmed that changes in the amount of liquidity in the economy, as measured by money supply or current account surplus, have caused land price increases. The exceptionally fast increases in land price of the late 1970s and 1980s are most likely related to the excess liquidity resulting from the sudden boom in overseas construction market or the enormous trade surpluses.

In a normal commodity market, a high expected future price will increase the supply, but in the land market such a supply response has been hampered by regulations on land use and development. Land use regulations are in principle necessary for controlling externality effects, but they often keep the market from satisfying increasing demand by development or redevelopment.

This opinion implies that anti-speculation measures are not called for in order to supplement the market. It should not be interpreted, however, as a denial against the need for land policy reforms. First of all, artificial scarcity of urban land created by excessive and overlapping regulations should be removed so that high land prices can spur more development and supply. Also, institutional arrangements for land development should be improved. Second, although price increases may be inevitable, it can have unbearable consequences which the government should alleviate. In this regard, however, the government should be careful in setting the policy goals and employing the appropriate policy tools.\footnote{For instance, even though housing prices are affected by high land prices, suppressing the land price increase will be of little help to low income families. Land price control is not likely to be effective, but if it is, efficiency loss is inevitable and the main beneficiaries would be mid to high income families. If society desires stable housing conditions for all its members, housing policies designed to meet specific needs of various target groups such as public rental housing programs or better housing finance are inevitable. Indirect land policy measures cannot act as a substitute for such housing policy measures. Similar arguments can be made for problems that high land prices may cause for firms and governments.}

**Land Development and The Role of The Local Government**

**Issues in Land Development**

The standard monocentric city model says that conversion and development of farmland at the fringe of a city will continue until the price of marginal urban land equals the farmland price plus infrastructure investment cost. In other words, if the sum of price of raw land and the cost of infrastructure provision is less than the price of improved land, the development will take place. In reality, this market adjustment is hindered for various reasons.

First of all, most countries have a system of land use regulations such as zoning measures. Land use regulations are justified by the need to
control externality effects among different land uses, but there can be many other policy goals of which there are numerous examples. An area zoned for preservation cannot be developed as easily as an area zoned otherwise. If too much land is zoned in such a way, the normal growth process of a city can be affected. The price of improved land will be higher than the sum of factor costs, but development cannot take place.

Second, land development typically is a large scale project, but a country may have few private sector firms which have sufficient capital and technical expertise for the job. If the private sector is in such a weak condition, the country would probably have a weak public sector as well, and the central government may be the only capable developer. It may directly or indirectly be engaged in land development projects such as major industrial bases or large housing projects. However, this limited supply channel of improved land will usually generate over- and under-supply at the same time in different regions or among intended uses of land. The land market, in fact, is a collection of submarkets organized in each geographic area and for each use of land. Ignoring this feature, accomplishing an aggregate supply target can still fall short of satisfying the demand for land.

Third, even if the private or public sector is up to the task of large scale projects, the development process may not be organized well enough to handle various potential problems. As an example, development gains, the profits from the land development (sale price of improved land minus factor costs), have been a controversial issue in many countries. Unless a social consensus emerges about who should claim which share of the development gains and appropriate measures are implemented by honest institutions, a development project always carries a danger of causing political trouble. In the worst case, the government may simply prohibit any land development for fear that it may arouse a scandal.

As long as land development is worth undertaking, i.e., positive development gains are expected, the government should promote the development process by setting up capable and honest institutions and transparent rules with which a sufficient amount of urban land can be supplied. In the following introduction of Korea's land use regulations and development methods, one should notice how the three issues
Land Development and Taxation

mentioned above are addressed. Korea’s approach is just one of many possible solutions and has its own problems, but some of the problems are expected to be mitigated by giving the local government more power and resources for establishing and implementing local development plans.

Land Use Regulations

The total area of South Korea is 99,263 km², of which about 4.4% is currently used for urban economic activity, i.e., for residential and commercial, industrial, and public facilities (Table 4). Commercial

<table>
<thead>
<tr>
<th>Types</th>
<th>Area</th>
<th>% of National Territory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Land</td>
<td>22,300</td>
<td>22.5</td>
</tr>
<tr>
<td>Farm land</td>
<td>21,855</td>
<td>22.0</td>
</tr>
<tr>
<td>Pasture land</td>
<td>445</td>
<td>0.5</td>
</tr>
<tr>
<td>Forest Land</td>
<td>65,571</td>
<td>66.0</td>
</tr>
<tr>
<td>Building Sites</td>
<td>1,937</td>
<td>2.0</td>
</tr>
<tr>
<td>Factory Sites</td>
<td>246</td>
<td>0.3</td>
</tr>
<tr>
<td>Land for Public Facilities</td>
<td>2,112</td>
<td>2.1</td>
</tr>
<tr>
<td>Schools</td>
<td>190</td>
<td>0.2</td>
</tr>
<tr>
<td>Roads</td>
<td>1,812</td>
<td>1.8</td>
</tr>
<tr>
<td>Railways</td>
<td>110</td>
<td>0.1</td>
</tr>
<tr>
<td>Rivers</td>
<td>2,900</td>
<td>2.9</td>
</tr>
<tr>
<td>Others</td>
<td>4,208</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>99,274</td>
<td>100.0</td>
</tr>
</tbody>
</table>


and residential building sites amounts to 1.9% of national land area. Kim (1991) notes that this ratio has not changed much from 1.2% in 1973; in urban areas, the amount of residential and commercial building sites has increased by 65%, while the urban population has more
than doubled in that period, significantly decreasing the amount of available land per capita.\textsuperscript{9}

Korea's major source of new residential and industrial land is the conversion of agricultural and forest land at the fringe of urban areas, but the conversion process is strictly regulated by the land use planning systems. At the national level, ten planning zones are designated: four for development, five for preservation, and one for mixed purposes. In terms of area, less than 15\% is designated for development purposes. The most important of such planning zones is the urban planning area, which in turn is divided into residential, commercial, industrial, and green zones. Unless an area is designated for residential or industrial development (e.g., as a residential zone or an industrial zone within the urban planning area), a prospective developer must go through a tortuous process of zoning change.

The basic framework of land use regulation is supplemented by a host of overlapping regulations established to achieve specific policy objectives. For instance, the Greenbelt is designated around major cities to prevent urban sprawl, farm land is preserved by the conversion permit system, the vicinities of water supply facilities, historic sites, and military bases are not to be developed, and the Capital region is subject to another layer of land use regulations to stem population concentration. Such regulations often impose more severe restrictions on land development than basic land use planning system.

An important problem of the current regulatory system, and the land development methods which will be discussed shortly, is the lack of local control. Any substantial change in urban planning must be approved by the Ministry of Construction. Greed for power on the part of the central government is one reason for its domination, but lack of expertise and financial resources on the part of the local government is probably the more important reason in explaining this situation. However, local governments have seldom had a chance to acquire skills for planning and carrying out development projects.

\textsuperscript{9} Since rising land use intensity may have contributed to this trend, these figures cannot be the ultimate evidence that the land supply has not been adequate, but Kim provides evidence which confirms that shortage of land has contributed to the housing shortage and price increases.
Two Major Development Methods

The system of land use regulations was established in the early 1970s, and has become increasingly stringent. As the land use regulations have been strengthened, private sector development has become severely restricted. The expected shortage of urban land has been left to be solved by the public corporations under central government control. Several special acts such as the Residential Land Development Act or the Industrial Base Development Act designate public developers, which are to follow one of several standardized development methods taking advantage of their special power in the acquisition of raw land, and preferential treatment in obtaining permits for the planning process and engineering works. After the project's completion, they are obliged to provide inexpensive residential or industrial land to home builders or manufacturing firms.

Land development methods can be classified into several categories, but the most prominent two are land readjustment and public development. The former was popular before the early 1980s, but the latter dominated in the late 1980s (Table 5) (Cho, 1990). The most important distinguishing element between the two methods is the manner in which the raw land is acquired. In the land readjustment method, original land owners retain the title during the development, and after the project is completed, improved land is divided among land owners according to the share of original land value. Part of improved land is sold to finance the infrastructure investment. The developer can be the individual landowner or the cooperative of the landowners, local government, or one of two public corporations, the Korea Land Development Corporation (KLDC) and the Korea Housing Corporation (KHC).

With the public development method, a public developer (local government, KHC or KLDC) acquires, or expropriates if necessary, all the land in the project area before the start of the project, implements a comprehensive development plan, and sells the improved land to final demanders at relatively low prices.

There are two major reasons why the public development method replaced the land readjustment method as the dominant development tool in the mid 1980s. First, a land readjustment project produces
Table 5. Supply of Residential Land by Development Methods

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Development</th>
<th>Public Housing Lot Development</th>
<th>Redevelopment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962-66</td>
<td>24,115</td>
<td>1,112</td>
<td>23,003</td>
</tr>
<tr>
<td>1967-71</td>
<td>90,896</td>
<td>1,017</td>
<td>87,87</td>
</tr>
<tr>
<td>1972-76</td>
<td>82,685</td>
<td>2,735</td>
<td>79,68</td>
</tr>
<tr>
<td>1977-81</td>
<td>78,965</td>
<td>10,471</td>
<td>68,494</td>
</tr>
<tr>
<td>1962-81</td>
<td>376,396</td>
<td>17,335</td>
<td>359,061</td>
</tr>
<tr>
<td>1982</td>
<td>18,390</td>
<td>4,975</td>
<td>10,141</td>
</tr>
<tr>
<td>1983</td>
<td>18,438</td>
<td>7,317</td>
<td>3,009</td>
</tr>
<tr>
<td>1984</td>
<td>20,369</td>
<td>10,901</td>
<td>3,299</td>
</tr>
<tr>
<td>1985</td>
<td>16,603</td>
<td>9,926</td>
<td>1,915</td>
</tr>
<tr>
<td>1986</td>
<td>13,098</td>
<td>8,600</td>
<td>1,858</td>
</tr>
<tr>
<td>1987</td>
<td>15,696</td>
<td>11,583</td>
<td>1,795</td>
</tr>
<tr>
<td>1988</td>
<td>17,645</td>
<td>10,775</td>
<td>2,810</td>
</tr>
<tr>
<td>1982-88</td>
<td>120,239</td>
<td>64,077</td>
<td>37,616</td>
</tr>
</tbody>
</table>

Note: 1) Figures of 1962-81 include Housing Lot Developments under Urban Planning Law.

Sources: Korea Land Development Corporation (KLDC), 1985.
Comprehensive Plan on Residential Land Development.

enormous windfall gains for original land owners even after paying for the infrastructure, public facilities, and other development costs. Such allocation of development gains was not thought to be socially just. Second, since each individual landowner decides the timing and pattern of land use, the quality of residential environments can easily deteriorate and the land may be left vacant for a long time. Shortly after the establishment of the KLDC, the Ministry of Construction instructed local governments of major cities not to start any new land readjustment projects, and the public development became the dominant development method.

The public development method solves the problems of the land readjustment method. The development gains either subsidize the home buyers or manufacturing firms by providing cheap land or are
recaptured by the public entity. A comprehensive development plan is drawn up before the start of a project, and is implemented efficiently. However, the public development method has its share of drawbacks. For instance, it requires substantial start-up capital and technical expertise which most local governments cannot provide. As a consequence, central government corporations such as KLDC have dominated most public development projects. Conflicts often arise between the local government and the developer since the latter try to increase profits by locating the project site where the raw land is cheap rather than choosing the sites local government wishes to develop. Also, the local government resent that the public corporation does not reinvest the profits obtained in the project area.

Another question is whether the public developers have responded to market conditions fast enough. With public developers virtually monopolizing land development, market adjustments which are normally expected with increasing prices are not possible. Public developers' first priority is to accomplish the supply target set by the government. They cannot provide sufficient land if the government fails to correctly forecast the demand or puts higher priority on other policy goals, such as suppressing population concentration in the Capital region over meeting the demand for urban land. We think that the acute housing shortage in the late-1980s is explained in part by the monopolistic structure of the land supply system; the government and the public developers failed to meet the demand for residential land, but the private sector was not allowed to make up for the public sector's failure. The role of the local government was too weak to make any changes to this picture.

Increasing Role of the Local Government in Land Development

Implementing full-fledged local autonomy will be one of Korea's most important experiments in the 1990s.\(^\text{10}\) Local government's first priority will shift from carrying out duties imposed by the central

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\(^{10}\) Local assemblies have been already formed, and there will be elections for local governors in the near future, who will replace officials dispatched from the Ministry of Home Affairs.
government to promoting local industry and improving living conditions of local residents, both of which require sufficient supply of urban land.

Partly inspired by successful examples of a few major cities and partly due to encouragement from the central government, every province and autonomous city set up public enterprise for public development projects. Table 6 shows that among the 261 projects

<table>
<thead>
<tr>
<th>Table 6. Public Development by Local Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Residential Land Development</td>
</tr>
<tr>
<td>Industrial Land Development</td>
</tr>
<tr>
<td>Land Reclamation</td>
</tr>
<tr>
<td>Housing Construction (units)</td>
</tr>
<tr>
<td>Others</td>
</tr>
</tbody>
</table>


being planned or implemented as of 1991 by local governments, residential land development is by far the most active category. If successful, such efforts will better satisfy the local needs and generate substantial profits for local governments.

As local governments become more active in the land development process, they will demand more power for land use planning and managing development projects. The shortage of industrial and residential land in the past several years has convinced policymakers in the central government that more diverse source of land supply is necessary. Since local governments are the natural candidate as new developers, the central government will be more willing to delegate its power. With increased power and, hopefully, the central government assistance, local governments will take up land development projects which would otherwise have been done by the central government corporations. Except for a few major cities the average pro-
ject size will be smaller, and each project will better fit the local conditions than previously.

At the same time local governments will try hard to improve their capacity for planning and development, in many cases by forming cooperative relationship with the private sector. Various forms of the public-private sector cooperation are currently being discussed. For instance, a large infrastructure investment project (e.g., railway station) can include a facility (e.g., department store) which is built and operated by a private firm for a specified period of time. In another form called the Third Sector firm, following the Japanese terminology, local governments and their private partners jointly set up a commercial corporation that undertakes a development project. Luring the private sector capital and technical expertise raises several difficult questions such as whether the proper return should be guaranteed; if so, how the public policy objectives can be ensured. The best formula for the public-private sector partnership has yet to be found.

By accumulating experiences of the private sector’s participation in land development projects as an equal partner with local governments, we can gain knowledge on the advantages and problems of endowing a private developer the land development right, which will be useful in designing a system of private supply of land. If the most prominent feature in land development of this decade is the increasing role of local governments, the private sector development will be that of the next decade.

Small residential land developments by many local governments, by loosening up the monopolistic structure of current land supply system, will have positive effects both on urban planning objectives and housing supply.

Local Taxes on Land

Issues in Local Land Taxes

Taxes on land, especially those on land holding such as the property tax, are an important revenue source for local governments in most countries, although dependency on those taxes varies widely among
countries."

The fact that land, together with structure upon it, cannot be concealed—lowering the administration costs—and that its price fluctuates less—making land a more stable revenue base than most other possible tax bases—explain its popularity as a local revenue source. The property tax, in essence, is a simple tax with small administration cost; the tax authority identifies the property, assess its value, applies a tax rate, and levies it. However, as in the cases of other taxes, it becomes complicated in the real world for several reasons.

First, the property tax is politically sensitive since it is levied mostly on vocal middle to upper class, with little consideration of taxpayers' income. To avoid possible taxpayer resistance, the tax code usually contains provisions to reduce burdens of the property owners in economically weak position, such as the elderly and farmers, or those in politically strong position, such as long-time residents. This usually is done by classifying the properties and applying different tax rates, but in some cases different assessment rules are applied to different properties.

Second, just like other taxes, the property tax can be used to pursue specific policy goals. For instance, the tax can be exempted in an area for a specified period of time to promote industrial development. In Korea's peculiar case, the tax intends to affect the ownership structure, among other things.

Third, assessing property values and levying the tax are not always easy, and require substantial investment to process information about ownership, transaction, actual use, condition of the property, and other relevant features considered in the tax code. Assuming that the tax code is what the citizens really want to the tax to be, whatever the problems may be in terms of horizontal and vertical equity or administrative costs, assessment is probably the most important element of the tax administration. Without a mechanism for smooth flow of information and investment to process it, accurate assessment is hard.

11. For instance, taxes classified as recurrent taxes on immovable property amounted to 30.3% of all state and local government taxes in the U.S., 100% in the U. K., and 3.4% in Germany in 1989. (OECD, Revenue Statistics of OECD Member Countries: 1965-1989, 1990.) The corresponding figure for Korea in 1990 was 16%.
to achieve, and this problem will deteriorate equity of the tax and become a source of taxpayer resentment.

This chapter, concentrating on the land holding tax, introduces Korea’s progressive land holding tax, the comprehensive land tax, and the nationwide mass assessment system.

An Overview of Local Land Taxes

Land taxes by the central government are mostly imposed on the income stream from the property and the capital gains realized at the time of transaction, while the local taxes are levied on the acquisition and registration, and on ownership (Table 7). We will concentrate on the land holding tax, the comprehensive land tax, but before look-

Table 7. Korean Land Taxes

<table>
<thead>
<tr>
<th>Imposed on</th>
<th>National Tax</th>
<th>Local Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition</td>
<td>Inheritance Tax</td>
<td>Acquisition Tax</td>
</tr>
<tr>
<td></td>
<td>Gift Tax</td>
<td>Registration Tax</td>
</tr>
<tr>
<td>Holding</td>
<td>Income Tax¹</td>
<td>Comprehensive Land Tax</td>
</tr>
<tr>
<td></td>
<td>Corporate Income Tax²</td>
<td>City Planning Tax</td>
</tr>
<tr>
<td></td>
<td>Excess Land Profits Tax</td>
<td></td>
</tr>
<tr>
<td>Transfer</td>
<td>Transfer Income Tax</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Special Surtax on Corporate Income Tax</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Corporate Income Tax</td>
<td></td>
</tr>
</tbody>
</table>

Notes: 1) Stamp Tax is surcharged.
2) Imposed on rental income.

12. An important exception is the excessive profits tax on land, a national tax and one of the Gongkaenyum legislation, which intends to recapture windfall gains on an accrual base. For each three-year taxation cycle, the National Tax Bureau announces the normal rate of land price increase, which is the greater of the national average land price increase and the interest rate on savings account, and the gain above the rate is subject to the 50% taxation. To avoid double taxation with the transfer income tax, Korea’s capital gains tax mostly on real property, the latter is reduced by a certain percentage of the former depending on the length of time between payments of the two taxes.
ing into the specifics of land taxes, it should be noted that the central government makes all the rules in Korea. Even for taxes labeled as local taxes, tax codes are established by the central government which define the details of tax bases, rate structures, exemptions and reductions, and collection and appeal procedures.

We should also point out that most property-related local taxes make a clear distinction between land and building. The distinction apparently is not compelled by the Henry Georgian spirit, since buildings are also taxed frequently by the same taxes as those on land, possibly at higher rates.

**Comprehensive Land Tax**

Korea’s land holding taxes used to be levied at fixed rates on the value of each land parcel. In the late 1980s, a broad consensus emerged that the land holding tax should be increased to deter speculative land holding. Also, as the true dimension of ownership concentration emerged, heavy tax burden was called for to discourage large land holdings. The comprehensive land tax was introduced for this purpose. It would sum up values of all the land holdings of an individual or a corporation, and apply progressive rates.\(^\text{13}\)

A progressive rate structure is certainly not a desirable property in terms of neutrality, horizontal equity, administrative costs, and fiscal autonomy of local governments, but the choice was made to selectively increase the tax burden of large land owners. The original idea of the comprehensive land tax, however, aroused criticism for different reasons, and the final outcome of the controversy was a compromise of three ideas: first, advocating the indiscriminate aggregation of all land holdings; second, intent on penalizing “obviously speculative” holdings; third, opposing any tax increase for “innocent” land holdings. The tax rate structure includes three fixed rates and two progres-

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\(^{13}\) Progressive rate structure was introduced in 1987 by the excess land holding tax which the comprehensive land tax replaced, but the difference of the two is that the excess land holding tax applied progressive rates only to land presumed to be speculative holdings, while the comprehensive land tax originally aimed to broaden the tax base to all land.
sive rates as shown in Table 8. Low fixed rates for factory sites and farm land, and a high rate for luxury land are the same as in the old property tax, but now residential land, commercial land, and supposedly speculative land holding are subject to one of two progressive rates.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Land Type</th>
<th>Number of Brackets</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rates</td>
<td>Factory site</td>
<td>-</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>Farmland tilled by owner</td>
<td>-</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>Luxury property</td>
<td>-</td>
<td>5.0</td>
</tr>
<tr>
<td>Progressive</td>
<td>I. Speculative land and</td>
<td>9</td>
<td>0.2~5.0</td>
</tr>
<tr>
<td>Rates</td>
<td>residential land</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>II. Commercial land</td>
<td>9</td>
<td>0.3~2.0</td>
</tr>
</tbody>
</table>

The first progressive rate, which applies to speculative land as well as residential land, is a penalty only to the truly large land holders, since it only reaches 1% marginal rate when the assessed value is as high as 500 million won. The second progressive rate with more mild progressivity is applied to commercial building sites which usually occupy expensive land in downtown areas.14

Applying progressive rates is possible only when the ownership of all land is computerized nationwide. After five years of preparation, the Ministry of Home Affairs currently runs a computerized land ownership record system and determines the amount of tax for each individual. The amount of tax owed is then divided in proportion to land values among localities in which the owner holds land, and each local government is responsible for collecting its share.

14. Farmland, factory site, and building site can be subject to the first progressive rate if determined to be speculative.
Assessment of Land

At the core of the problems of land taxes, both national and local, there used to be the issue of assessment. For the purpose of local taxation, local government officials are supposed to assess the unit value of each land parcel every year and set the Current Standard Value for Taxation (CSVT), which is then written on the official record of the parcel.\(^\text{15}\) However, local governments have not bothered to accurately assess land values. Even when land prices increased rapidly, the CSVT was raised only slightly in part because they did not want to offend land owners and in part because much of revenue shortfall would come from the central government. Nationwide, the CSVT is between 15% and 20% of the market price. As we have seen, holding tax rates are quite low, but the low assessment ratio makes the tax insignificant to landowners and renders land taxation ineffective in achieving any policy goal. Table 9 shows the effective average tax rates for eight land values which correspond to the bracket boundaries of progressive rate 1. In 1990, 93.56% of taxpayers belonged to the lowest rate bracket, and over 99.9% of them paid less than 0.09% of the land value. Whatever the policy objective of the comprehensive land tax may be it cannot be achieved with such a low effective rate.

The more worrisome aspect is that the assessment ratio shows a great deal of variation among regions, uses, and individual parcels.\(^\text{16}\) Usually a group of land with higher prices and higher rate of price

\(^{15}\) To calculate the tax base of the transfer income tax, the National Tax Bureau employed a scheme to narrow the gap between the two prices. In large cities and other areas where speculation was feared, they announced multiplication factors which were multiplied to the CSVT to produce a price used in taxation. Since the gap between CSVT and the market price varied parcel by parcel, multiplication ratios were usually low enough not to over-value too many land parcels; with the multiplication, the price used in transfer income tax was considered to be less than 80% of the real price on the average. The most important problem of this scheme, of course, was the inequity between the land which was subject to the multiplication rule and the land which was not.

\(^{16}\) For instance, Seoul has lower average assessment ratio than other major cities which, in turn, have lower ratios than small cities or rural areas. Among different uses of land, farmland has a higher average assessment ratio than land for urban use.
Table 9. Average Effective Rates of Comprehensive Land Tax (Progressive Rate I) (unit: million won)

<table>
<thead>
<tr>
<th>A. Tax Base (Assessed Value)</th>
<th>B. Amount of Tax</th>
<th>C. Market Value of Land</th>
<th>D. Average Effective Tax Rate (B/C, %)</th>
<th>E. Cumulative Ratio of Taxpayers (1990, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>0.04</td>
<td>133.3</td>
<td>0.03</td>
<td>93.56</td>
</tr>
<tr>
<td>50</td>
<td>0.13</td>
<td>333.3</td>
<td>0.04</td>
<td>98.42</td>
</tr>
<tr>
<td>100</td>
<td>1.38</td>
<td>666.7</td>
<td>0.06</td>
<td>99.46</td>
</tr>
<tr>
<td>300</td>
<td>1.78</td>
<td>2,000</td>
<td>0.09</td>
<td>99.91</td>
</tr>
<tr>
<td>500</td>
<td>3.78</td>
<td>3,333.3</td>
<td>0.11</td>
<td>99.96</td>
</tr>
<tr>
<td>1,000</td>
<td>11.28</td>
<td>6,666.7</td>
<td>0.17</td>
<td>99.98</td>
</tr>
<tr>
<td>3,000</td>
<td>51.28</td>
<td>20,000</td>
<td>0.26</td>
<td>100.0</td>
</tr>
<tr>
<td>5,000</td>
<td>111.28</td>
<td>33,333</td>
<td>3.03</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: Assessment Ratio is assumed to be 15%. Number of total taxpayers subject to the progressive rate I was 7,549,350.

Increase is assessed at a lower assessment ratio; the wealthy pay relatively less tax. In addition to the inequity problem, lack of assessment uniformity poses an obstacle in using the tax as a land policy tool. For instance, the government may decide to correct ownership structure by increasing the tax burden of large land owners. Raising the nominal tax rate, however, will aggravate the equity problem due to the varying assessment ratios to an unacceptable level.

These problems of assessment have been well recognized, and the Ministry of Construction managed to pass a law in 1989 to improve land assessment. Under its provision, a sample of 300,000 parcels nationwide is annually evaluated at full market value by licensed appraisers, and the rest of the 24 million privately held parcels are assessed using land price tables.

17. A regression analysis of the assessment ratio reveals that 5-year cumulative land price increase has positive influence on the assessment ratio, but 3-year cumulative increase has a negative effect. It tells us that the assessment lags behind the land price increase for at least three years. See Son (1993).

18. Each land price table is based on multiple regression analysis of a particular land market, and civil servants need to look at only one table to assess all the parcels in that market. See KLDC (1989) for a comprehensive explanation about how the land price tables are made and used.
The first nationwide assessment of all privately held land was completed during the summer of 1990, and from 1991, national taxes on land have been imposed on that base. "Gongkaenyum" measures have also adopted the new assessment base. The government, however, failed to link the new assessment system with the comprehensive land tax because of the objection from the National Assembly which feared that the new assessment standard would raise the tax burden. The government nevertheless plans to adopt the new assessment system as the base for the comprehensive land tax by 1996. It will simultaneously adjust the nominal tax rates lest the change in the assessment standard should result in a sudden tax increase for most land owners. This change in assessment will have a far more substantial impact than any proposed changes in tax laws.

**Land-Related Information System**

Formulation and implementation of any policy requires accurate information, but the current land-related record system needs a great deal of improvement. The proposals made for improvement include: unification of the two records into a single system, correctly representing all related information, computerization of the information with a broader scope (links to national identification card and household data base, and to building records), and the initiation of a Land Census which will update necessary information once and for all.

As the first step toward improvement, the National Assembly passed the Compulsory Property Registration Law in July, 1990 which makes non-registration a criminal offence. Despite some doubts of its conformity to the principle of free transaction, this law will deter major forms of tax evasion and enhances the effectiveness of land taxes.

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19. Currently, two official records exist for each parcel of land. One is used for taxation and other administrative purposes, and the other, kept by the judicial court, shows various property rights related to the parcel and concerned individuals. The problem is that one or both of the records frequently contain defective information, and they may conflict with each other.
Lessons From Korea

As a country goes through a rapid industrialization process, it may stumble upon the land problem as characterized by soaring land prices and speculation. Some phenomena commonly perceived as problems are in fact inevitable by-products of development, which can have a positive effect in terms of resource allocation. However, different aspects of the same phenomena may have to be addressed by policy efforts. For instance, the price increase of land in general or in specific areas may be unavoidable, but windfall gains from the price increase should not be allowed to deteriorate the income distribution.

In such policy efforts, local governments can assume an important role as a provider of improved land and as enforcer of land policy measures. Korea is on the extreme end of the scale for its sufferings from the land problem, and has probably had too many trials and errors. Other developing countries may learn from the Korean experience, in part from its failures, what should and should not be done, and what policy options they may have. As a conclusion of this paper we will list several points that policymakers should bear in mind.

Land Policy Goal

Soaring land prices should alarm policymakers since they will increase factor costs for economic activities and may worsen income distribution. If the land price increase stems from expanding urban economic activities, supplying improved land for the purpose should be the policy response. If the price increase is due to macroeconomic mismanagement, no micro-level supply or demand control measures will have any significant effects.

Rising land prices will invite speculation. However, speculation seems to be the process by which the price increase is realized, rather than an independent cause of land price increases. Once the government tries to suppress speculation, it is stepping into quicksand. The policy tools become unmanageably complicated, and altogether ineffective. Instead of speculation activity per se, the government should focus on the real cause of land price increase and try to tax speculative gains just as other sources of income. These of course are a diffi-
cult task, but the point here is that selective punishment of speculators is not possible. If political pressure makes some sort of anti-speculation policy inevitable, the most simple measures, such as penalties for vacant land, may be considered.

Land Use Regulations

Land use regulations are essential to control the externality effects, but too much land can be tied up for impractical or trivial policy objectives. The central government may draw lines which do not fit the local conditions, or local governments may exercise fiscal zoning which incurs high costs to the nation. National and local interests should be balanced so that sufficient amounts of land can be supplied for growing urban economic activities.

Since most externalities from a particular land use form are locally confined, the primary regulatory power should be given to the local governments. The central government, however, should retain a degree of power to protect the national interests. In this respect, domination of the central government in Korea does not serve as a good model. The government fears that local governments are not capable or honest enough to handle the matter which affects the living conditions of many people and can make or break a great fortune. One should ask, however, if local government planners have ever been given a chance to sharpen their skills, and if the local political monitoring system has been allowed to mature.

Development Methods

Land itself cannot be produced, but land for specific use can. Land development, usually a conversion of farmland and forest land into urban-type land, is such a production process. As in other production processes, land development requires various inputs, including substantial capital, and the final product must be attractive to consumers both in terms of price and quality. However, careful planning is important since any alteration or reversal is extremely difficult once the development is completed and the improved land begins to be used. Also, the profits from development can raise political problems.
It is desirable that a potential developer be offered a set of standardized development methods. They should specify the qualification of the developer, planning and approval process, acquisition of raw land and compensation, financing methods, implementation of the development plan, administrative supervision, terms of improved land sale, and division or taxation of development gains. Both land readjustment method and public development method have their own merits, but the mix of the two and other inventions seem possible.

Even after paying for infrastructure investment, land development should generate profits, or development gains, which can be used to subsidize low income housing and industrial development in the form of inexpensive land supply, or to finance other development projects. If a project cannot pay for itself, it probably is not worth undertaking unless other considerations justify government subsidies on the project.

Since the sale price of improved land cannot exceed that of comparable land in established urban area, development gains critically depend on the acquisition price of raw land. However, if the price of undeveloped land has already been pushed up, the development will only result in huge windfall gains to land owners. This problem deserves serious consideration in drawing up the standardized development methods. Whether the land owners become the developer or some other entity acquires land from them, the raw land should be appraised without consideration to the project itself and given compensation accordingly.

To keep the land price low, the government may decide to freeze the land by planning measures until conditions for development mature. In that case, difficult questions arise about compensating for the planning loss, and the government’s ability to decide on the optimal development timing. Some recommend that potential development sites be acquired long before, but few developing countries have sufficient resources for such a land banking activity. At the least, sales of public land should be restrained if the land is expected to be developed in the future.
Development Institutions

Since a monopolistic developer cannot satisfy a wide variety of demands, both national and local level developers, possibly competing against each other, are needed. If the government wants to monitor and control the development gains, setting up public development corporations is in principle better than directly undertaking development projects since the development process requires specialized expertise. However, at the local level, the frequency of the projects may not justify establishing a separate organization.

Whether local governments decide to set up public corporations or to carry out a project directly, it has an advantage over other developers in assessing the local demand for improved land, exercising its planning power to facilitate the project, and using the public land located in the project site. However, local governments frequently lack financial resources and expertise. The central government, or the public corporations under its control, should aid local governments by fetching experts to the local government or by providing preferential loans through specialized financial institutions. Also, cooperative relationships with the private sector should be encouraged.

Purely private development may not be ideal unless a due procedure for recapturing development gains functions properly. For instance, the local government may negotiate with the firm to provide land or facilities for public use, but without public acceptance of official’s integrity such a deal can draw suspicion. A tax on the development gains can also cause a similar problem, albeit to a less degree, since assessing development gains is difficult.

Land Holding Tax

The importance of the land holding tax among local revenue sources varies widely. If it is a major revenue source with high effective rate, every minute detail of the tax code will draw attention from tax payers and the tax will have significant effects on real economy. The single tax movement seems to be meaningful under such conditions, as in the case of the U.S.
However, in many developing countries, the land holding tax is only a minor revenue source and the effective tax rate is low for various reasons: the ownership of the land may be unclear, record keeping defective; identification of a land parcel difficult, and assessment technique primitive. Under such conditions, the government should try to build up an essential information base to make the tax workable. A single record keeping system which can be used for tax purposes and as definite proof of ownership is desirable.

The government should refrain from using the land holding tax as a tool for specific policy goals, especially when the effective tax rate is low. Also, if the central government has the power to endow tax exemptions and reductions for national purposes, it should make up for the lost revenue to the local government.

**Assessment**

Confined to the land holding tax, using the full market value of the site as tax base or only part of it makes little difference, because the nominal tax rate can be adjusted to attain a desired effective rate. The real issue is the assessment uniformity which ensures horizontal and vertical equity of the tax. However, an accurate assessment can be important for other taxes, e.g., capital gains tax, and charges, e.g., development gains charge. It is desirable for all tax authorities to share a single assessment system which keeps track of the full market value of each land parcel. If the tax code requires it, the tax authority can use a certain percentage of the market value as a tax base.

Building up such an assessment system requires that the assessors gather information on actual sale price, decide if the transaction is not an arms-length sale, and infer from this information the price movement of other parcels. The Korean system bypasses the difficulty of information gathering by employing licensed appraisers to evaluate a nationwide sample of land parcels. The assumption that the appraisers can find the full market value certainly is an optimistic one, but we should admit that land is relatively homogeneous and easy to appraise, at least compared to the structures upon it. Once price data from a reliable sample of land parcels are gathered, simple multiple regression techniques can be applied to construct mass assessment system.
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Note: Materials marked with * are written in Korean.
THE LAND INFORMATION SYSTEM IN KOREA

Woo-Suh Park

Introduction

Land related problems in Korea are caused mainly by a limit in usable land, or an absolute limit in supply. As the population has grown, and social and economic prosperity has been achieved, demands on land continuously increase, with the inevitable effect of escalating land prices. In addition, various public and private businesses contribute to price hikes to a certain extent. Attempts have been made to control the excessive escalation in land prices. Unfortunately, there is a lack of specific measures that support market management and use regulations; consequently, profits from land development are realized primarily in the private sector. The public sentiment recognizes that if land is purchased, immense profits are obtainable, with minimal possibilities of future losses. This triggers a certain “buy land first” mentality. Inflation has been serious every year and there are few other alternatives for investment. Thus, surplus funds are concentrated in the real estate market, causing an abnormal overheating of market conditions.

If the administration of land use regulations and market management could be adequately carried out, such side effects could be minimized. However, the reality is that land price escalation is accelerated by a constant artificial demand for land by speculation. Unearned income from speculation re-enters the market as speculation funds, leading to a severe imbalance in land ownership.

Current land tax administration fails to counter this phenomenon effectively. Present policies render comparative advantages to long
periods of land possession without transfers, and thus hinder adequate land supply and development. This situation has also caused an unequal distribution of land ownership. Additionally, though prices have risen, efficient land utilization has rarely been achieved.

Since the 1970s, this cycle of land problems has caused periodic surges in land speculation that have threatened the stability of existing neighborhoods. A series of counter measures\(^1\) have been devised to tackle these problems. However, it is difficult to conclude that these efforts have had beneficial results. Several different factors may have contributed to this lack of success, but inaccurate land related information is the fundamental cause. Some examples include multiple public land price systems, discrepancies between land registration and the cadastre (the cadastre system being segregated into the two categories of forest lands and real estates), and the absence of an accurate information system concerning the real estate market.

The aforementioned problems point out the need to establish a Land Information System which would assist in the effective establishment and administration of land policies and contribute to the efficient management of land. The major objective of this paper is to present possible alternatives for the formation of such an information system.

**Analysis in the Existing Computerization of Land Records**

A precondition for the establishment and administration of effective land policy which maximizes the efficiency of land use is the development of a Land Information System. Problems associated with analyzing Korea’s land administration system are due to a lack of an adequate Land Information System and confirm the need to establish such a system: This paper will review problems in the existing computerization of land records, and put forth recommendations for the development of an efficient Land Information System.

Current land record data consisting of computerized data from official cadastre documents, derived from land and forest registers, is

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\(^1\) The so-called 8.8 measures were introduced on August 8, 1988 to curb land speculation. The most notable in these measures is the Comprehensive Land Tax System.
primitive in form and lacks accuracy. Errors made during the inputting process and the exclusion of information vital to long-term planning make it an incomplete Land Information System. One advantage of computerizing land records is swift access to basic data needed for the establishment of land policies. It should have two basic functions. One function is to acquire up-to-date accurate information on land possession and usage on the part of individuals, corporations and groups. The other function is to collect, store, update and manage data for future land policy decisions. The current system seems to fulfill only half of the objectives that the Land Information System should achieve. While it is expected to improve the efficiency of land management and administration, there are problems in the system, and computerized land record data lacks credibility. Difficulties in the management of land records and imperfections in the Land Information System add to the problem. These issues are reviewed and analyzed below.

### Problems in the System

#### 1. The Physical Configuration of the Land Register

As mentioned earlier, the source of computerized data on land records is primarily land and forest registers. Fortunately, land registers include the resident registration numbers of land owners, allowing the total land owned by an individual to be traced with the use of computers. However, this is a very costly and time consuming task. If efforts to conceal ownership are made, it would be difficult to accurately track specific land ownership throughout the nation. Furthermore, no resident registration numbers are listed for land owned by corporations. To make matters worse, in many cases, the resident registration numbers of individuals owning land have been omitted. For example, in 1986, in the City of Chun-Ahn, the total number of lots owned by civilians was 47,276. In 3,291 cases, resident registration numbers were unlisted, accounting for 6.96% of the

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total. 43,985 cases had accurately listed the resident registration numbers of land owners. Of Chun-Ahn’s total of 84,818,760 square meters, 78,600,139 square meters (93%) had accurate data on ownership with information on the remaining 7% (6,218,622 square meters) difficult to confirm.

There are several examples of similar cases in other areas. In Dae-Jun City, of the 105,550 privately owned lots, 23,176, or 21.96% were lacking ownership registration information. The percentages of omitted resident registration numbers in the Choong-Book province of Jin-Chun Gun and Eum-Sung Gun were 24.14% and 43% respectively. This omission of data in the Land Information System undermines the accuracy of the system and makes basic assessments of land ownership difficult.

2. Difficulties in Understanding Land Use Patterns

Land registers include information on regional land use, but in many cases related information is either omitted or different from actual circumstances. Therefore, this information fails to provide the data needed to establish appropriate urban planning and land policy. This problem is caused by incompetent management of official land registers and insufficient cooperation among related departments. For example, there is a lack of coordination between the Urban Planning Department and the Cadastre Management Department, which causes problems in amending information on urban planning and reclassifying land.

3. Multiplicity in the Organization of Land Administration

Any organization that administers land related policies is a land administration organization. There are 16 of these organizations within the central government alone. They include the Ministry of Construction, which covers land use regulations and land development/supply statistics, and the Ministry of Home Affairs, which is in charge of cadastre management and land taxation duties. In addition,

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5. KRIHS, op. cit., pp. 281-282.
there are numerous local autonomous entities that conduct land administration functions. With land administration carried out by multiple organizations, many functions are duplicated, leading to inefficient spending of the national budget. The complexity of the data and frequent contradictions in its contents have undermined the credibility of land information. The lack of coordination and control of these fractionalized duties and multiple departments is an even bigger problem. Examples can be found in the process of establishing provincial plans to accommodate the 2nd National Comprehensive Land Development Plan. For instance, there is debate about how provincial officials should react to conflicting policies between departments of the central government. There are other cases where local governments receive different guidelines on identical issues from the Ministry of Construction and the Ministry of Home Affairs.

The need to breakdown and specialize functions for different organizations is fully recognized. However, the lack of coordination and control presents problems like squandering the national budget and overlapping duties.

Problems in the Credibility of Computerized Land Data

1. Difficulties in Identifying Land Owners

The physical configuration of the present land register, which includes many lots for which the owner’s identification has been omitted, contributes to the inaccuracy of land data. As stated earlier, this problem can be observed not only in land owned by individuals but also in land owned by businesses. There are no numbers or codes that corporations can be identified by, and therefore the lands owned by corporations with identical company names cannot be separately classified. The result is that the accuracy of land information is diminished.

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2. Clarifying Individual Portions of Land with Joint Ownership

In the case of land owned by more than one person, there is no clarification on the actual portion of each owner posing an additional problem relating to the credibility of land information. Land with joint ownership usually goes through a series of divisions or merging in property and during this process the common denominator varies, making the calculation of individual portions extremely difficult. With clarifications of individual portions unavailable, information on land owned by individuals lacks credibility and accuracy.

3. Difficulties in Identifying Actual Land Owners

In many cases the land owner listed in the land registry will differ from the actual owner, causing problems in applying land information for taxation purposes. Supplementary information such as family registers are not submitted. Therefore, it is hard to detect cases where a family member is falsely listed as the owner in order to evade taxes. This also contributes to the inaccuracy and lack of credibility of land information.

4. Inaccuracy of Data and Errors in Data Processing

The inaccuracy of computerized data also detracts from the credibility of the information. There can be errors in the outdated data itself that fail to be corrected, and additional errors occur during the inputting process. If errors on size or land classification are made, the consequences can be grave and once again lead to skepticism regarding information accuracy.

Problems in Land Record Management

1. Divided Land Registry Management

Strictly speaking, this issue is a systematic problem and can be resolved only in that context. However, this paper shall deal with this matter in the perspective of cadastre management. Efforts should be made to unify the cadastre and land ownership registrations, to mandate registration, and to restore public confidence in land ownership registrations. Real estate ownership registration in Korea is one
method that could stabilize real estate transactions. However, the registration ledger is not recognized as a document of public confidence. Real estate acquisitions made on the basis of land ownership registration ledgers may be lost if the actual rightful person claims that the contract is nullified. In other words, the main problem in the Korean system is that there is no public confidence in land ownership registrations because of its decentralized nature. There are serious problems related to the segregation of authorities that manage the cadastre and the land ownership registration. Land ownership registration is supervised by the judicial system while the cadastre is controlled by the Ministry of Home Affairs. This leads to inefficiencies in administration, problems in interdepartmental information sharing, uncertainties in information, and inconveniences for the public in accessing information from several offices.

2. Problems in Cadastre Management

The Korean cadastre still remains at the level of being a “Fiscal Cadastre” and has yet to be integrated with the land ownership registration. Recently, there have been efforts to integrate the cadastre and the land registry to form a “Legal Cadastre,” but the results have not been wholly fruitful. Cadastral laws and a multipurpose cadastre are not indispensable in the establishment of a Land Information System. By studying present systems we find that the function of land management is divided among different agencies and often redundant. Therefore, cooperation between related agencies is required. However, at present it is difficult to envision coordination and control among related bodies. The problems related to transforming existing computerized land records into a Land Information System are threefold.

First, the computerizing process in Korea differs from cases in Europe where automatic land surveying is transferred to the cadastre, and land registry and ownership registration files are computerized accordingly. One of the basic elements of computerizing land records is the automation of land surveying. Land surveying functions are

diversified, making the simple automation of land record surveying duties insufficient for the establishment of a Land Information System. In Korea, the objective is to computerize only the land registry in order to comprehend land ownership situation. Thus problems emerging from trial and error are anticipated.

Second, besides computerizing the cadastre, there should be efforts to broaden its meaning, so as to accommodate the establishment of a Land Information System. In Sweden and Germany, buildings and fixtures like underground facilities are included in the scope of the cadastre. Though cases differ slightly with each nation, the cadastre and land ownership registration are either integrated or are closely linked and computerized. This indicates the need to interpret the cadastre under a broader perspective.

Third, in Korea's case, priorities are put on the temporary prevention of speculation and on taxation data. This sort of hastiness is likely to lead to mistakes. In European nations, for example, the computerization of land records was supported by the long-term accumulation of technical know-how derived from research programs and the training of research personnel in universities etc. Instead of setting up a "bottom-up" national network that starts out from accumulated data from the field and goes on to provincial computers and a central computer center, we are resorting to a "top-down" network that is set up and operated by the central government. This eliminates the autonomy of field agencies and makes the accumulation of technical know-how and the training of specialists difficult. Many point out that there are risks in centralizing information.

3. Problems in the Management of the Land Register

According to the third phase of plans promoted by the Ministry of Home Affairs, duties related to the cadastre will be processed through computers in all local field agencies. This will facilitate public services and allow employees to use their work time more efficiently. But at the present time, the excessive workloads make timely corrections and supplements in the cadastre difficult. As witnessed in the case of
Chun-Ahn City, among a sample of 200 records of the cadastre, 13 records, about 7% of the total, could not be verified. In these cases, the cadastre had not been reorganized after the development of an apartment complex had merged land into a large scale lot, making it impossible to trace the cadastre of certain lots. This raises serious doubts about the credibility of land information.

**Imperfections in the Land Information System**

1. **Lack of Linkage with Land Use Planning Data**

   In order to fulfill the goal of making land policies efficient, coordination between computerized land records and land use planning data is needed. There should be close connections between basic information on urban planning laws, national land use and management laws, and data in actual land use forecasts of socioeconomic conditions of assigned areas. Only then can modifications be made and information exchanged. In order to provide timely and appropriate connections between related systems, the existing computerized land record system must convert and develop itself into a Land Information System. The current system has merely computerized the contents of the cadastre and contributes little to the efficiency of land policies.

2. **Imperfections in Computerizing the Cadastre Map**

   Socioeconomic changes have led to a rise in land values and the improvement of land usage. There are demands for the utilization of even minimally sized parcels of land, and the cadastral map needs to be reorganized to adjust to these needs. The precision of points on the cadastre should be improved with new surveying methods and equipment that could enhance land restoration. In order to make the current system a Land Information System, the cadastral system must be organized to accurately define land space, and cadastral maps must be automatically produced so that restoration abilities may be improved.  

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Unfortunately, these requirements cannot be sustained within the existing system.

3. Insufficient Connections with Other Land Related Informations

Land related materials are essential to the establishment of land use plans, and include data on the physical and external characteristics of land, such as geology, contours and altitudes and data on the socioeconomic characteristics of residents. This data should be systemized and closely linked to the Land Information System in order to set efficient land use and long-range plans. In Korea, this data lacks interconnections. A data system, should be able to assess trends in land policies as well, once again underlining the need to introduce a Land Information System.

Directions for a Land Information System

This paper will discuss points to be considered in the transition from computerized land records to a Land Information System in relation to the technical aspects and administration of the system.

Mitigation Measures for the System

Land information must be accurate, reliable and credible. Aside from the sheer magnitude of data, the fact that land information is stored and filed according to multiple functions illustrates the need for information to be automatically stored and processed. To allow the government and individuals to use such information freely, legal support or basic guidelines for the production, use and supply of such information must be provided. For example, a "Land Information Management and Use Act" (tentatively named) could be devised as a supporting measure for the establishment of a Land Information System. To systemize such a Land Information System, efforts should be focused on reforming related laws, including the cadastral law, the real estate registration law, the real estate brokerage law, the national land use and management law, the urban planning law, and government organization law. The issues can be summarized as follows.
- Issues relating to the management and use of land information
- Supplying land information and establishing a cooperative system between related organizations
- Restructuring the formats of official documents
- Civil protest procedures
- Issues related to usage areas
- Connections with the public land price system
- The notation system
- Unifying the cadastre and land ownership registration
- Mandating land ownership registration

Mitigation Measures for Administration

Problems caused by the multiplicity of land administration organizations, namely the redundancy of information and diminished credibility, have already been addressed along with problems arising from the non-existence of coordination and control among related organizations. In order to resolve these problems, a device that can coordinate and control organizations and provide an adequate data collecting system is desperately needed. A good example would be the Land Information System of Wyandotte County, Kansas, which received an award from the Urban and Regional Information System Association (URISA).\(^{12}\) All of the county's offices in need of land information set up a permanent consulting organization which minimized friction and conflicts of interest between offices. An autonomy of functions was maintained. By building a data cooperation system, they managed to establish a comprehensive information system. Efficient management of the land information system can be achieved by forming a permanent consulting body that covers all related organizations. A data cooperation system could be provided and disputes could be mediated, making the operation of a comprehensive Land Information System possible. Another major problem is how to firmly anchor the Land Information System so that land information which is collected,

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stored and processed can be immediately accessible. Sufficient time should be spent for research on constructing a nationwide "bottom-up" network that starts out with data accumulated in the field which then goes on to provincial and certain computer centers. If this is not accomplished, a "top-down" network that delivers technology and personnel from the center to the field may result. This would lead to the problem of reinforced subordination. The establishment of a "bottom-up" Land Information System avoids this problem. This system could be supported by accumulated data provided through extended research and training. In this regard, the formation of an information consulting body that can coordinate and control information gathering is an indispensable requirement. In order to efficiently operate the Land Information System, the duties of civil servants in charge of the system must be clarified. The following points need clarification:

1. The magnitude of assigned areas and land registration
2. Responsibilities of the cadastre managing office and competent authorities
3. Ways to appeal to different opinions and management procedures
4. The validity and scope of registration
5. Time and method of transferring coordination responsibility
6. Responsibilities of concerned civil servants
7. Guaranteeing individual confidentiality

The majority of land information is related to individual property rights, and the establishment of a Land Information System could violate a person's right to privacy. Therefore, caution must be taken to respect privacy and prohibit opening private property lists that are irrelevant to the management of land information. Opportunities for the public to use this system need to be guaranteed as well.

**Technical Mitigation Measure**

As previously mentioned, current computerization relies solely on the cadastre documents, thus its potential use towards the establishing a Comprehensive Land Information System is severely limited.
We need a comprehensive land information database that covers taxation data, current land use situations and legal informations concerning the limits on property rights, in addition to the cadastre. This would provide an "Urban Planning Data Base" and a "Socioeconomic Data Base." By strengthening the relationship between the two, a so called "master file" on land information could be created. The flow chart illustrates this concept.

After a master file on land information is established, the user can obtain desired results with the use of a computer. In addition, an operation system that controls and operates the overall system would be required. Subsystems responsible for the analysis and processing of data will also be needed. The establishment of a Land Information System would:

1. facilitate the reprocessing and organization of land information
2. provide immediate and accurate land information
3. make efficient national land management possible
4. contribute to basic steps towards unifying the cadastre and land ownership registration
5. and, above all, contribute to suppression of speculation and the establishment of future land policy.

As mentioned earlier, in order to obtain such a system, the cadastral law and real estate registration laws must be reformed. There must be supporting measures like the formulation of a “Land Information Management and Use Act (tentative).” We cannot expect these improvements to be achieved over a short period of time. Unifying the application offices for the cadastre and land ownership registration, introducing compulsory land ownership registration, and applying a public land price system are goals for the near future. On the other hand, constant research and training on the Land Information System within academic and professional circles would allow all objectives to be gradually achieved. Another technical aspect to be considered is the computerization of cadastral maps. The advantages of doing so include swift computer processing of civil complaints on the cadastre (including official cadastre documents and corrections in land classification), and training and technical improvements resulting from local administration and computerization of statistics. This could lead to technical innovations in local administration. The following points require further review as well:

1. Clarifying the scope of a lot as the basic unit of land
2. Expanding the existing concept of land in order to introduce a multi-purpose cadastre system.

The term “multi-purpose” refers to the capacity to recover diverse information on the physical, legal, social and economic aspects of land. Such a cadastre would show the dynamic aspects of land on a lot-by-lot basis. The cadastre would progress from a tax cadastre to a legal cadastre that protects property rights and assumes legal validity. Ultimately, it would evolve into a multi-purpose cadastre that serves various regulations and includes diverse information.14 In this context, the scope of a lot should be extended to include underground facilities (with a multi-purpose cadastre introduced to accommodate the fuctions of the Land Information System).

Conclusion

Land speculation has threatened the stability of the land market from the 1970s. Yet suppression measures and land policies have failed to achieve their goals mainly because of the non-existence of a comprehensive Land Information System.

Moreover, with the implementation of local autonomy, public development projects carried out by local governments should play active roles in these projects only when they comply with comprehensive long-term plans. At present, many areas are without long-term regional development plans and the central government is not equipped with an information system that can provide a comprehensive understanding of land characteristics. Fractionalizing functions may cause redundancies in duties that squander the budget. In order to coordinate local and central government activities and allow local governments to function properly, it is necessary to enhance the central government’s supporting and coordinating role. To do so, a Land Information System must be provided.

Such a system would provide both short and long-term benefits. For example, there could be short-term efforts to unify the applications of the cadastre and land ownership registry and improve connections between the two. Meanwhile, ongoing long-term efforts should proceed to unify the cadastre and land ownership system. Short-term efforts include improvements in the administration and system, such as actively applying the public land price and mandating land registration. Measures that coordinate and control friction and conflicts of interests between government agencies also need to be devised.

In the long run, the relationships between government organizations involved in land administration must be strengthened, and information systems reorganized in order to establish a comprehensive land information database. Efforts to improve systems and technologies are required to set up a Land Information System.

In addition to short and long-term efforts, specialized research in this field is required. Local government officials actually in charge of the task must be continuously educated and trained to facilitate the accumulation of technology at the working level. This would provide the basis for a bottom-up Land Information System that breaks away from the centralization of information.
LAND POLICIES IN SOUTH KOREA: A POLITICAL ECONOMY APPROACH

Hee-Nam Jung

Introduction

Land policy problems have become the key issue in the industrialization, urbanization and transformation of the political, economic and social systems in many Newly Industrializing Economies (NIEs), including Korea. During the last few decades, Korean society and its political economic structure have undergone a significant transformation. Korea has changed from an agrarian society to an industrial one. This industrialization has been accompanied by intensive and rapid urbanization. During this process, urban land problems, including high urban land prices, land speculation and mal-distribution of land ownership, have emerged as serious sources of socio-economic conflicts. The Korean government has intervened in these conflicts.

One policy designed to redress land problems was the idle land policy, which compelled Korean business groups, known as the chaebol, to dispose of their non-essential land. On May 7, 1990, President Roh Tae Woo declared war on corporate land speculation. Pursuant to the President's directives, the government ordered the forty-eight largest business groups to dispose of their idle land. This attempt by the government to enforce the disposal of the chaebol's idle land was not its first. The first measure was taken by the Yushin government of President Park Chung Hee. On May 29, 1974, the government issued a presidential special directive which aimed to strengthen the business financial capability by requiring that they open ownership to the public through the stock market. One of the measures used to accomplish
this goal was to instruct the indebted business groups to sell their real estate. A second similar measure was enacted during Chun Doo Hwan's government. On September 27, 1980, the Standing Committee for Emergency National Security Measures (Kukpowi) announced "Measures for Strengthening the Business Structure," which included policy concerning idle land. The twenty-six largest business groups had to dispose of the idle land held by both the firms and their large shareholders' families.

This paper attempts to interpret policy concerning idle land issues. A bulk of previous research on land policies in Korea has suffered from an apolitical orientation and ignored the role of societal forces on its policy issues (e.g., M.C. Hwang, 1985; Korea Research Institute for Human Settlements, 1984 and 1989; C.J. Yi, 1988). Most research has focused on exogenous economic variables which are supposed to work efficiently to obtain maximized equilibrium in the land market. The rationale of land policies was in its supplementary function of the invisible market mechanism. However, they have neglected the blend of motives influencing the land market, including the role of both capitalists and government intervention. Even if many urban land economists have explored land theories based on the market mechanism, the land market, in fact, cannot be sufficiently understood without understanding the logic of government policy, because government intervention is a vital factor in the process of production and distribution of resources in an urban economy (Gilbert, 1984: 225). Land policy, in turn, provides a good opportunity for investigating the nature and actions of the government, such as how the government acts, why, when, for whom, and with what instruments.

The main content of this paper focuses on idle land policies implemented in 1974, 1980 and 1990. It will analyze these policy measures, the process and context in which policies were adopted, implemented and evolved. It seeks to answer the following questions for each policy adoption: What was the background? What were the contextual and structural causes for policy adoption? How were policies formulated and implemented? What were the responses from interest groups, both the public and the chaebol? What were the consequences and impacts of policy implementation? In pursuing the basic objective of investigating the idle land policy, I explore the critical dimension
of the Korean political economy on urban land, for the land question has become the central policy issue in Korea.

**Policy Question: Land Problems in Korea**

Along with rapid urbanization and industrialization, land prices in Korea have risen rapidly. During 1963-1990, land prices in major cities rose by 734 times, while the GNP increased by ten times. Because land ownership was extremely concentrated in a few landowners (Table 1), the rapid increase in land prices aggravated the distribution of income and wealth, since most profits generated from land accrued solely to landowners. These facts aroused social conflicts and unrest between those who pursued exchange value of land and others who pursued use value of land. To the former, the increase in land prices meant the increase in their assets, while to the latter it implied the deprivation of their living space.

<table>
<thead>
<tr>
<th></th>
<th>Gini Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>0.336</td>
</tr>
<tr>
<td>Financial Assets</td>
<td>0.561</td>
</tr>
<tr>
<td>Real Estate</td>
<td>0.660</td>
</tr>
<tr>
<td>Land</td>
<td>0.849</td>
</tr>
</tbody>
</table>


The rapid increase in land prices also affected capital accumulation negatively. As laborers saw their dream for their own home disappear due to this rapid increase in land prices, the famous Korean work ethic eroded, causing labor productivity to decrease. In addition, higher land prices caused higher living costs for the labor forces.
Faced with the working classes’ wage struggles, business firms had to raise wages, increasing their production costs. Because of this increase in prices of produced goods, the current and potential consumption in the domestic market decreased, while Korea’s competitiveness in international markets eroded as business groups preferred to invest in land than in industrial equipment and in Research and Development (R & D).

Finally, although this rapid increase in land prices might have helped the government raise taxation from land, it also caused fiscal hardship, thus worsening the difficulties in financing its built environment for industrial infrastructure and collective consumption. For instance, the amount of government compensation for land used for infrastructure increased from 4,800 won ($10) per pyong (3.3 m²) in 1977 to 96,500 won ($135) in 1990 (Ministry of Construction, 1991: 72). Because of this increasing land prices, the government’s efforts to efficiently supply the built environment was often squeezed.

These land problems have been aggravated by the cyclical occurrence of land booms in 1967-68, 1977-78 and 1988-89. Land speculation spread to the whole country during these periods. The public often criticized the chaebol for land speculation. Faced with popular complaints and pressure against businessmen’s land speculation, the Korean government adopted the idle land policy as a means to counter corporate speculation and stabilize land prices.

**Implementation of Idle Land Policies**

**The First Policy Measure in 1974**

Land speculation first appeared in 1962 when the Ulsan Industrial Complex was constructed. During the 1960s, land prices in the major cities increased annually by forty-nine percent. The government attempted to control this rapid increase in land prices by adopting the Anti-Speculation Tax in Real Estate in 1967. Nevertheless, when the government initiated projects for building the Seoul-Pusan Expressway and developing the Southern Seoul region (Kangnam), the first land speculation boom peaked in 1969. Since then the land boom occurred more or less cyclically every ten years.
In 1972 President Park conducted an in-office-coup against his own government, when his rule was seriously challenged by the opposition groups. He needed a more impressive economic achievement to legitimate his now blatantly authoritarian rules. In his New Year’s address in January 1973, he proposed a new industrial policy, shifting the emphasis from light to heavy and chemical industrialization. One critical problem in implementing this new strategy was a lack of capital in both the government and private sectors. The financial crises deteriorated further with the collapse of the Bretton Wood System in 1971 and the first oil crisis in 1973.

To the policy elite, domestic resources had to be mobilized to finance these new strategic industries. Given a fixed amount of available funds, the investment in industries and investment in land had a zero-sum relationship: An increase in one sector must lead to a decrease in the other sector. To regulate capital flow to land and to direct it towards industry, the government introduced the idle land tax in January 1974. Four months later, the government moved beyond the moderate regulation through idle land taxation.

On 29 May 1974, it adopted “Presidential Directives for Improving Business Financial Structure and Mobilizing Domestic Funds” (Seoul Economic News, May 30, 1974; Johns and Sakong, 1980: 282-85). The basic objective of this directive was to strengthen businesses’ weak financial standings. The fourth item of these measures was to instruct businessmen with large bank debts to sell part of their subsidiaries or equity, and to use the proceeds from this sale to finance new industrial projects. On July 16, the Ministry of Finance ordered the chaebol to dispose of their idle land by September 30, 1974 (Seoul Economic News, July 16, 1974). By compelling the chaebol to dispose of their non-essential land holdings, the government attempted to induce a transfer of idle capital sunk in land to industrial capital. For this reason, it established the Korea Land Bank in April 1975 to buy this land, which was not to be sold in the market place.

The public strongly supported these measures: over ninety-four percent of the people welcomed this policy, while only two percent opposed it (KRIHS, 1979: 67-70). The public regarded this policy as a means to mitigate the conditions of the extreme concentration of wealth and property ownership by the chaebol owners and their fami-
ly members, as well as a way to stabilize land prices. The public had doubts, however, whether this policy was designed to punish the chaebol or help them.

The chaebol and other businesses accepted this policy as a necessary measure at the beginning stage. They soon coalesced to cope with this policy. They created the “Council for Building Healthy Business” on May 31, 1974 (Federation of Korean Industries, 1991b: 57). This council demanded the government for relaxing the tight regulation in the idle land policy. During the process of policy implementation, most of their demands were accepted by state leaders. Consequently, the policy rigor was gradually eroded. However, the policy makers regarded it as inevitable as reviving the domestic economy was most important.

Moreover, even though the government commanded the chaebol to sell their idle land, it allowed them to hold industrial and productive land. Just before the 1974 policy measures were announced, the government enacted the Industrial Base Development Promotion Act in December 1973, which was designed to accommodate the increasing demands for industrial land used for the heavy and chemical industrialization. The government bought land from the small landowners or farmers under the Land Expropriation Law. The government then developed it into industrial parks, installed infrastructure, and sold it to business firms at low prices. This program resulted in the rapid increase in the chaebol’s land holdings.

Partly because of this policy, which had encouraged the chaebol to strengthen their financial standings and to concentrate their investment in industries, the Korean economy bounced back along with the successful industrial restructuring in the early 1970s. The construction boom in the Middle East in the mid-1970s also contributed to a buoyant economy. However, the policy was not effective in regulating corporate land speculation. When the policy ended officially in 1977 and the economy prospered, the chaebol’s investment in land spiraled. In 1977 when the first idle land policy program ended, the amount of idle land owned by the policy target groups was 3.3 million pyong (10.9 km²), which increased to 5.2 million pyong (17.2 km²) by August, 1978: In eight months, it increased by two million pyong (6.3 km²). The second land boom peaked around 1978, accompanied by growing criticism
from the general public. The government initiated a comprehensive speculation-control measure in August 1978, which had the same intent as the 1974 policy measures. The implementation of this rejuvenated policy, however, was aborted by the assassination of President Park in October 1979.

The Second Policy Measure in 1980

The political power vacuum was filled by new military forces led by General Chun, who succeeded in installing another military regime in 1980. Four weeks after Chun was inaugurated into the presidency, the government adopted the second idle land policy measure on September 27, 1980. Whereas the first measure was designed basically to strengthen the businesses' financial standings, the second program emphasized both improving the firms' financial standings and controlling corporate speculation. This policy was one of many policy reforms initiated by the new military junta, which included arresting political leaders and purging corrupted bureaucrats.

Three days after the policy announcement, the business community announced public support for these policy measures (Seoul Economic News, October 1, 1980). On the same day, President Chun met with the representatives of the business community, telling them that the policy measures were designed not to punish the business community but to support them. The business community soon created the "Council for Reinforcing Business Competitiveness Measures" to cope with this policy (Federation of Korean Industries, 1980). As they did in the first program, business groups asked the relaxation of the tight regulation though this council.

During this period, the land market as well as the Korean economy was in recession, partly because of the domestic economic and political instabilities including Park's assassination, and partly because of the world economic situation, including the second oil crisis. Since the recovery of the recession and the achievement of the economic growth was critical to new state leaders, most of the suggestions from business groups were reflected during the implementation stage. While the policy regulated the chaebol from holding idle land, a relaxation of the existing speculation measures followed. The capital
gains tax rate was lowered, then was exempted. These measures contradicted the idle land policy, but were regarded by the policymakers as necessary to restore the business confidence in government policies, thus encouraging the construction industry. At that time, eighty-four percent of the people favored this policy and eight percent opposed (KRIHS, 1985: 88-93). However, because of the government's relaxation, people's voices for regulating corporate land speculation were ignored again.

Partly because of the 1980 policy encouraging the transfer of capital from land into industrial investments, business financial standings improved significantly. The debt ratio and financial costs decreased, whereas the profit ratio increased. The Korean economy was able to bounce back along with the favorable conditions in the international market. It even experienced a trade surplus during the mid-1980s. Nevertheless, the chaebol did not cease investing their capital in land. When the second measures ended officially in 1982, they actively purchased land. In 1982, the total idle land owned by all enterprises including the chaebol was 17.8 million pyong (58.8 km²), which suddenly jumped to 38.1 million pyong (126.0 km²) in 1983 (Table 2). The chaebol went so far as to buy back the land which they sold to the Korea Land Development Corporation (C.N. Yi, 1985: 144-45).

Table 2. Composition of All Idle Land, 1979–87

<table>
<thead>
<tr>
<th>Year</th>
<th>Area 000 py.</th>
<th>All (%)</th>
<th>Resid.</th>
<th>Agri.</th>
<th>Forest</th>
<th>Indus.</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>28,987</td>
<td>100</td>
<td>11.02</td>
<td>17.20</td>
<td>66.49</td>
<td>0.00</td>
<td>5.29</td>
</tr>
<tr>
<td>1980</td>
<td>17,676</td>
<td>100</td>
<td>7.35</td>
<td>8.12</td>
<td>73.52</td>
<td>0.00</td>
<td>11.01</td>
</tr>
<tr>
<td>1981</td>
<td>21,029</td>
<td>100</td>
<td>10.58</td>
<td>7.07</td>
<td>73.02</td>
<td>0.00</td>
<td>9.33</td>
</tr>
<tr>
<td>1982</td>
<td>17,831</td>
<td>100</td>
<td>12.69</td>
<td>7.21</td>
<td>68.29</td>
<td>0.00</td>
<td>11.82</td>
</tr>
<tr>
<td>1983</td>
<td>38,136</td>
<td>100</td>
<td>7.08</td>
<td>19.50</td>
<td>68.83</td>
<td>0.08</td>
<td>4.51</td>
</tr>
<tr>
<td>1984</td>
<td>26,883</td>
<td>100</td>
<td>19.78</td>
<td>6.66</td>
<td>57.11</td>
<td>0.62</td>
<td>15.82</td>
</tr>
<tr>
<td>1985</td>
<td>16,172</td>
<td>100</td>
<td>11.73</td>
<td>10.91</td>
<td>64.78</td>
<td>1.77</td>
<td>10.81</td>
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<tr>
<td>1986</td>
<td>16,347</td>
<td>100</td>
<td>8.65</td>
<td>18.28</td>
<td>56.53</td>
<td>5.11</td>
<td>11.43</td>
</tr>
<tr>
<td>1987</td>
<td>15,424</td>
<td>100</td>
<td>9.71</td>
<td>10.05</td>
<td>50.01</td>
<td>23.33</td>
<td>6.90</td>
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<tr>
<td>1979-87</td>
<td>100</td>
<td>10.99</td>
<td>12.46</td>
<td>64.91</td>
<td>2.48</td>
<td>9.17</td>
<td></td>
</tr>
</tbody>
</table>

Obviously, the policy objective of regulating excessive land holdings by the chaebol was not achieved.

**The Third Policy Measure in 1990**

During the late 1980s, the third land boom occurred. The surplus capital from the trade surplus, and the inflated money issued during the Presidential and National Assembly elections in 1987-1988, caused land prices to increase. After Roh's regime was inaugurated in the first peaceful transfer of power in post-liberation Korea, the Korean society became more democratized. During the formation processes of the 1974 and 1980 policies, the people's complaints had been sporadic, even if land problems were serious. In contrast, the voices from the subordinate classes influenced the adoption of the 1990 policy. The people's mobilization became more organized, including the Citizen's Coalition (Kyong-sil-lyon) established in July 1989. This movement criticized overtly the chaebol's speculation and the government's land policy. The government needed to respond to these demands.

Furthermore, the government needed to control corporate speculation for smooth capital accumulation in the production sector. During 1986-1988, the Korean economy experienced a trade surplus amounting to $28.6 billion, of which twenty-six percent was invested in land by businessmen (H.G. Mun, 1992: 30, 242). Apparently, large firms ignored the investment in R & D but preferred land investment. This resulted in a deterioration of their world competitiveness in the face of rising neo-protectionism in the world market. Korea was lagging behind the other three Asian NIEs (Hong Kong, Singapore and Taiwan) after 1990.

Therefore, the government adopted another idle land policy in May 8, 1990. Compared with the 1974 and 1980 policies, the objective of the 1990 policy was more specifically targeted to regulate corporate land speculation. People's support for the policy measures was very strong. Eighty-seven percent of those polled said "yes" to the idle land policy, while only three percent said "no" (Han'guk Daily, March 19, 1991).
The chaebol’s opposition to the policy, however, was also strong and explicit, unlike their responses to the 1974 and 1980 policies. Some chaebol grumbled that “whenever the regimes face political crisis, the chaebol are victimized” (H.M. Sin, 1990: 32). The business community soon organized the “Special Council for Real Estate Policy,” as they did in 1974 and 1980 (Federation of Korean Industries, 1990 and 1991a). The government did not completely regulate the chaebol’s behavior, either. When President Roh announced the 1990 policy measures, he accepted all requests from the chaebol that the government increase the supply of industrial land and relax the regulation in the chaebol’s landfill projects and urban building heights (Y.D. Kim, 1992). Contrary to the will of the government and the expectation of the public, business groups actively purchased new land: according to the Bank of Korea, the chaebol purchased new land in the amountment of 29.9 percent of the idle land they disposed of during the same period from May 1990 to March 1991 (Bank of Korea, 1991).

Analyses of the Idle Land Policy

Objective of Idle Land Policy

The three regimes repeatedly adopted idle land policies, compelling the chaebol to dispose of their idle land. Although the policy priorities varied somewhat across three programs, these policy measures shared essentially the same objective: regulating the chaebol’s over-investment in land, thus 1) achieving the stabilization of the land market, 2) improving the firms’ financial standings, and thus 3) revitalizing the depressed economy and enhancing its international competitiveness.

Motivation of Policy Initiation

Even if limited in scope, we can find some causal regularities in idle policy adoption: obtaining political legitimacy, promoting capital accumulation, and reshaping the state’s relationship with the economically dominant groups. First, it was the government’s “role taking”
(Edelman, 1976) of the public’s sentiments against the chaebol’s land speculation. The negative consequences of land booms, having occurred in about ten years’ cycles, attracted the attention of contending groups (e.g., tenants) and advocacy groups (e.g., real estate experts and mass media). They expressed their antagonism against the chaebol’s speculation, and complained about the government’s land policy. These demands also appealed to a general public, since many families including the middle class could not buy homes due to high housing prices that were linked to high land prices.

When Presidents Park, Chun and Roh realized that their political image and credibility of the government would be severely damaged unless they took some actions, the government implemented this policy. If land problems became so severe that people’s discontent grew, it would jeopardize political security of state leaders and could endanger existing capitalists and the political system itself. Thus, despite the negative impact on the chaebol’s immediate interests, the government had to deal with the land problems in order to establish its legitimacy in the eyes of the public and to maintain and prevent threats to its political viability.

The needs for obtaining legitimacy in the area of land issues was reinforced, when state leaders obtained or consolidated their political authority through undemocratic means. Three presidents suffered continuously from their illegitimate rules, and when their legitimacy was most seriously questioned, all three regimes utilized the idle land issues.

President Park’s 1972 Yushin Revolution, Chun’s 1979 military coup and his suppression of the 1980 Democratization Movements in Kwangju lacked political legitimacy to most people. Although Roh’s regime was inaugurated by democratic elections in 1988, the three party conversion in 1990 raised the public’s doubts as to its legitimacy. Facing problems of legitimacy, due to their “irregular” suspension of the constitutional orders, they needed some token to justify their actions. They all utilized economic leaders’ “irregular” activities: the irregularity of the chaebol’s land speculation, at least to the public. By doing so, they demonstrated that their restructuring of the political power structure was necessary for the people’s welfare. This policy was adopted by three presidents during the transitory period of the
new political regime. New state leaders needed to reshape their relationship to the chaebol, which had maintained close ties with the preceding regimes. By compelling them to sell their property, new political leaders manifested their dominance over the business community, thus taming the chaebol.

The idle land policy was also adopted when the general economy was depressed and when Korean business groups suffered from burdensome financial expenses. Since the rapid growth of the general economy depended on rapid accumulation in the private sector, the state elite had monitored the trend in businesses’ profits and accumulation. According to the policy elite’s diagnoses, the depression of the economy was caused by the lack of business investment in industries, resulting from the lack of industrial funds. This policy proposed to regulate the chaebol’s excessive investment in land, but it also encouraged their investment in industrial purposes. By compelling the chaebol to dispose of their idle land and repay their financial loans by using the proceeds of this land sale, the policy elite attempted to transfer idle capital invested in land into industrial capital, thus mobilizing more funds as well as cutting businesses’ burdensome financial expenses. The necessity of strengthening the chaebol’s financial standings was rediscovered in the transitory stage for industrial restructuring from light to heavy and chemical industries in 1973-1974, the articulation of heavy industries and the introduction of the high technology industry in 1979-1980, and the reemphasis of technology intensive industries in the late 1980s.

Achievements of Policy Implementation

The first measures were implemented from May 1974 to October 1979. During this period, the total amount targeted for sale was 12.3 million pyong (40.8 km²). Of this amount, sixty percent was disposed of, while the remaining forty percent stayed in the hand of the chaebol. Of the disposed land, eighty-seven percent was sold on the market, and thirteen percent was sold to the Land Bank.

The amount of the land targeted for disposal in the 1980 program was 85.3 million pyong (282.1 km²), of which three-fourths was sold. Of the disposal land, sixty-three percent was sold on the real estate
market, while the remaining amount was sold to the Korea Land Development Corporation.

The total target amount in the 1990 program was 57.5 million pyong (189.8 km$^2$). As May 1992, two years after the policy announcement, sixty-seven percent of the targeted land was sold. The remaining 18.6 million pyong (61.4 km$^2$) was also supposed to be sold. As they did in the first and second measures, the chaebol disposed of most of their land on the market. They sold only fourteen percent of idle land to public agencies, i.e., the Korea Land Development Corporation and the Forest Office. Table 3 summarizes the achievements of each of the three policy implementations.

Table 3. The Targets and Achievements of the Idle Land Policy
(unit: 1,000 pyong)

<table>
<thead>
<tr>
<th>Program</th>
<th>1974 <em>a</em></th>
<th>1980 <em>b</em></th>
<th>1990 <em>c</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total chaebol’s Land</td>
<td>N/A</td>
<td>442,912</td>
<td>206,349</td>
</tr>
<tr>
<td>Total Idle Land</td>
<td>30,263</td>
<td>85,335</td>
<td>67,797</td>
</tr>
<tr>
<td>Chaebol’s Proposal to Sell</td>
<td>5,380</td>
<td>29,495</td>
<td>31,350</td>
</tr>
<tr>
<td>State’s Decision to Sell</td>
<td>12,348</td>
<td>85,335</td>
<td>57,500</td>
</tr>
<tr>
<td>Chaebol’s Sales</td>
<td>7,438</td>
<td>64,197</td>
<td>38,900</td>
</tr>
</tbody>
</table>

Note: a) is for 1974-1977, b) is for 1980-1982, and c) is for 1990-May 1992.

Impacts of Policy Implementation

According to the empirical impact evaluation (Jung, 1993), this policy was more or less effective in managing policy problems. Along with changes in the domestic and international economy, land prices became stable after government intervention. During the implementation periods (1974-1976, 1980-1982, and 1990-1991), the rate of land price changes actually fell. However, the policy effects were temporary rather than long-lasting, due to the government’s immediate concessions to the chaebol. After policy relaxation, the rate of changes in land prices increased again. The chaebol’s idle land increased, too. For the long-term assessment, therefore, this policy was not successful to control the chaebol’s excessive land holdings. This finding suggests that land prices would be more stable if the government had not relaxed its initial policy rigor.

While the effects of this policy on land prices were temporary, the chaebol received tangible benefits from this policy. For instance, when the chaebol were not able to sell their land in the marketplace, the government created public enterprises to buy this land. The Korea Land Bank and later the Korea Land Development Corporation bought more or less unmarketable land, but paid more than what would have been paid in the market (Table 4).

Table 4. Comparison between Market and Government Prices
(1,000 pyong, billion won, won)

<table>
<thead>
<tr>
<th></th>
<th>1974 Program</th>
<th></th>
<th>1980 Program</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>On market</td>
<td>To KLB</td>
<td>On market</td>
</tr>
<tr>
<td>Area</td>
<td>3,820</td>
<td>2,886</td>
<td>934</td>
<td>37,000</td>
</tr>
<tr>
<td>Amount</td>
<td>36.3</td>
<td>25.0</td>
<td>11.3</td>
<td>125.5</td>
</tr>
<tr>
<td>Unit price</td>
<td>8,700</td>
<td>12,100</td>
<td>3,400</td>
<td>8,600</td>
</tr>
</tbody>
</table>

The chaebol also effectively managed their strategies to avoid negative impacts from this policy, thus taking advantage of this policy as a means to solve their urgent financial difficulties, transform their long-term industrial structure, and thereby maximize policy support from the government. After policy intervention, the level and changes in the chaebol's debt ratio and financial costs declined, while those of business equity and profit ratio increased.

In short, this policy was not intended to punish the chaebol. It was not designed wholly to help the chaebol, either. The government's intention was to regulate the chaebol's rent-seeking activities and to encourage their productive investments. Even if the policy failed to meet the objective of controlling the chaebol's land speculation, it was successful in enhancing the productive activities as well as in restructuring the industrial structure. After implementing idle land policies which was a part of various policy measures, the Korean economy was able to bounce back, and then prosper.

**Political Economy of Idle Land Policies**

The result of our analysis on the idle land policy contributes to reconsidering the Korean political economy in the area of regulatory politics and the relationship between the state and capitalists. To most Korean political economists, the Korean state since 1961 has been regarded as the developmentalist state (Amsden, 1989; Douglass, 1992; Haggard, 1990; Jones and Sakong, 1980; Koo and Kim, 1992). The characteristics of the Korean state and the impacts of its intervention have been regarded as: i) it had autonomy from social forces, ii) it had the capacity to implement economic strategies effectively, and iii) it intervened in the economy in a positive way, thus promoting market functions rather than hindering them.

To a certain extent, the analytical findings of idle land policies support the arguments of the Korean political economists. The state's intervention in the idle land issue was quite positive and effective in resolving economic crises. Because of its timely intervention, the urgent problems of the big business groups' debt standings and the falling profit rates were largely resolved. Because of this success, the
depressed economy was able to be revitalized, reaching high growth rates in the late 1970s after the 1974 intervention, and trade surplus in the mid-1980s after the 1980 crackdown.

The formulation of idle land policy was possible because the state was strong and autonomous (or authoritarian). In one sense, compelling the chaebol to sell their property was beyond the allowable boundary of the Korean constitution, one tenet of which has been the protection of private property. This type of policy measure, which attempted to restructure the property relations, is not commonly found in other societies, except in the case of a revolutionary regime or a military junta. Moreover, the targeted chaebol were excluded from the agenda-setting stage, and thus were not able to reflect their immediate interests in policy decisions. Therefore, we can say that the Korean state was, indeed, strong and autonomous.

It is also important to note that the Korean state had the institutional capacity to implement these policy measures. The state elaborated its implementing apparatus to extend its control over coercive means to force the chaebol into compliance. The National Taxation Office with its tax records and the Bank Audit Board with its bank credit records, investigated the chaebol's land holdings and monitored the degree of their compliance or non-compliance. The state kept a certain level of cohesion among government institutions by creating the coordinating organization such as the Policy Committee for Real Estate. Even when conflicts arose between government branches, the higher agencies such as the Economic Planning Board and the President's Office were able to induce compromises with relative success. Moreover, by creating the Korea Land Bank and the Korea Land Development Corporation, and by extending the role of the Korea Auction Corporation, the state not only provided policy guidelines, but also participated directly in policy implementation. Finally, the state utilized its economic resources to draw the chaebol's attention to these policies, such as threatening to cut further bank credits or to recall existing debts. The single most important factor in explaining the early compliance of the chaebol to this policy was the state's capacity, which provided direct financial rewards and penalties through its controlled financial institutions.
However, the analyses of the idle land policies demonstrate the limits of the Korean state’s autonomy and the limits of its capacity to control the chaebol’s behavior. State intervention was not always positive to the economy, contrary to the general arguments put forth by Korean political economists. First, although the state’s policies played a positive role in facilitating Korean capital accumulation, past policies also contributed to the very source of land problems. Land problems were the result of the state’s policies which pursued rapid industrialization and urbanization since 1962. The chaebol’s excessive land holdings, which the state had tried to regulate by using the idle land policy, were also precipitated by the state’s industrial and locational policies. These policies distorted the distribution of accumulation of wealth, generating social injustice. The idle land policy was the state’s remedy to cure problems that were created by state policies themselves.

The state wanted to curb land speculation activities. The series of idle land policies, in fact, failed to regulate corporate land speculation, which pointed out the limit of the autonomy and strength of the Korean state. Although the state rigorously enforced the idle land policy, its rigor gradually eroded until the next land boom, when strong enforcement was once again necessary. However, the rejuvenated policy once again wore away. In spite of the state’s impressive intentions and bureaucratic capability, the chaebol’s land speculation was not seriously threatened or affected.

The policy instruments were not operative, either. In the first and second program implementation, the state did not use any financial sanction on the chaebol although they did not dispose of their idle land. The state also did not use the power of eminent domain to condemn idle land when the chaebol did not comply with the policy. This policy was repealed in effect during the implementation stage. At best, this policy was implemented only when it proved acceptable to the regulated groups or served the interests of the chaebol. These analyses suggest that the strength of the developmentalist state was structurally limited. Even when the policy was formulated independently of the chaebol’s fundamental interests, most of the chaebol’s demands and suggestions were reflected during the implementation stages. Thus, the state’s autonomy was also, at best, relative.
The analyses of the idle land policy also provide points that differ with the findings of other studies. Most Korean political economists, although not stated overtly, assume that the subordinated business community did not challenge the state's power. Instead, the business community attempted to establish favorable relations with the state, and obtain the state's protection from threats of domestic labor conflicts and international competitiveness, and thus search for the maximized rent-seeking from state policies. However, this analysis shows that the chaebol was neither a weak nor passive party in state policy making. Instead, this analysis demonstrates that the chaebol were stronger than the existing presumptions and they were very adaptive in their relationship to the state. On the one hand, they strived to influence state leaders, while on the other, their relative power over the state increased over time.

At the initial stage, the chaebol stayed calm, seeming to follow the state's directives. They swore not to engage in further land speculation. They proposed to sell their idle land voluntarily even before the state decided to target their land. Since the state's coercive power was greater than any other social force, at least at the transitory stage of the each new regime, and the public supported this policy at the initial stage of its implementation, the chaebol were not able to oppose the policy overtly.

But, when the policy was being implemented, the chaebol strived to influence policy makers and implementors. Although the chaebol had competed with each other, they soon coalesced to counter this policy, which was perceived as a serious threat to their common interests. They organized countermeasure councils composed of business groups, including the Federation of Korea Industries, the Korea Chamber of Commerce and Industries, and the Korea Trade Association. The recommendations from these councils were mainly reflected during the implementation stage. The idle land policy was modified and its enforcement was weakened.

The chaebol also withheld capital from investment in industries, thus demonstrating that they did not appreciate this policy. The level and the rate of private investment in industries, including housing and construction, declined due to the existence of the idle land policy. State leaders tried to avoid these situations, because their political sta-
tus and legitimacy needed rapid growth of the economy, which was fundamentally dependent upon business investments in industries (particularly the chaebol's). Thus, the state had to ease its initial rigor to restore the businessmen's confidence at the cost of the disappointment of the public.

The findings of this paper suggest that the state's relationship with business had not been a one-sided vertical relation, or a "senior" partner (Johns and Sakong, 1980: 132-140). Rather, this analysis shows that the relationship between the state and business evolved as economic development proceeded. While the guiding position of the state had been undermined with this process of economic development, the relative status of the chaebol to the state was enhanced. The response of the chaebol to the 1990 policy measures demonstrated this. The business community overtly criticized this policy. The chaebol's challenge to the state's idle land policy peaked when the owner of the Hyundai Group, who was not pleased with this policy, ran as a presidential candidate in the 1992 election.

The practical policy instrument of idle land policies was the state's control over credit allocation. As a consequence, the chaebol's autonomy was enhanced while the state's capacity declined, when the chaebol became no longer dependent on the state's resources. The chaebol's control over the financial institutions increased after the privatization of commercial banks in the early 1980s. The role of the secondary financial institutions owned by the chaebol, in terms of capital mobilization, also surpassed the role of commercial banks after 1983.

This decline of state capacity and the rise of the chaebol's status were also precipitated by the globalization of capitalism, both by the trans-nationalization of world capital and by the increasing overseas investment of the domestic capitalists. From the political economy perspective of global capitalists, the regions of the world form differentiated sites of potential investment. They have options to choose the sites for their investment, based on their calculation of returns to investment related to such conditions as wage rate and the host state's attitude. Global capital can now invest their capital in localities where the state adopts policies relatively favorable to capital, while they can threaten to withdraw investment from the states that provide policies relatively preferential to labor (Ross and Trachte, 1990: 220-30).
As the Korean state faced this new dimension of world competition, state functions, i.e., legitimating its political system and encouraging capital accumulation, had to be expanded to counter this new international order of economy. Coping with new changes in global competition, state managers lost their discretionary power over certain matters including taxation, labor relations and property relations, lest investment decline within Korea. The state also had to enforce a coalition with its domestic capitalists in order to compete globally, thus resulting in the shift of its policy priority from the issue of legitimation to focus on accumulation activities.

On the other hand, along with the structural change in industries and the expanding commands of the chaebol, Korean capital began to be globalized particularly after the mid-1980s, although only in an incipient stage. This process allowed domestic relations to the state and labor to be less important to accumulation for the chaebol (Douglass, 1992: 28). This, in turn, illustrates that the Korean state’s ability to discipline capital and retain legitimacy has declined, while the chaebol’s capacity increased, as Korean capital became transnationalized.

In summary, the analyses of idle land policy illustrates the various aspects of the Korean capitalist state vis-a-vis external and internal relations. The policy initiation process required and supported a strong, developmental, autonomous and authoritarian state. However, the implementation process and its consequences showed that the Korean state’s strength and autonomy gradually eroded until the state was replaced by a new regime. These conclusions provide a contrary argument to the existing literature on the Korean political economy. In addition, the status of the chaebol was not as weak as frequently assumed. Furthermore, business autonomy and strength, vis-a-vis the state, has grown continuously.

Land, State and Capital: Concluding Remarks

In this paper, land was a window to analyze the land policy process in Korea, a capitalist state. In concluding this analysis, we return to the essential question, that is, the exploration of the relationship
between land, state and capital under a capitalist system. Then we discuss the possible future of land politics in Korea.

Land under contemporary capitalism has exchange and use values, and thus plays at least two functions, namely, furthering capital accumulation, and securing the efficient reproduction of labor. These roles are often mutually contradictory but integrated within the capitalist system as a whole. Land became more important in the process of Korean capital accumulation. The more land the Korean businesses controlled, the more they were able to increase the capacity of their capital. A blend of motives attracted Korean businessmen to become landowners. They continuously strived to solve the intrinsic contradiction of capitalism. When they faced a fall of profit rates in the production sector or when they entered new strategies for flexible accumulation, they switched the circuit of capital into the built environment to achieve higher rates of return in land speculation and development. This also restructured the landscape in the urban area to accommodate their capital production.

Korean businessmen also attempted to resolve class conflict with landowners who tried to increase their share of land rents. They sought to avoid this situation, thus increasing their shares of the total surplus value created in the whole society. This resolution was manifested by their construction of office buildings and factories on their own land. They also utilized land as a source to increase their capital and wealth, because land prices inflated faster than other economic sectors, including financial interests and share dividends. Their eager efforts to maximize profits from land speculation encouraged them to hold land without utilization. Finally, since the financial institutions required loan collateral, they bought land in order to secure more easy access to banks' credit allocations.

All these factors encouraged the chaebol, which had various advantages over other social groups in accessing land, to increasingly invest their capital in urban and peri-urban land. These advantages included their access to idle capital generated from their production activities, which was available for reinvestment in things that would yield more profits. They were also allowed easy access to financial credit, the interest rate of which was even lower than the interest rate that was applied to the public. The state's preferential treatment in allocating land to the industrial capitalists was also important.
Nevertheless, land also had to be made available continuously for the smooth working of the capitalist system, including reproduction of labor. Cheap housing for labor, particularly for low-income households, was needed to sustain the low wages in labor-intensive sectors in order to keep the comparative advantage in the international competitive markets. Other housing with better habitat was also demanded by the rising middle class. Rapidly rising land prices dominated by the expanding need of the chaebol blocked this function of land for labor reproduction. In addition, businesses’ over-investment in land led to the decrease of capital investment in the production sector.

The tension in using urban land between capital accumulation and labor reproduction became contradictory to the capitalist system. At the same time, the Korean capitalist state was compelled to balance its position between the needs of overcoming the contradiction of capitalism for further accumulation, and those of obtaining the legitimacy in which this accumulation process took place. The idle land policy was designed to modulate these needs, i.e., to placate the rising social protests against land accumulation by the chaebol and attendant extraordinary increase in land prices, particularly in Seoul. By regulating corporations’ land speculation, this policy proposed, on the one hand, to supply the low priced housing for workers, which is one way for a capitalist state to subsidize its capital. On the other hand, it also aimed to adjust the capital flow between the primary and secondary sectors. Therefore, this policy was part of a larger strategy for Korean capital accumulation.

Although the Korean state adopted the idle land policy to depoliticize the complaints of the middle and lower class householders, the policy aimed at demonstrating the legitimacy of the regime in power was only rhetoric for general public consumption. In fact, the main reason the idle land policy was adopted against the direct interests of the chaebol was to restore accumulation conditions, for the business community did not pay enough attention to the restoration of the whole system. In other words, the state’s real motivation was in providing the opportunity for the business community to modulate their interests between accumulation via land investment and industrial/productive ones. Because Korean state managers believed that sound economic performance justified their authoritarian rule,
they sought more legitimacy by expending greater efforts in creating the favorable conditions for business confidence in capital accumulation.

The experience of the idle land policy contributes to a rethinking of the role of the Korean state in the future. Possibly, Korean land politics will be reorganized due to the changing conditions in the economy and society at the domestic and international levels. Thus, the functions of legitimacy and accumulation issues in land will be more complicated by the development of the Korean capitalist system and the political structure.

From the domestic economic perspective, the urban structure will have to be reshaped to fit the new demand for restructuring the industrial sectors as the Korean economy moves towards high technology industry. Along with increasing overseas-investment in Korean capital, the Seoul metropolitan region will also be re-emphasized, because the control function of the chaebol’s headquarters, which are located in Seoul, will become more important. The tertiary industries including financing, consulting, marketing, and R & D will be more prominent in Seoul than industrial production. Land will play a more important role in flexible accumulation strategies of Korean capitalists, and thus the state’s spatial regulation will be also reshaped to accommodate this strategy. This tendency will be reinforced by the influence of the changing international economy. As international flows of capital and labor increase, the nation-state’s boundary will be more blurred by the new international economic spaces. The Korean state will also need to work more closely with domestic businesses in order to compete globally. All these factors will encourage the Korean state to use land policies in a way to help capital accumulation.

On the other hand, the Korean state will have to address the new legitimacy issue fitting to the “late democratization” era, which will be different from that of the “late industrialization” periods. The political structure has already moved from a military government to a civilian one in 1993. Since the late 1980s, most work places have had their labor unions. Along with the increasing prominence of the urban middle class and professionals, the public will have a louder voice in formulating public policy, including policy related to land
issues. These new environments may erode the state’s capacity to provide preferential treatment to business in land issues.

The Korean state will also face a new dimension of autonomy and capacity. If the economy meets a serious crisis, it may adopt another idle land policy to restore larger conditions of capital accumulation. Nevertheless, the past mode of regulation in idle land issues which utilized more coercive and authoritarian instruments may not fit the changing situation. The capability of domestic businesses will be more enhanced, as their autonomy in financial resources increases and their capital is trans-nationalized: state autonomy may weaken. On the other hand, the Korean society, including the businessmen and idle land holders, will be governed by laws rather than the autocratic rulers of the political regime. The regulatory instruments will also be more institutionalized through the articulation of tax laws and other tools: state capacity may be enhanced as state policy measures become institutionalized. Thus, possibly, the erosion of the state’s manipulative capability may not necessarily coincide with the decrease in state autonomy. An exploration of whether the current democratization movement in Korea will reinforce or weaken the state’s autonomy and capacity in land policies will await more observations in the near future.

In conclusion, the idle land policy demonstrated that policy changes and institutional reforms evolved along with changes in the interaction of policy makers and the constraints placed on them by political, economical and social environments, and by the influence of global factors. It negated the reduction to a single model or consistent theories from either neoclassical economic or neo-Marxist models asserting a linear development path of policy evolution and transformation. Because of the dynamics of capitalist development, the idle land issue may rise again. There will not be a single future of idle land issues, however; the issues will reflect the changes in both economic and political situations, and of domestic and international settings. State response to land issues will also be contingent upon changes in internal and external relationships within the capitalist system. Thus, future policy analysis of urban land issues will have to be made in a way that emphasizes the historical and international-local contingencies.
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CHOICES FOR FUTURE LAND POLICY

Dai-Young Kim

Introduction

The major policy issues the Korean economy faced during the late 1980s include: i) weakened competitiveness of products in the international market arising mainly from wage hikes and prolonged labor disputes; ii) insufficient business investment, especially in research and technology development; iii) severe distortions in income distribution, resulting largely from huge capital gains from land and financial assets; and iv) heavy costs in land acquisition and limited budgets for infrastructure development, which caused congestion and transportation problems.

Interestingly enough, the fundamental backdrop to all of these policy issues concerns was closely related to the land problem issue. Specifically, the third and fourth issues originated from excessive and rapid land price appreciation as well as an overly concentrated pattern of land ownership. The second issue is also land related in that many business firms in the manufacturing sector opted for easy profits from the capital gains by “investing” in the land market rather than in technology development. The wage workers were furious about their relatively deteriorating economic situation compared to land owners who seemed to amass huge amounts of capital gains by simply holding onto their assets. Workers were also dismayed about the ever-increasing housing costs due to the land price hikes. Such distributitional issues were perceived as detrimental to the nation’s future growth based on the cohesion of the population.
As such, the most critical policy developments during the period concerned land issues. Many believed that by solving the land problems, many of the annoying socio-economic issues could be properly redressed. Popularly referred to as “Gong-Kae-Nyom(or Public Concept in Land),” this policy package was thus introduced between 1989-1990 and included new and drastic tax-measures.

Entering the 1990s, much to the delight of the policy makers, the land market of Korea shows some sign of stabilizing, indicated by noticeable drops in the absolute price level. Nevertheless, an extremely complicated tax structure and frequent complaints from the taxpayers necessitate some degree of refinement or modifications of the current tax systems. The land use planning structure which is assessed as being unnecessarily rigid and, at the same time, not detailed enough to guide future land use patterns is another area where policy improvement is badly needed. In addition, inadequate and sometimes dubious regulations concerning land market transactions do place a negative impact on linking the demand and supply.

Also, an effective mechanism for mobilizing both public and private financial resources is being considered as a necessary step to facilitate timely land developments.

This study, therefore, briefly sketches the land problems of the late 1980s, particularly in the Korean context, and evaluates the effectiveness of various measures and tools in land policy, land taxation, land use planning structure, and land brokerage and financial systems, among others. A number of policy alternatives and modifications of existing measures are suggested based on these evaluations. Finally, some thought is given to formulating basic directives for managing the land resources of the entire Korean Penninsula when and if the two Koreas are re-unified.

Situation of Land Market

To help establish the context for developing future land policy in Korea, a brief history of the land market is discussed below through 1990, when the government introduced the Public Concept in Land. The rapid economic growth of the past decades, accompanied by the concentration of population and industries in urban areas, generated an enormous demand for urban land. As the urbanized ratio, (the
ratio of urban to the total population), increased from 28.0% in 1960 to 79.6% in 1990, the urban area enlarged three-fold, from 6,300km$^2$ to 21,200 km$^2$ during the same period.

Because speculative demand accompanied the demand for land, the result was a rapid upward spiral of land prices. In 1989, the average annual rate of increase in land price was 32%, and thus the total assessed value of national territory increased from W1,359 trillion in 1989 to W1,614 trillion in 1990. This was 9.6 times the Gross National Product(GNP), while the corresponding figure for Japan and the U.S. in 1989 were 6.5 and 0.9, respectively. From these figures, one can see that the land price level of Korea is indeed very high.

During the past 25 years, the land price increased thirteen-fold, whereas the wholesale price and the national income rose only three-fold, and five-fold, respectively.

Table 1. Comparison between Land Price and other Economic Indices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Price</td>
<td>100</td>
<td>328</td>
<td>533</td>
<td>1,335</td>
</tr>
<tr>
<td>Housing Price</td>
<td>100</td>
<td>355</td>
<td>397</td>
<td>649</td>
</tr>
<tr>
<td>National Income</td>
<td>100</td>
<td>142</td>
<td>204</td>
<td>526</td>
</tr>
<tr>
<td>Wholesale Price</td>
<td>100</td>
<td>225</td>
<td>289</td>
<td>311</td>
</tr>
</tbody>
</table>


Moreover, the “Research Commission for Public Concept in Land” estimated that, in 1989, the top 5% of landowners own 65.2% of the total privately owned land, which accounts for 80% of the national land. This clearly shows that property ownership is unequally distributed. In 1989, the size of annual capital gains that the top 5% of landowners earned from the land price appreciation was approximately W171 trillion, which is even larger than the 1989 GNP, which was W142 trillion. Even though capital gains are partially realized, they have distorted income distribution in Korea, being skewed toward a small number of landowners.

Table 2. Capital Gains of Landowners

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 5%</td>
<td>6.5</td>
<td>7.2</td>
<td>20.4</td>
<td>80.1</td>
<td>171.9</td>
</tr>
<tr>
<td>Top 10%</td>
<td>7.6</td>
<td>8.5</td>
<td>24.1</td>
<td>94.4</td>
<td>202.7</td>
</tr>
</tbody>
</table>


In fact, much resources had been concentrated into the land sector to collect capital gains resulting from the land price spiral. This pushed up the land price further, and thereby caused productivity of resources to decline. The vicious circle of housing price increase, residential land price hike, and housing rental price spiral led to housing instability among half of the urban households that do not own their own homes.

Table 3. Land Price and Housing Related Indicators

<table>
<thead>
<tr>
<th></th>
<th>'85</th>
<th>'86</th>
<th>'87</th>
<th>'88</th>
<th>'89</th>
<th>'90</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Price</td>
<td>100</td>
<td>107</td>
<td>123</td>
<td>157</td>
<td>207</td>
<td>250</td>
</tr>
<tr>
<td>Housing Price</td>
<td>100</td>
<td>97</td>
<td>104</td>
<td>118</td>
<td>135</td>
<td>164</td>
</tr>
<tr>
<td>Rent</td>
<td>100</td>
<td>105</td>
<td>126</td>
<td>143</td>
<td>168</td>
<td>196</td>
</tr>
<tr>
<td>Consumer Price</td>
<td>100</td>
<td>103</td>
<td>106</td>
<td>113</td>
<td>120</td>
<td>130</td>
</tr>
</tbody>
</table>

Recognizing that the desired national policy goals of equitable distribution, stability, and growth cannot be achieved and, that maintaining a capitalistic economic regime would be in danger without solving the problems of land market, the government adopted a number of strong policy measures under the name "the Public Concept in Land" in 1990. The core of the concept is to limit property ownership rights and to fortify government's right to reclaim capital gains. However, even before the implementation of the measures began, land speculation for capital gains was rampant. To preempt such speculative activities, the government took other measures to force large business conglomerates to sell off lands being held for non-business uses.

A succession of such measures taken by the government led to the downward movement in the rates of price increase as shown in the
last three quarters of 1992. This was the first time since 1975 that the national land price increase rate took a downturn. However, for this trend to continue on a long-term basis, the government's land policy must be implemented in a consistent manner with a firm commitment. In addition, the content of land policy should be constantly revised and modified as the circumstances change.

Table 4. Land Price Increase Since 1991

<table>
<thead>
<tr>
<th>Year</th>
<th>1991</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter</td>
<td>1/4</td>
<td>2/4</td>
</tr>
<tr>
<td>Increase rate (%)</td>
<td>4.7</td>
<td>3.4</td>
</tr>
</tbody>
</table>


Changes in Conditions and Challenges to be Met

In the future, a leveling out of population growth, a slowdown of urbanization, and a shrinkage of land-intensive industries will be the factors leading to a reduction in the rate of demand increase for urban land.

Table 5. Population Growth and Urbanization

<table>
<thead>
<tr>
<th>(Unit: %)</th>
<th>1980</th>
<th>1990</th>
<th>2001</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Population Growth Rate</td>
<td>1.34</td>
<td>1.93</td>
<td>0.77</td>
<td>0.37</td>
</tr>
<tr>
<td>Urbanized Ratio</td>
<td>66.7</td>
<td>79.6</td>
<td>86.2</td>
<td>90.0</td>
</tr>
</tbody>
</table>


Also, demand for agricultural land will decline as the rice consumption decreases and the agricultural sector is opened to the international market. In 1989, Korea's rice paddies per capita measured 316 m², which is relatively larger than the Japanese figure of 233 m².
Moreover, Japan has a surplus in rice production. For these reasons, it seems that the often raised argument that we cannot reduce the farm land to protect self-sufficiency in rice consumption does not hold and must be reassessed.

Table 6. National Land vs Agricultural Land
(Unit: 1,000km²)

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1990</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Territory(A)</td>
<td>99.0</td>
<td>99.3</td>
<td>100.4</td>
</tr>
<tr>
<td>Agricultural Land(B)</td>
<td>21.9</td>
<td>21.1</td>
<td>19.0</td>
</tr>
<tr>
<td>Rice Fields(C)</td>
<td>13.1</td>
<td>13.5</td>
<td>12.2</td>
</tr>
<tr>
<td>C/A (%)</td>
<td>13.3</td>
<td>13.6</td>
<td>11.0</td>
</tr>
</tbody>
</table>


Research has further shown that in consideration of the changes in diet patterns and the prospect for further developments in genetic engineering, the reduction of total farm land, currently amounting to 13,000 km², 13.6% of the national land, down to 10,000 km² would not affect the possibility of self-sufficiency in food at all.

On the other hand, with the rise in personal income, the demand for recreational land will be increased. Also, inadequacy in social infrastructural investment and an extremely low level of home ownership compared to other countries will require more land be devoted to housing and public facilities in the years to come.

Table 7. Predictions for Land Usage
(Unit: km², %)

<table>
<thead>
<tr>
<th></th>
<th>1989</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land for Public Use</td>
<td>2,100</td>
<td>4,200</td>
</tr>
<tr>
<td>Land for Housing</td>
<td>1,900</td>
<td>3,693</td>
</tr>
<tr>
<td>Land for Industry</td>
<td>340</td>
<td>600</td>
</tr>
</tbody>
</table>


Until now, the government has allowed the large land development projects to be implemented only by the public sector. In the future, however, the competition and creativity of the private sector will be required not only in the area of housing development, but also in all fields of land development. As for the industrial land, while total amount of supply has been secured by the development of large-scale industrial complexes, solutions to rectify locational mismatch between the demand and supply in the future need to be searched.

Further, considering the future national development projects in the West Coast, land development which has occurred almost exclusively in the Seoul metropolitan area in the past will arise from all over the nation; a balanced development policy in all areas, including education, industry, and economy, will be required in its wake. Also, in order to meet the needs of the era of local autonomy, the division of jurisdiction between the central and local governments with regard to land administration will need to be adjusted.

Furthermore, in order for the public to have a clear understanding of the distinctive nature of land resources, it is essential to correct current deficiencies in the system of the Public Concept in Land by clearly defining the concept and especially simplifying its complicated tax system.

Also, a basic outline of land policy for the reunified Korea should be prepared in order to minimize probable side-effects, should the two opposite systems be unified in the near future.

**Basic Direction for Land Policy**

The goals of land policy and related policy measures can be set by taking into consideration the nature of land-related problems of the present and the probable changing circumstances of the future. The goals of Korea’s land policy are to promote efficient land use and to stabilize land price. Because Korea faces severe shortage for domestic space, an efficient utilization of land ought to be a primary goal. The efficiency mentioned here does not merely mean a static efficiency, but includes dynamic or future efficiency.

On the other hand, it can be said that if the price of land is determined by supply and demand in the market, it may not be necessary
to include land price stability as a goal of land policy. However, considering that

1. the land market of Korea is not functioning effectively,
2. the land price spiral distorts the income distribution, even if a part of the capital gains are recaptured by the government,
3. that having no purchasing power over a highly priced land can close off the opportunity for efficient land use, and
4. that land price at present is already unreasonably high as a result of past speculation, it seems desirable to make the stabilization of land price an intrinsic part of land policy goals.

Though some may want to include in the goals of land policy

1. the leveling of the lopsidedness of land ownership,
2. controlling of the speculative land demand,
3. fostering a reasonable degree of land ownership,
4. expanding the supply of land for urban usage, and
5. collecting capital gains on land, these should be of as policy or policy effects rather than goals. For example, the collection of capital gains cannot occur when a stabilization of land prices comes first.

Those two goals are in line with macro-economic objectives such as stability, efficiency, and balance. Achieving the two goals of land policy, along with additional socio-economic policies, will contribute to continuous and stable national growth. As for policy measures to achieve the land policy goals, there are taxation, effective land use planning and land development as illustrated in Figure 1; they will be further elaborated

The effectiveness of land policy, as in the case of other government policies, depends largely on the government’s administrative capability and the role of the land market. Administrative capability cannot be enhanced without the establishment of an effective and accurate information system. A modernized land information system, which disseminates to the public the necessary land information and mediates between supply of and demand for land, will become the basis for increasing the effectiveness of the policy. For the development of
Figure 1. Goal, Measure and Effect of Land Policy

Institutional Support

- Census & Survey
- Establishment of Land Inf. System
  - Ownership
  - Announced Price
  - Transaction Data
  - Zone & Use Status
  - Tax & Credit Record
- Establishment of Land Transaction System
- Deregulate for Private Developer
- Finance Mechanism Development

Policy Measure

- Land Holding Tax
  - ↓ Expected Capital Gains
  - ↓ Excessive holding & Pseudo Demand
  - ↓ Cooperative Revenue
- Capital Gains Tax
  - ↑ Usable Land Supply
  - ↑ Land Use Eff.
- Detailed & Optimal Urban Planning
  - Formulation of Eff. Land Use Plan
- Land Develop
- Land Reclamation
- Environment Conservation

Policy Effect

- Better Distribution of Land Owner
- Balanced Stable Growth

Policy Goal

- ↑ Economic Eff.
- Improvement Income Dist.
- Other Economic Policies

Economic Goal

Symbols:

- ↑ Strengthen or increase
- ↓ Weaken or decrease
- Measures or institutional support
- Resulting effect
- Policy goal
land market, this study examines ways to improve the land brokerage and financial systems.

As in other policies, land policy should be implemented consistently over a period of time without frequent change. Land policy can be considered effective only when its contents are comprehended by the citizens, since much of the policy is directly linked to people’s interests.

Tax System, Current and Future

The land tax system introduced in 1990 under the name of “The Public Concept in Land” is a set of additional new taxes, rather than an improvement over the existing tax system. Therefore, in this section, the previous tax system is first reviewed, and the new system is then evaluated. However, since the new system went into effect from 1990 to 1992, a full assessment is impossible due to limited data availability. Finally, new directions for improving tax system and tax administration are discussed.

Assessment of Previous Land Tax System

Both the Capital Gains Tax for individuals and the Special Value-Added Tax for corporations levy a charge on the realized capital gain, and the Comprehensive Landholding Tax does so on land holdings. The land holding tax has been named successively during its revision process as Land Property Tax, Idle Land Tax, Excess Land Holding Tax, and Comprehensive Landholding Tax. In addition, there are Inheritance Tax, Gift Tax, Acquisition Tax and Registration Tax.

1. The Capital Gains Tax

Until 1987, the Capital Gains Tax had not functioned well in recapturing the capital gains due to low assessed value, tax evasion through illegal transaction, high exemption rate and the corruption of tax collectors, etc. After 1987, the tax amount levied has increased through the reflection of market price on the assessed value and the lowering of the exemption rate.
However, the ratio of tax levied to tax base is still too small to discourage the expectation of capital gains and to reduce the speculative demand.

2. Inheritance / Gift Tax

The tax-base of Inheritance and Gift Tax was extremely under-assessed until 1987, and allowed the inheritance of wealth, distorting the national income distribution. Since then the assessment has been changed to reflect the market price of real estate, yet the ratio of tax amount assessed to the total value of inheritance and gift is very small. To enlarge this ratio, the average tax rate needs to be increased, strengthening the progressive rate.

### Table 8. Status of Capital Gains Tax Assessed

<table>
<thead>
<tr>
<th>Tax Base</th>
<th>Tax Assessed</th>
<th>Rate of Exemp. &amp; Deduct(%)</th>
<th>Tax Amount Levied</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>1,011</td>
<td>26.7</td>
<td>287</td>
</tr>
<tr>
<td>1986</td>
<td>785</td>
<td>42.5</td>
<td>181</td>
</tr>
<tr>
<td>1987</td>
<td>820</td>
<td>34.5</td>
<td>213</td>
</tr>
<tr>
<td>1988</td>
<td>1,435</td>
<td>27.5</td>
<td>419</td>
</tr>
<tr>
<td>1989</td>
<td>2,140</td>
<td>21.0</td>
<td>696</td>
</tr>
<tr>
<td>1991</td>
<td>3,837</td>
<td>16.2</td>
<td>1,456</td>
</tr>
</tbody>
</table>


### Table 9. Value and Tax Assessed of Inheritance and Gift

<table>
<thead>
<tr>
<th>Value</th>
<th>Tax Assessed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>310</td>
</tr>
<tr>
<td>1986</td>
<td>381</td>
</tr>
<tr>
<td>1987</td>
<td>411</td>
</tr>
<tr>
<td>1988</td>
<td>524</td>
</tr>
<tr>
<td>1989</td>
<td>817</td>
</tr>
<tr>
<td>1990</td>
<td>1,585</td>
</tr>
<tr>
<td>1991</td>
<td>1,699</td>
</tr>
</tbody>
</table>

3. Comprehensive Landholding Tax

The amount of land holding tax in Korea compared to the total tax revenue, GNP or to the value of the national territory, is perhaps the smallest in the world.

The Landholding Tax, in the past, has not functioned properly as a means to induce optimal land holdings. Indeed, excessive land holding has been rather encouraged due to the very low tax rate, the lack of a progressive rate, the weakness in recapturing capital gains, and the high rate of expected returns from land investment. In addition, the assessment value to the market price varies greatly according to the regions and type of land; thus, the principle of balanced taxation is violated.

Table 10. Share of Land Holding Tax to Total Tax Revenue: International Comparison
(Unit: %; based on 1985 figures)

<table>
<thead>
<tr>
<th></th>
<th>% to Total Taxes</th>
<th>% to GNP</th>
<th>% to the Value of Territory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>2.8</td>
<td>0.54</td>
<td>0.06</td>
</tr>
<tr>
<td>Japan</td>
<td>7.5</td>
<td>1.66</td>
<td>0.26</td>
</tr>
<tr>
<td>Taiwan</td>
<td>6.7</td>
<td>1.09</td>
<td>-</td>
</tr>
<tr>
<td>United States</td>
<td>13.3</td>
<td>2.80</td>
<td>3:11</td>
</tr>
</tbody>
</table>

Source: Ministry of Home Affairs

Table 11. Ratio of Assessment Value to Market Price by Region (1990)
(Unit: %)

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Highest</th>
<th>Lowest</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>15.3</td>
<td>Onyang, Chung Nam</td>
<td>Koyang, Kyungki</td>
</tr>
<tr>
<td></td>
<td></td>
<td>43.4</td>
<td>6.0</td>
</tr>
<tr>
<td>Seoul</td>
<td>14.4</td>
<td>Chung-ku</td>
<td>Kangnam-ku</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20.2</td>
<td></td>
</tr>
<tr>
<td>Pusan</td>
<td>16.6</td>
<td>So-ku</td>
<td>Kanso-ku</td>
</tr>
<tr>
<td></td>
<td></td>
<td>23.1</td>
<td></td>
</tr>
<tr>
<td>Chonbook Pro</td>
<td>20.2</td>
<td>Imsi-kun</td>
<td>Kimche</td>
</tr>
</tbody>
</table>

Source: Ministry of Home Affairs
The ratio of the standard assessment value of land for the Comprehensive Landholding Tax to the market price, or to the real trading value stood at 15.6% in 1991. Since the statutory tax rate ranges from 0.2% to 5%, the real tax rate then was only 0.03%~0.78%. Indeed, the real tax rate in 1990 computed based on the tax assessed was 0.61%. Even though the tax amount assessed in 1992 has more than tripled in 3 years, it is still too low to prevent excessive land holdings.

In 1991, 95.7% of the total taxpayers pay less than ￦100,000, which is equivalent to U.S.$125. Only 0.4% of the total taxpayers pay more than one million won.

Table 12. Ratio of Assessment Value to Market Price by Land Type (1990) (Unit: %)

<table>
<thead>
<tr>
<th>Nat'l Avg.</th>
<th>Dry Fields</th>
<th>Rice Field</th>
<th>Industrial Land</th>
<th>Hot Springs Mines</th>
<th>Forest</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.3</td>
<td>11.8</td>
<td>14.1</td>
<td>16.8</td>
<td>47.2</td>
<td>9.9</td>
</tr>
</tbody>
</table>

Source: Ministry of Home Affairs

Table 13. Status of Comprehensive Land Tax

<table>
<thead>
<tr>
<th>Tax Payer thousand persons</th>
<th>Assessed Land Value (Billion)</th>
<th>Tax Amount Levied (A) (Billion)</th>
<th>% of A to Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>'89</td>
<td>222.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'90</td>
<td>11,773</td>
<td>107,751</td>
<td>447.7</td>
</tr>
<tr>
<td>'91</td>
<td>11,459</td>
<td>135,232</td>
<td>531.4</td>
</tr>
<tr>
<td>'92</td>
<td>10,452</td>
<td>172,221</td>
<td>710.6</td>
</tr>
</tbody>
</table>

Note: 1. For the land size 66,135 km²
2. In the case of Japan, 2.8% and Taiwan, 3.6%
Evaluation of the Tax System of “The Public Concept in Land”

In 1990, the Government introduced three new land policy measures; Excess Profit Tax on Land Value Increments, Urban Residential Land Ceiling, and Land Development Charge. These new measures are termed in Korean as “Gong-Gae Nyom” which implies a strong public intervention in the land market and may be translated into English as “The Public Concept in Land.”

1. Excess Profit Tax on Land Value Increments (Land Value Increment Tax)

The Excess Profit Tax on Land Value Increments (EPTVI) is imposed on a part of gains resulting from a land price increase. The EPTVI is applied to land designated as idle land or land for non-business purposes. The total area affected was 11,760 km² in 1991, amounting to 12% of the national land. The EPTVI levies a 50% tax on the part of land value increments after deducting the investment cost. The tax is regularly assessed on a three-year basis. However, the tax is levied annually on land the price of which rises more than 1.5 times the national average (special region).

In 1990, among the designated special region of 852km², the number of plots where price increase was higher than 30.9% (1.5 times the national average of 20.3%) was 36,343, owned by about 27,000 people. After adjusting tax appeals, the final tax levied was W463 billion from 23,000 people. Since the land price has recently been stabilized, the corresponding figures in 1991 were W34 billion and 4,000 people, respectively.

However, the regular EPTVI during the period 1990~1992 for the whole land is to be levied in 1993, and very strong resistance and tax appeals are expected. The major causes of resistance and appeals are as follows:

- EPTVI levies on the unrealized capital gain, and taxpayers have no income earned to pay for the tax.
- Definition of “Idle land or Non-business use” is not clear.
- EPTVI is assessed based on the officially announced land price (OALP), which may be different from what the landowner per-
receives. Also, there could be statistical errors in the price estimation for OALP which could vary among regions.

- If the land price declines, taxpayers who paid the previous EPTVI might request a refund.

Even though EPTVI is intended to induce the owner of idle land to sell or to utilize it efficiently, the owner can construct a temporary building to escape EPTVI, resulting in an inefficient allocation of resources. Also, EPTVI discourages businesses from securing land for future economic activity.

2. Urban Residential Land Ceiling

The Urban Residential Land Ceiling (URLC) is intended to discourage both the owners of excessively large lots and the owners of many lots scattered in the urban area. Considering the acute shortage of residential spaces, the measure directly restricts the amount of urban residential land which individual households can own. The URLC levies an “Excess Holding Charge” (EHC) of 4~6% during 1992-93, and 7~11% after 1994 on the portion of land in excess of the ceiling, which is 660m² in six metropolitan regions. For the year 1992, the number of persons, including corporations, subject to the EHC is confirmed at 14,600; the area subjected to the charge is about 10 million m²; and the amount of assessed charge is W434 billion.

URLC, as a system that sets a limit on ownership, faced a technical difficulty in setting the optimal size of the limit. It may also distort the people's ordinary behavior observed in selecting the size of land plots for their ownership. Some also argue that URLC would interfere with present and future efficient use of land by forcing land partitions. The charge, 7~8% of the land price every year, becomes a big burden to the large landowner. The rate seems to be one of the highest property taxes in the world.

3. Land Development Charge

The Land Development Charge (LDC) is a measure to recapture a portion of profit created by land development projects for residential and industrial use. LDC, which became effective in March 1990, levies a 50% charge on the part of land value increments after deduc-
tion of the investment cost. For the period of 1990~1991, the amount of LDC levied was W131 billion from 1,310 development projects, and the corresponding figure for 1992 was W175 billion from 688 cases. However, there have been many appeals to the government that the charge is based on OALP, which may be different from the transaction price or the assessed price.

There is much controversy over who will ultimately bear the burden of the Land Development Charge. Some argue that LDC be borne by the developer on the profit made, while others argue that LDC be shifted to the price of the building being sold. Still another group argue LDC might be shifted to the rent or users' fee. The monopolistic nature of development project and the degree of market competitiveness of final products will become critical factors that determine the incidence of tax burden. For instance, in the case of housing development projects that start with predetermined prices, the charge will be on the profit made by the housing developer.

The Land Development Charge is appropriate because it covers the cost of social infrastructure provisions such as roads, water, and pollution control, which are necessary to support the development project. However, the decision as to who bears how much of the charges should be based on the allocation of financial responsibility between developers and government. Moreover, considerations have to be made on the possible unifying of similar charges; e.g., traffic impact charge and environmental impact charge.

**Conclusion**

The land tax system currently in execution and the amount of tax assessed can be outlined as follows:

Due to the reckless land speculation which occurred during the late 1980s, the government adopted the “Public Concept in Land” measures with the intention to “put an end to land speculation once and for all with every possible measures.” Nevertheless, it seems more appropriate to strengthen, first, the existing tax system that includes Capital Gains Tax and Comprehensive Landholding Tax and to improve the capability of tax administration under that system. Then, if the results of those efforts are not effective, it may be necessary to
( Unit: billion won)

<table>
<thead>
<tr>
<th>Holding Tax</th>
<th>National Tax</th>
<th>Amount</th>
<th>Regional Tax</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPTVI*</td>
<td>National Tax</td>
<td>190</td>
<td>Regional Tax</td>
<td>190</td>
</tr>
<tr>
<td>URLC*('92)</td>
<td>National Tax</td>
<td>434</td>
<td>Comprehensive</td>
<td>533</td>
</tr>
<tr>
<td>Assets Revaluation Charge</td>
<td>National Tax</td>
<td>66</td>
<td>Urban Planning Tax</td>
<td>314</td>
</tr>
<tr>
<td>Gain Tax</td>
<td>Capital Gain Tax</td>
<td>1,456</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Value</td>
<td>Capital Gain Tax</td>
<td>523</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Added Tax</td>
<td>Capital Gain Tax</td>
<td>175</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LDC*('92)</td>
<td>Regional Tax</td>
<td>231</td>
<td>Acquisition Tax</td>
<td>1,599</td>
</tr>
<tr>
<td>Transaction</td>
<td>Inheritance Tax</td>
<td>231</td>
<td>Acquisition Tax</td>
<td>1,599</td>
</tr>
<tr>
<td>Tax</td>
<td>Gift Tax</td>
<td>293</td>
<td>Registration Fee</td>
<td>1,903</td>
</tr>
<tr>
<td></td>
<td>Service Stamps</td>
<td>223</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Measures for Public Concept in Land.

adopt a new and different system. The task for the future is to simplify the current system, ridden with complications and overlaps, while achieving the goals of the land policy and to foster scientific administration of the tax system.

Future Land Tax System

The various taxes in the current land tax system should be consolidated along with the Comprehensive Landholding Tax and the Capital Gains Tax. The intention behind “The Public Concept in Land” will have to be introduced in these two existing taxes, and the continued presence of the newly introduced taxes such as EPTVI and URLC needs to be reconciled. For this, the Capital Gains Tax should be revised to recapture more of the realized capital gains, and both the average real tax rate and the progressive rate of the Comprehensive Landholding Tax should be increased.

The impact of these two strengthened taxes on land price stabilization and efficient land use is illustrated in Figure 2, which is a subset of Figure 1.
1. Capital Gains Tax, Special Value-Added Tax

Strengthening only the capital gains tax may result in the lock-in effect, and thus will lead to further land price increases. However, the degree of the lock-in effect can be reduced when the holding cost of the land is perceived to be burdensome, and when the premise is established that the holding of land cannot guarantee abnormal future profit. In other words, the lock-in effect can be minimized by fortifying the Comprehensive Landholding Tax and the Capital Gains Tax complimentarily.

Figure 2. Impact of Land Taxes on Policy Goal

For this, all the capital gains made on land should be recaptured after deducting the inflation factor and allowing for a part of the average productivity of capital invested. It is important to note that when
the land price increases only by the inflation rate, the new system would, in fact, collect no capital gains. That means the size of recapture matters in the short run but not in the long run, with the land price being stabilized. However, it would require a device to protect good land owners such as farmers and native inhabitants in the Green Belt district, since they, not like others, have had no benefit from land price increases in the past.

In the case of corporations, it should be prohibited for firms suffering from the management deficit to make it up with the profit from land asset value increases. This is important not only for the interest of maintaining the principle of recapturing capital gains, but also as a strategy to enhance the competitiveness of the enterprise. Thus, regardless of land classification between business-use and non-business use, all capital gains from land transactions should be taxed. The capital gains on land should be calculated and taxed independently from the overall corporate profits and losses.

In principle, the price used for the purposes of calculating the Capital Gains Tax should be the actual transaction price. The seller, in the interest of reducing the Capital Gains Tax, would tend to report the price as low as possible, whereas the buyer, interested in reducing the future Capital Gains Tax, would report the highest possible price. Thus, the actual reported price tends to be the transaction price. In reality, this is not so because the Korean land market is basically a seller's market. Hence, it is necessary to put in place a mechanism for correction. For example, when the reported price of the land is lower than a certain officially announced price, the government should be allowed to purchase the land after re-appraisal.

Essentially, the problem associated with land is not caused by who the owner of the land is, but, rather, by whether the holding of land inhibits the supply of the land. Accordingly, it is important to put in place a mechanism to induce privately held land to be let out on the market, so it could be used for housing developments or for public uses.

2. Inheritance/Gift Tax

Even though the capital gain is not realized through inheritance, the tax rate and its progressiveness should be strengthened to recapture
the unrealized capital gains more completely, and to minimize the inheritance of the land.

3. Comprehensive Landholding Tax

Since the assessed value for the land holding tax is still too low, it should be set at a certain percentage level of the officially announced price (e.g., 80%). At the same time, the tax rate should become more progressive, while the overall tax rate could be lowered, targeting the total tax revenue to increase 3–4 times larger than the present.

Further, by reflecting the land price change promptly and by strengthening the progressive rate of tax, both EPTVI and URLC can be practically merged into the Comprehensive Landholding Tax. Also, the tax rate differentials among lands in different use types should be reduced, while the progressivity of a tax rate within a type should be more strict.

In addition, for those land plots on which the government has placed certain restrictions for the benefit of the public, the tax burden should be reduced in proportion to those restrictions. The Comprehensive Landholding Tax should be transferred from the local to the national tax in order to allocate financial resources more effectively for balanced regional development.

4. Officially Announced Land Price (OALP)

While the Capital Gain Tax should be assessed on the basis of the transaction price, the holding tax should be based on the OALP. Since the size of the tax appeals would be in inverse proportion to the accuracy of OALP, the design of the sample size, survey method and the estimation technique for OALP should be improved. The expenses to improve OALP can be mobilized from the on-going appraisal fees paid by the banking sector because, eventually, OALP would be used for banks appraisal purposes as well.

Since the present appraisal work for OALP has been concentrated to 2–3 months of every year, many non-professionals have to participate, resulting in inaccuracies. This could be overcome by more even distribution of the work load of the appraisers throughout the year.
Suggestions for Efficient Land Use

At present, the urban land, such as land used for residential, industrial and public purposes, accounts for 4.3% of the total territory as shown in table 15. The same amount of land will have to be supplied until the year 2020 to meet the estimated demand (Table 7).

Table 15. Composition of Land by Type of Use (1990)

<table>
<thead>
<tr>
<th>Land Type</th>
<th>Area (km²)</th>
<th>Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forest</td>
<td>65,654</td>
<td>66.1</td>
</tr>
<tr>
<td>Farmland</td>
<td>21,484</td>
<td>21.6</td>
</tr>
<tr>
<td>Residential land</td>
<td>1,909</td>
<td>2.0</td>
</tr>
<tr>
<td>Industrial land</td>
<td>218</td>
<td>0.2</td>
</tr>
<tr>
<td>Public land</td>
<td>2,113</td>
<td>2.1</td>
</tr>
<tr>
<td>Other</td>
<td>7,894</td>
<td>7.9</td>
</tr>
</tbody>
</table>


Since the present land use policies including the development plans, the land use zoning system and special designation of use control area, etc., have been rigid, preservation-oriented, and short-term supply-oriented, they have failed to respond promptly to the ever-increasing demand for urban land. Also, the administrative procedures of permission for land purchase and approval of land development are so complicated and redundant that they have caused land supply delays. In order to supply urban land more efficiently, the policy direction in land use should be drastically changed from being regulation-oriented to development-oriented. Also, the opportunity for land development should be open to the private sector in order to promote competition, as in other economic activities.

Assessment of the Current Land Use Policy

There are two major land use plans at the national level. One is the National Comprehensive Development Plan based on the National Comprehensive Development Act (1963), which is formulated every
10 years. The other is the National Land Use Plan based on the National Land Use and Management Act (1973). The National Plans are considered high level plans, and provide guidelines for lower level plans such as the individual urban plans, housing land development plans, and industrial site allocation plans. In addition, there are plans such as the Special District Plan and Capital Region Management Plan, both of which are for the balanced regional development, as well as the Building Act, which regulates individual building.

Problems revealed in the formulation of these plans include the lack of expertise among the participating officials, and the incapability of the reviewing body to detect deficiencies. In addition, due to the top-down nature of the plan formulation, the unique circumstances of each region are not fully reflected in the plan. Also, because of the lack of coordination between the plans, the problem of inconsistency persists. Further, many development projects have been implemented on an ad hoc basis, which have not been included in the plans; numerous projects have been carried out in the Capital Region due to increasing demand, while development has been sluggish in under-developed regions. On the other hand, regulations as well as unnecessary restrictions on land use have delayed land development; 150 different types of land use zones are designated, which partly overlap, based on 44 land-related laws.

Along with these land use regulations, a more direct restriction on development occurs in the so-called green belt areas. The green belt was first designated in 1971 through the revision of the City Planning Act. Starting with the designation on July 30, 1971 of a belt-shaped area in the outskirts of Seoul which amounted to 463.8 km\(^2\), the total size of the green belt at present is 5,397 km\(^2\), about 5.5% of the national territory over 34 cities and 36 rural areas. In Kyonggi Province, in particular, the green belt consists of 10,764 km\(^2\) of land, which accounts for 11.1% of the total provincial land, the largest proportion among provinces. Within the green belt throughout the country, there are about 230,000 houses and 1,160,000 residents, as of 1992. Of the total green belt, agricultural land accounts for 27.9%, forest 58.5%, and residential and others 13.6%. Through a number of political regimes, the green belt has been strictly maintained, controlling the excessive expansion of urban development in the outskirts and preserving the natural environment. However, in many cases, especially
in the small and medium-sized cities, the boundary line of the green belt zone was made without serious consideration of future growth, and the zone often becomes an obstacle, blocking the desired urban development. In the case of metropolitan regions, the zone has aggravated the already serious housing problems of the region.

In addition, there is another regulative procedure to discourage land speculation, namely the "reporting and permit system for land transaction." This system necessitates reporting the contents of land transactions in detail and allows transactions to be effective only after a permit is obtained. In 1991, 41,722 km² of land, which amounts to 42.0% of the national territory, is designated under the system. However, because of the lack of administrative capability, neither pre-factum review nor post-factum management as intended by the system is realistically possible. Thus, it is almost impossible to uncover whether a transaction is made for a speculative purpose. In 1990, 116,582 cases of land transaction were reported and of these, only 4%, 4,895 cases, were considered inappropriate and given warnings. As for transaction permits, 93,742 cases were submitted for approval and only 8.2%, 7,600 cases, failed in obtaining permits. The land transaction reporting and permit system, in fact, can add unnecessary psychological burden, often depress even normal land transactions, and render the efficient use of land a difficult job.

Establishing an Institutional System for Land Use Planning

To formulate the national land use plan more comprehensively and effectively, an Office of National Land Planning (ONLP) is required and should be established in the Ministry of Construction, and eventually under the office of the Prime Minister. Any development plan of ministries of the central government which is related to land use must be submitted to ONLP after getting agreement from the local government where the development is to occur. Some examples of such plans are as follows:

- Investment plan for port and railroad (Ministry of Transportation)
- Alteration and adjustment plan for agricultural land (Ministry of Agriculture, Forestry and Fishery)
- Development plan for water resources, land reclamation and development plan for special area (Ministry of Construction)

On the other hand, the Ministry of Environment (MOE) should prepare the standard and detailed rule for natural and environmental preservation, which gives a guideline to every activity of land development and land use. ONLP then synthesizes all of these plans, adjusts location and size of the land use, and finalizes the land development plan for national projects of the central government. The development projects and related land use plans at the provincial level can also be made in similar pattern. The cities and counties formulate their own development and land use plan, accommodating the higher level plan and reflecting the opinion of local residents. The National Development Plan and Land Use Plan can be formulated through aggregation of these plans. This process is summarized in Figure 3.

Figure 3. Process of Land Use Planning
Revision of the Land Use Zoning

Currently, the National Land Use and Management Act stipulates that the total territory of national land be divided into 10 land use zones, establishing very strict regulations for each zone. Under the current system, 84% of national land is designated for zones to be preserved. This has proven to be a bottleneck for the increasing demand of land development.

To accommodate the increasing demand for urban land, national land should be divided into four functional zones as follows:

- Preservation
  - Natural and environmental preserve.
  - Agricultural Promotion Area.
- Urban
  - Housing, commercial, and urban industry site
- Development
  - Industries, Resorts, etc.
- Development Promotion
  - Currently preserved, but to be promoted for development

The Preservation zone should be strictly enforced to protect water resources and the natural environment, but it should be designated based on clear and detailed standards. To do so may require such complementary measures as the reduction of property tax for the native inhabitants and introduction of the Transfer of Development Right system, which allows them to transfer their rights to develop to other plots of land. This will ensure that any loss caused by the imposition of regulation would be compensated to a certain degree.

For the urban zone, which includes both the city and settled area, the urban development plan ought to be formulated in detail, and strictly enforced prior to deregulation. The application of the subdivision control method and detailed building plan can ensure the city a more planned development. For example, in the beginning stage of urban planning, the location, scale and form of public facilities can be pre-determined.

3. In 1993, after this research was completed, the Korean Government revised the National Land Use Zoning System from 10 zones to 5 land use zones.
For the development zone containing such areas as industrial sites and tourism/resort, the development activity should be encouraged, provided that it obeys strictly the environmental regulations. The agriculture and forestry land which are not included in the preservation zone could be designated as the development promotion zone.

As previously described, a large amount of farm land will become available for urban use. Moreover, according to a 1988-89 investigation conducted by the Office of Forestry, 54.7% or 25,400km², of the 46,410km² of forest land were found to be developable. Thus, Korea's agricultural and forest land have great potential to be utilized for urban purpose.

Each zone should be sub-divided according to the specific conditions of local land use, and the authority to designate subdivision within the zone should be left to local government. However, for the use regulation in a zone, the negative list system should be adopted; that is, government only lists the activities that are not allowed in each zone or subdivisions.

Deregulation of Land Use Control

While the forest area of the green belt should be designated as a part of the preservation zone, the remaining area, especially in small and medium-sized cities, where the promotion of regional development is required, should be removed from the Green belt. Also, undesired expansion of big cities should be controlled by introducing a limited floor-area ratio.

Even though circumstances have changed during the past 20 years since the green belt was designated, the Government is unwilling to reform the green belt system. This is not because the Government does not recognize the need but mainly because the Government is afraid of the price hike which might result from the modification of land use conditions. However, the increase of land supply and the recapturing system of the capital gain, would reduce the excessive holding or the pseudo-demand, and prevent the price hike. On the contrary, to compensate the sacrificed property rights during the past 20 years, a complementary measure might be required; a measure to allow the native inhabitants to obtain some of the capital gains.
On the other hand, the regulative procedure in land transactions, "reporting and permit system" should be abolished, while the original purpose (to prevent speculation) could be pursued by strengthening the taxation system. Also, the differential treatment of business and non-business land holdings should be abolished. Such deregulation would guarantee the right of private ownership, the principle of freedom of contract, and would promote the efficacy of land use through private competition.

Diversification of Land Development

Current laws related to land development allow only the public developers to supply land without charging the development gain. However, as with other commodities, land can also be supplied more effectively through competitive development in respond to demand. The increased supply would eventually stabilize the land price. Also, the capital gains generated by the private developer can be recaptured through taxation.

Therefore, the procedures concerning land development should be simplified. The current procedures are shown in the following sequences;

- Designation of area and developer
- Formulation of Basic Development Plan (made by developer)
- Approval of development plan
- Permit of project implementation
- Approval of land supply plan

The developer should submit only the Basic Development Plan, and not the remainder, as the major contents are similar to each other and detailed information in the remainder plans are not essential to the government. Government then designates the area and the developer after assessing the possibility of land development in relation to the land use plan, and evaluating the capability of the developer. Private developers can compete with public developers in obtaining development right at any development cite by submitting a development plan. Public-private joint venture should also be allowed and to some extent encouraged.
In terms of land development method, it would be desirable to introduce the "trust and lease method." With this method, the developer obtains the right to land use, instead of land ownership prior to development. The land trust system would activate the land development to overcome the developer's financial burden of land acquisition and to reduce the landowner's tax burden of idle land holding.

In addition, to facilitate land reclamation by the private developer, the related law should be revised to give more incentives to developers. The natural environment of the Korean peninsula is very favorable to reclamation: on the west coast, the area of sea floor at a depth of less than 20m and within a 3 nautical mile boundary from the coast is measured at 9,000 km$^2$. However, the total reclaimed area during the past 30 years only amounts to 421 km$^2$.

**Evaluation of Current Information System**

As for major sources of land information, there are two recording systems, the cadaster (ji-juk) and the land title registration (dueng-gi) system, maintained by the local government and the Office of Registration under the Court Administrator, respectively. While a change in legal right, such as a change in ownership, is recorded first in the registration system, a change involving a division or merging of land plots and land use status is first recorded into the cadaster system. Whenever the new information is recorded into one system, the other system is also notified.

Though the systems are maintained by two different agencies, independently for their own administrative purposes, much of the information in the two systems is identical. Moreover, the information contained in the cadaster system is richer than that in the title registration system. Consequently, not only does administrative waste occur, but also frequent recording errors and delays, causing discrepancies in the two systems. The discrepancy and inaccuracy of land information has often restricted the landowner in exercising his property rights, resulting in tax appeals and causing difficulties in carrying out public projects.

The cadaster system consists of not only a set of basic information such as ownership and use zone status, etc., which the registration
system contains, but also other data such as assessment of tax, boundary surveys, appraisal price, etc. Also, the related law enforces, as a procedural step of land development planning, public announcement of information in the cadaster system, which is operated under computerized service management. In this respect, the pillar of land information is the cadaster system rather than the registration system. The existing land information systems, however, do not contain detailed data concerning utilization of land plots, and data in the systems can only be obtained on a plot basis, not in an integrated manner, and cannot be translated into geographic information systems.

There has been much trial and error in the implementation stage of land policy, which is formulated based on poor and inadequate information. The Excess Profit Tax on Land Value Increments and Charges on Urban Residential Land Ceiling were introduced in 1990 without taking proper consideration of assessed tax value and number of taxpayers, etc., and many tax appeals have occurred as a result. Also, most land use plans have been formulated without comprehensive analyses of land condition, present land utilization, environmental factors or surrounding socio-economic factors and have often been revised, causing public distrust.

To Establish Land Information System

To formulate better land policies, and to implement them more effectively, as well as to protect people’s property rights and to provide data for land developers to let them supply the right land, a more comprehensive land information system should be established. This can be done by merging existing information, revising the existing systems and adding the necessary data to the new system. The following points should be considered in establishing a new system:

- For the land use planning and land development, information is required pertaining not only to the individual plot’s data, such as type of land use zone, current use status and land condition, etc., but also to the surrounding area data such as deposits of natural resources, availability of water resources, forest concentration and environmental data should be contained in the information system.
- The new system should be designed in such a way to match with the grid square data base of national socio-economic indicators developed by the Office of National Statistics, and also with the Geographic Information System to support formulation of a scientific regional development plan.

- Such integration would only be possible when the identification number for each of more than 30 million land plots is so designed.

- For formulation and effective implementation of better taxation, it is essential to have not only data regarding land use zone type and land use status, but also a history of ownership change, the corresponding transaction price and the officially announced price.

- The new land information system can be constructed initially based on the national land census, that can be carried out concurrently with the annual survey for the officially announced land price, say in 1994. The land census should be designed so that its result would provide the basis to evaluate accuracy of existing land information.

- The system should be updated through continuous inputs from all land transactions, which should be effective in using the legal standard form.

Recording systems of cadaster and registration should be merged through delegating the authority of the registrative administration of the court to the local government. Affiliated organizations performing land administration under local government, ministries and tax offices should manage their own information system integrated with the comprehensive information system, which would be managed by a central government agency staffed with experts on information management.

To pursue more effective integration between planning and information, it would be ideal if a part of the aforementioned Office of National Land Planning (ONLP) under the Prime Minister takes charge of the comprehensive information system. The office should be then responsible for conducting a routinized land census, and disseminating the land information to the public and private sector.

If the ONLP is in charge of both planning and information management, it would also be appropriate for the ONLP to manage laws and
regulations on land. To this end, the current legal statutes related to land use, such as the National Land Use and Management Law, the Urban Planning Law, the Cadaster Law, the Real Estate Registration Law, and the Real Estate Brokerage Law should be combined into a comprehensive land use law that also administers collection, management and service of land information.

To Improve Transaction and Financial System of Land Market

To realize the land policy objectives, which include efficacy of land use and stabilization of land price, the market mechanism to adjust supply and demand of land is essential to complement the government's land policy. The role of the land market can be successfully performed by competitive participation of land developers based on demand analysis, by effective intermediation of land brokers between trading parties, and by adequate financial support to developers and purchasers from the institutional system. It is essential for the development of the land market that the developer, broker and financial systems be promoted, and that these systems are coordinated effectively. The land market in Korea, however, has been underdeveloped in this sense, and may face difficulty in its survival when this sector is opened to the world market. Since the improvement of land development concerning diversification of developing activity and simplification of government's procedures was previously discussed, this chapter explores ways to improve the current brokerage system and to establish the financial system.

Brokerage System, Present and Future

The activity of the real estate broker has been limited so narrowly to the intermediation between trading parties (according to the Brokerage Law of Real Estate) that the modernization of the brokerage system has been delayed. Also, the law adopted a two-tiered system for qualification that mandates the sphere of activity of the publicly certified broker to be open to the entire country while activities of the regular
broker are limited to the region where he is registered. This causes not only friction between the two, but also interferes with information flow, especially in light of the fact that 80% of the nation’s brokers are regular brokers. Furthermore, the unrealistically low level of commission fees and the excessive competition without exclusive contract practice have caused frequent illegal activities on the part of brokers, that result in public distrust. Brokers have often led the speculator to trade land without registration, to avoid related taxes, and to increase speculative demand.

To establish order in real estate transactions and to bring stability to the real estate industry, the brokerage sector needs to be developed into a specialized profession, such as legal services and certified public accountants. First, the scope of activity must be diversified to include development, management and consultation in real estate so that professional competition can be promoted. Second, even though regular brokers might cooperate in order to carry out diversified professional activity efficiently, the government need to encourage them to incorporate cooperation, and further unify the existing two-tiered brokerage systems to promote free competition.

Another way of strengthening credibility and stability of land transaction is to adopt a well-established foreign system such as the Escrow system of the United States. The Escrow system was devised to protect transacting parties by eliminating any possibility of corruption on the part of broker, buyer and seller. The system serves the transacting parties by providing a third party account that safeguards the deposit money of the buyer and guarantees the seller’s ownership status until the completion of the deal. The Escrow agent also performs, on behalf of the buyer, the necessary investigation into ownership status, prepares the necessary legal papers, and takes care of the tax and loan procedure.

For the goal of incorporating the brokerage sector, besides the expansion of scope of activity previously mentioned, the following policy measures are required:

- Increase of commission rate
- Adoption of exclusive contract system and trade commodity registration system
- Sharing of information
- Compulsory use of the unified contract form

To guarantee the profit of brokerage enterprises, the commission rate should be set at above 1% of the trade value, which is far below the 3% to 5% of other countries. The exclusive contract system allows a single brokerage corporation to perform real estate transactions during a predetermined time period. The system is intended to prevent chaotic competition among brokers. Also, the trade commodity registration system requires a brokerage corporation with an exclusive contract to register the commodity to be transacted at the multiple listing service. The brokerage corporation which has agreed to be a member of the multiple listing service can access the registered information.

**To Develop the Financial System of Real Estate Sector**

There are several reasons why real estate financing has not yet been adequately developed in Korea. One is that much of the government effort to mobilize funds has been devoted to promoting the manufacturing sector, and the real estate sector has not received much government attention. Another reason is that real estate mortgage has never been recognized as a leveraging tool of real estate financing. In fact, real estate securities are not officially allowed to be transacted in the nation's capital market.

Some instruments look much like real estate securities, including housing bonds, land development bonds, home pre-purchase bonds, etc, but they are no more than regular financial assets. Housing bonds are sold on a compulsory basis either to builders or to individual consumers, depending upon the type. The purchase of a Type I bond with 5 percent yield per year is mandatory to obtain various licenses and permits, that are related to building construction and registration of land. It works like a taxation or a kind of charge being imposed on development activities. On the other hand, the type II bond is sold only to those home purchasers who bid for newly built apartment units of a certain size. The rate of yield is about 3 percent per annum, and the more one purchases the type II bonds, the higher chance one
has in securing a new housing unit at a subsidized price. Subsidies are provided in the form of difference between the market price and the government-controlled sale price. Revenues generated from the sale of these bonds are pooled into the National Hosing Funds (NHF), which was created as the government's social housing window to provide long-term mortgage financing for lower income-homeless households.

And public land developers such as the Korea Land Development Corporation (KLDC) are allowed to issue the land purchase bonds in order to alleviate short-term financial burden. They are not exactly the ordinary type of the marketable, corporate bond; instead, they are of the "I owe you (IOU)" type. Nevertheless, these bonds help the public developers spread out financial obligations over time (usually over a time span of at least two to three years). The rate of yield is about the same as the market rate of interest, which is relatively high enough to make the bonds attractive.

The other type of real estate related financial instruments is home pre-purchase bonds. They are corporate bonds, being sold by the builders to the prospective home purchasers. A bond holder is guaranteed, and entitled, to a particular unit once it is built. Obviously, the cash generated by the bond sale will help finance the construction. There are other arrangements in real estate holdings. For example, one can share the equity with someone else when one purchases a time-sharing condominium (mostly for recreational purposes) or cooperative housing.

In conclusion, it is difficult to find a financial instrument worthy of serious consideration as a way to mobilize funds from the capital market, and to distribute the development gains to ordinary investors. In other words, these instruments are inadequate to serve as an appropriate mechanism for promoting the nation's real estate industry. Another problem concerns the limited amount of land supply resulting largely from government's land use control. The difficulty of real estate development financing, combined with limited land supply, has contributed to a vicious circle of land price hikes and shortages of development funds. Consequently, the industry has been slow to modernize.
The country must develop an indigenous system of real estate financing to promote the industry, and the atmosphere seems appropriate now, as land speculation has cooled down, and land prices have significantly declined and are being stabilized. People's attitude toward land has also changed; they no longer adhere to the absolute ownership of land. Instead, they tend to conceive of land as something commonly shared and to be developed for the public-at-large. Moreover, to strengthen the Korean capital market prior to a full opening, real estate securitization needs to be promoted.

The type of real estate securitization or the share of the real estate security market in the capital market in advanced countries depends largely upon the size of the capital market, the intensity of real estate development activity, the rate of change in land price, and also the public conception of land. In general, however, real estate securitization mobilizes funds directly from the capital market by issuing security based on mortgage and on equity.

The security based on mortgage guarantees the market interest rate, and prevails in housing sectors of advanced countries. As of 1989, US$540 billion has been securitized based on the total amount of mortgage, US$1 trillion and 800 billion in the U.S. housing sector. On the other hand, the security based on equity guarantees to return the share of capital gains on project development. Typical examples are the Real Estate Investment Trust (REIT) of the U.S. and Bond for Divisioned Right of Real Estate (BDRRE) of Japan. It is well known that the REIT Corporation established by Rockefeller Group of the U.S. mobilized US$ 1.3 billion to build Rockefeller Center in New York City. On the other hand, the total amount of BDRRE of Japan recorded approximately ¥500 billion as of 1990, and its dividend is composed of rent and capital gains (when the real estate is sold).

The question is which type of securitization is appropriate for Korea. Since the security based on mortgage can hardly offer a market interest rate that is much higher than the rate of housing loan for which the mortgage is provided, it may not be demanded until the rate differential is narrowed. Indeed, the security based on mortgage prevails in countries maintaining low interest rates such as Japan and U.S.A.

On the other hand, securitization through REIT (or BDRRE) would be prospective in Korea for the capital mobilization to develop pro-
jects such as small town development in the suburbs of big cities, re­
development of lagging cities, and integrated town development
along with high-speed railroad, etc. Moreover, the security through
REIT would be attractive to the wandering money after implementa­
tion of “Financial Transaction under Own-Name.” To be successful,
both the public confidence in the REIT corporation and the free entry
of the private to various development activities are essential. First, a
REIT corporation established jointly with a financial institute and the
National Housing Corporation or the Korea Land Development
Corporation would guarantee public confidence. Second, it is neces­
sary that the government let the private and the public submit devel­
opment plans competitively as previously discussed.

A Note on Land Policy for Reunified Korea

The urgent policy task facing a unified Korea would be to integrate
heterogeneous systems of policies in the socio-economic sectors of
the two Koreas. In the case of reunification of Korea upon mutual
agreement by South and North, a new system of policy would be
agreed upon by both sides (and this study excludes such case). The
new land policy of a reunified Korea should be chosen so that it suc­
cessively supports the market economy, and is consistent with other
socio-economic policies.

Public vs Private Ownership of Land

A critical issue in the land sector is whether the nationalization of
the Northern land is to be retained or not. This study, however, does
not further develop the century-long debate on public and private
ownership of land; instead, the author’s opinion is presented. As pre­
viously discussed, problems caused by private ownership of land in
the South include the distortion of income distribution resulting from
concentrated capital gains to the upper class income group, and diffi­
culties both in private land use and expansion of infrastructural
investment due to high land cost, etc.

Moreover, in 1991, the world’s top 30 economists including Nobel
prize winners Franco Modigliani, James Tobin and Robert Solow urged Soviet President Mikhail Gorbachev to retain land in public ownership, to raise government revenue by charging rent for the use of land, and to prevent any possession of a disproportionate share of what nature provided for humanity.

On the contrary, however, there would result a serious inefficiency in the utilization of land under public ownership mainly due to the limited managerial capability of the government. It is difficult for the government to review private firms’ land use plans, and to set priorities. As the accumulation of inefficiencies of public firms under the centrally controlled economy caused the collapse of socialist countries, the rigidity and inefficiency of public intervention on land use could cause a bottleneck in balanced development of the land sector and other economic sectors.

Therefore, land for economic activity of the private sector should be privatized, while land for public use retained under public ownership.

However, any realized capital gains obtained after and in the process of privatization should be recaptured, allowing only inflationary factor or average capital productivity. Since the price of Northern land in the early stage of reunification would be set very low, and its rate of increase would probably be high, the recapturing system of capital gains needs to be introduced prior to privatization. Such revenue could be accumulated into a Northern Development Fund (NDF) that is allocated for the development of the Northern region and for income subsidy to the Northern people. The recapturing system needs to be implemented also in the South before the reunification as previously discussed (because one country needs a unique system).

Restitution vs Compensation to Previous Ownership

Another critical issue in land sector is whether the previous ownership existed prior to nationalization to be restituted or not. Since the nationalization has been taken based on the Northern constitution and related laws, restitution to previous landowner residing in the North is

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legally difficult. Restitution to landowners who came down to the South would be undesirable for that most of them would have deceased by the time of reunification. Also, the inheritance right to their descendants is hardly recognized due to difficulties in verifying ownership, identifying inheritors, setting proper periods of inheritance and assessment of tax value, etc. However, certain rules for compensation to identified inheritors need to be established since they have expected for a long period of time. The amount and the mean of compensation should be determined by resource availability of the Northern Development Fund.

On the other hand, compensation to land use right of farmers and housing residents would be an urgent matter for their living stabilization and the means of compensation needs to be free distribution of an appropriate size of land.

**Formulation of Development and Land Use Plan**

To establish a system to promote the efficacy of land use and to identify land for public use, plans related to land use should be formulated. These include plans for re-allocation of industry, re-development of city, infrastructural investment, development of water resources, national and environmental preservation and agricultural promotion area etc, at a minimum.

Plan formulation can be supported by national research institutes of South Korea since North probably has a little experience on this. Based on these plans, designation of land use zoning is possible. Natural and environmental preservation areas (mountaneous area, national and city park, water resource protection area etc.) and infrastructural facility areas (road, railroad, and harbor etc.) should be retained under public ownership.

**Privatization of Farm and Urban Land**

The agrarian land reform of the North, in 1946, distributed land owned by the Japanese, absentees who came to the South and the Northern landlords to land-less and small farmers. During the period of 1955-1958, in order to increase agricultural productivity, the North
further replaced the system of privately owned small scale farmers with a system of agricultural collectivization, resulting in no farmer owning farmland.

The farmland designated as agricultural promotion areas needs to be distributed freely and evenly to farmers. However, there needs to be some adjustment to reflect compensation to the owner of 1958, when the collective farming system was put in place.

One may argue that it may be more rational to make no distinction in privatization between collective farms and public enterprises. However, since the principle of “Land-to-the-tiller” is observed in the South, privatization of Northern farmland to non-farmers would cause a conflict. Instead, in the process of such agrarian land reform, a policy effort to transition from the existing social collective system into a farmer-operated corporation system is worthwhile so that the economy of scale in agricultural production works.

Houses and attached land of a certain size need to be distributed freely to the current residents. Special arrangement, however, for those who occupy less than a certain size and for migrants within the Northern territory for their economic activity during and after the land reform is required to secure the basic housing needs of the Northern people.

The urban land on which public enterprises are currently operated needs to be privatized according to an established method of the privatization of enterprises. The other urban land of future use for housing, commercial and industrial purposes designated on the land use plan needs to be eventually privatized. Priority to purchase the land should be given in the following order; Northern resident, North-South joint venture, and Southern resident. Revenue obtained from the sale, and capital gains realized thereafter from land transaction need to be pooled into Northern Development Fund, and to complement the weak purchasing power of the Northern residents, NDF may finance them.

Based on above discussed direction of land policy, detail measures should be further developed for its implementation. Land policy of the North, then, would be not only consistent with that of the South, but also achieve its object to promote efficient land use, to stabilize land price and to capture capital gains, probably much more effectively than in the case of the South.