

An Effective Direction for the “Unification Fund” Debate

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On August 15, at the memorial ceremony on the 65th anniversary of Korean Liberation Day, President Lee Myung Bak spoke of a “unification tax” and “3 grand communities” as a plan for unification. Following that speech there was intense debate about what exactly he meant and how such a tax might be levied more recently, various proposals have been put forth on the broader concept of preparing a “unification fund.” This article aims to point out a more effective course for achieving national consensus on these various processes for unification.

The need to broaden discussion into a “unification fund” concept

Throughout Korean society, approving and dissenting opinions have arisen over the “unification tax” idea.

First, there are those who understand and agree with the proposal. These people agree with the president on the grounds that when unification happens it will incur massive long-term expenses, and thus we should prepare for that situation in advance in whatever way possible.

Then there are those who fear and oppose the tax idea. These people take a literal interpretation of President Lee’s statement, “Reunification will

definitely come. I believe that the time has come to start discussing realistic policies to prepare for that day such as a reunification tax.” They disagree with the president’s proposal on the grounds that a unification tax will place a huge burden on the people and will provoke a violent reaction from North Korea.

But even among those who are against the unification tax idea there is the view that while they oppose it now, in the mid- to long-term it will be necessary. Thus there is a chance that these two opposing groups can reach a compromise. To enable a more effective debate in the future, the relevant bureaus on the assenting side should form an executive team and prepare a roadmap for minimizing the costs associated with unification by various methods.

Measures used to fund German unification

With the fall of the Berlin Wall in November 1989 and the holding of free elections in East Germany the following year, the two Germanys rapidly achieved unification. East and West Germany signed the “Treaty for Monetary, Economic, and Social Union”(1990.5.18), and by the terms of this treaty they proceeded through the stages of monetary union → economic union → social union → political union, ultimately leading to complete integration into a single unified Germany.

It is worth noting that during this process, West Germany prepared funds to help manage the costs of unification. Prior to unification, the West German government provided aid to East Germany which was procured by various measures such as transit charges, visa fees, and waste disposal fees. From 1951 to 1989, an estimated 400 billion deutschmarks (about 300 trillion won) were spent in aid to East Germany.

Since unification, the federal government of Germany has transferred funds amounting to roughly 5% of its GNI to the five newly established states of eastern Germany. These funds mainly came from government-issued bonds, taxes, and fiscal policy measures of the federal government. These funds are applied in different ways at different times.

First, West and East Germany agreed that a unification fund would be created under the terms of the “Treaty for Monetary, Economic, and Social Union” for the purpose of aiding the East German region. This fund operated from May 1990 to 1994, and funds were supplied 80% by bonds and 20% by the federal budget.

Next came the solidarity pact, which was also known as the unification tax. The German government judged that the unification fund would be able to cover the costs of unification, but

as it reached its limits they began to consider tax measures. The unification tax began in July 1991 and was to expire after one year, but later the need to extend it arose, and in March 1993 the federal government, leaders of the 16 states, and representatives of the lead and opposition political parties came together to sign “Solidarity Pact I.” They agreed to enact a unification and solidarity tax temporarily from 1995 to 2004. Then in June 2001 they signed “Solidarity Pact II” which extended the tax from 2005 to 2019.

Facilitating effective debate about the cost of unification

Discussion of the cost of Korean unification can vary widely depending on which definitions and metrics are used. The estimated costs can fluctuate according to the timing of unification, the living standards of the people in the North, and the process of unification. In particular, we must note that the costs can be decisively affected by the method and process of unification. Thus, any time an estimate of the cost of unification is announced it easily draws the public’s attention, but such announcements should be made with caution as they can easily hinder efforts to promote a higher awareness of unification issues. I’d like to suggest the following as a basic direction for promoting effective discussion about the cost of unification.

First, we must expand the discussion of unification costs upon a foundation of public sympathy for unification. We should emphasize that, while unification will require tremendous expense and effort, those costs will be offset and far exceeded by the benefits. There are various tangible and intangible benefits which exceed mere economic estimates, such as making use of North Korea’s idle labor force, developing its underground resources, more efficiently using its land, and building up the peoples’ sense of identity.

Second, we need more systematic and scientific approaches to estimating unification costs. Because experts only mention the total costs, they tend to overestimate the actual expenses involved. We have to consider the overall unification benefits at the same time, and work to alleviate the various fears that people have about the burden of unification costs.

Third, we should consider the international community’s support for and understanding of unification. During German unification, West Germany succeeded in gaining not only diplomatic but also financial support for unification, thanks to its tireless efforts to persuade countries such as the US and the former Soviet Union, as well as France, England, and other regional countries. As the recent Cheonan incident has demonstrated, the Korean peninsula continues to play out the confrontations of land and sea powers; clearly the cooperation of regional powers will be essential not only in the process of unification but also in the raising of funds.

Fourth, we should prepare for a gradual step-by-step unification process. Over the course of German unification, different fundraising methods were used at each stage. In the same way, we should devise appropriate funding approaches for the various stages outlined by the “3 grand communities” idea in the president’s Liberation Day speech.

The most important consideration in developing our future discourse on unification costs is to present a realistic and feasible vision for unification. When the people have developed a sympathetic attitude toward unification and feel willing to bear the burden, then at last the era of unification will burst wide open.