

## The DPRK's Local Budget System and its Future Prospects

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The economy of the Democratic People's Republic of Korea is a socialist planned economy in which administrative power is highly centralized, so there might be people who think that there is little scope for individual regions to exercise their creativity in efforts to promote economic development and secure local people's lifestyles.

However, the creative local budget system policy propounded by President Kim Il Sung and its embodiment are one real-life example demonstrating that the DPRK is the most outstanding society, being one which maximizes the responsibility and creativity of its regions in their efforts to build up the economy and improve the people's standard of living.

President Kim Il Sung taught us the following.

"The local budget system is a creative socialist budget system that our nation is the first to implement." (*The Selected Works of Kim Il Sung*, vol. 33, p. 556)

The policy on implementing the local budget system in the DPRK was first set forth by President Kim Il Sung about 40 years ago, in 1973.

Before the implementation of the local budget system, all of the money required for the daily life of the people living in the republic's regions was secured from the central budget. This not only failed to give the regions a strong sense of the need to strive hard and demonstrate creativity in order to develop both the local economy and the lifestyles of the people, but also made it impossible for the state to intensively invest in developing key sectors and projects of national significance.

Initially, profits earned from central industry were allocated to the regions, resulting in growth in the network of services such as inns and canteens in the regions. These were not managed appropriately and not even the slightest effort was made to try to increase earnings and reduce expenditure. Many other inappropriate phenomena also arose, such as the failure of regions to repair their own roads when these were damaged. This situation posed a tremendous obstacle to efforts to consolidate the results of socialist industrialization in the DPRK and to proactively extend the battle to achieve high targets for making the people's economy more autonomous, modern, and scientific.

President Kim Il Sung had a profound understanding of this situation and set out the issues to be examined in reconsidering the question of the central budget and local budgets. He instructed that, rather than the center providing local budgets, the central budget and local budgets should be completely separated from each other and that a local budget system should be instituted to ensure that local officials took responsibility and played a part as masters of those regions.

As a new method of local fiscal management, the local budget system in the DPRK is a creative budget system that guarantees centralized administrative power and planned guidance by the state, while increasing the responsibility and creativity of the regions, thereby yielding greater benefits for the state and ensuring optimum fiscal management at both the national and local levels.

Under the local budget system, the guarantee of centralized administrative power and planned guidance by the state takes the form of the preparation of local budgets in accordance with standardized budget drafting methods and procedures set out by the state. The enhancement of the responsibility and creativity of the regions takes the form of the preparation by the regions of revenue and expenditure plans tailored to local circumstances, in accordance with national budget drafting methods and procedures, as well as the guarantees provided by the regions that they will mobilize and use local reserves and potential effectively in undertaking the fiscal management of their region.

In the DPRK, part of any budget surplus is placed in a priority fund for later use, in order to increase the responsibility and creativity of the regions and ensure effective implementation of the local budget system. The priority funds built up through the achievement of budget surpluses are basically used to meet collective demand in the region, with a certain portion being supplied to organizations and enterprises to reward officials who have contributed to the effort to increase local budget revenue.

This demonstrates that the DPRK's local budget system has no relationship to a system of administrative orders, which ignores the uniqueness and creativity of regions and merely compels them to obey the instructions and regulations of centralized administrative power. Moreover, it is completely different from a system of decentralization of power to regions, which asserts only the uniqueness of regions, while rejecting the unified guidance of the centralized administrative power of the state.

The presentation of the local budget system policy made it possible to set out the guiding principles to be adhered to in local fiscal management, within the socialist construction process being undertaken by the Party and state of the sovereign working class.

In many classic works, including "On Further Developing the Local Budget System" (April 1975), "Let Us Appropriately Implement the Local Budget System and Improve the Lives of the People" (April 1977), and "On Increasing Local Budget Revenue" (April 1978), President Kim Il Sung completely unraveled the essential issues in the implementation process of the local budget system, including the position and role of the army as a base in the regions, and the interdependent relationship between the central budget and local budgets. Moreover, he provided wise guidance on these matters, identifying the tasks to be completed and direction to be taken in the implementation of the system.

Having taken on the task of implementing President Kim Il Sung's last wishes, in such classic works as "On Improving and Strengthening Finance and Banking," General Secretary Kim Jong Il demonstrated the scientific nature, creativity, and legitimacy of the President's guidance and theories concerning the local budget system, expanding and further enriching it to meet the needs of actual development.

General Secretary Kim Jong Il strengthened the unified guidance provided by the state, developed local industry and agriculture in accordance with the specific attributes of each city and county, proactively expanded service activities, and ensured that fiscal management was covered in each region.

General Secretary Kim Jong Il not only organized socialist competition, created model organizations associated with the implementation of the local budget system, and devoted his energies to sharing his experience with the whole country, but also tirelessly deployed a campaign to grant regions the title of "model county for the implementation of the local budget system<sup>1</sup>."

Moreover, in November 2010, General Secretary Kim Jong Il visited Changsong County, North Phyongan Province, where he celebrated the 50th anniversary of the historic Changsong Joint Meeting of Local Party and Economic Officials<sup>2</sup>, while revitalizing the county and disseminating the outcomes of this to the rest of the country, thereby achieving another great leap forward in the field of regional economic development. This further promoted the modernization of local factories to a level that would meet the needs of a new generation, thereby initiating a new round of modern industrial revitalization based on local raw materials and resources.

The local budget system in the DPRK has demonstrated its legitimacy and power in practice.

Before the local budget system was implemented, the state provided all of the regions with all of the money that they required for local fiscal management, but by the time several years had passed following the implementation of the local budget system, all regions were able to guarantee their expenditure from their own revenues. Even in 1974, the year after the local budget system policy was set out, appropriate implementation of the local budget system in the regions enabled those regions to pay as much as 1 billion won to the state.

Today, as a result of the complete accomplishment of the local budget system policy, local budget revenue in the DPRK has increased more than sevenfold compared with the situation in 1973 and local budget revenue as a proportion of national budget revenue continues to grow. Several dozen counties (and cities/districts) have been conferred with the title local budget system model county (or city/district), including Hwapyong County in Chagang Province, and the number of counties exceeding their local budget revenue plans is increasing.

The precious positive outcomes of the implementation of the local budget system include the fact that many cities and counties are able to secure at least 60% of the value of local industrial production, based on their own raw materials. In addition, they are proactively developing commercial, support, and welfare services, achieving ongoing increases in revenue from the service sector.

The local budget system in the DPRK clearly demonstrated its superiority during the difficult period of the arduous march and the forced march.

Even when our nation's economic situation deteriorated beyond all measure as a result of the collapse of socialist markets worldwide and the machinations of imperialists and reactionaries seeking to isolate and suppress the great DPRK, our country continued to walk the path of socialism without wavering in the slightest. This outcome would have been unthinkable without the effective implementation of the creative local budget system, in which all regions mobilized their abundant reserves and potential to the maximum extent, thereby ensuring local economic development and improvements in the people's standard of living.

Today, under the wise guidance of First Secretary Kim Jong Un, the local budget system in the DPRK is entering a new phase of development.

The achievements of the local budget system are greatly determined by clear provisions concerning the status of counties, which are the basic organization in the local budget system, and by the overall level of development of local industry, such as local manufacturing industry and agriculture. Efforts to ensure thorough fiscal management by local authorities cannot be considered in isolation from the modernization of local industry as a whole, given that a portion of the net income created by factories, enterprises, and groups affiliated to the local budget is the main source of revenue for the local budget system.

General Secretary Kim Jong Il had a profound insight into the importance of ensuring the

demarcation of local fiscal management and creativity of the regions to efforts to guarantee the overall fiscal management of the nation. In his classic work “Let Us Build All Counties into a People’s Paradise Good to Live in by Embodying the Historic Spirit of the Changsong Joint Meeting” (August 2012), he explained in detail the tasks to be completed and the approach to be taken in order to increase the role of counties and turn them into a people’s paradise that is a pleasant place to live.

Based on the wise guidance of General Secretary Kim Jong Il, the status of counties in the republic as the basic organization in the local budget system will be further bolstered to enable them to serve as regional centers for building a mighty socialist state. All cities and counties are learning from the example of Changsong County in North Phyongan Province and actively participating in the battle to achieve a decisive transformation, in order to improve both local fiscal management and the people’s standard of living.

Through the process of receiving state investment and guidance from central industry, all counties nationwide are individually building up the foundations that will enable them to create products that will demonstrate distinctive local features, based on their own resources and raw materials. Moreover, they are constructing attractive, modern welfare facilities that meet the needs of the people and proactively undertaking efforts to normalize their running.

The Sakchu Foodstuffs Factory in North Phyongan Province is positioned as a model for the modernization of basic foodstuffs production and proactive efforts have been made to disseminate its approach widely. Moreover, modern production bases for basic foodstuffs, like the Hoeryong Foodstuffs Factory in North Hamgyong Province, have been constructed nationwide. In addition, modern factories producing local specialty foods are being constructed and the modernization of all local industrial plants is proceeding at a rapid pace.

In the development of agriculture, which also plays an important role in local industry, active efforts are underway to organize and run initiatives that will achieve a groundbreaking transformation.

The enthusiasm of DPRK farmworkers for production is growing through the implementation of the field responsibility system within the framework of the subworkteam management system at collective farms, in accordance with the specific attributes of each area. In addition, programs are being implemented to encourage agricultural workers to exert themselves in agricultural production with a sense of confidence. To this end, efforts are being made to correctly calculate national food demand and the interests and day-to-day needs of farm workers, and to rationally resolve difficulties in selling the cereals produced at farms, allocating goods in kind to farm workers on the basis of the actual number of days worked. Thus, the path to progress is being opened up in agricultural production.

Today, the people of the DPRK are proud of their unique and outstanding local budget system and filled with enthusiasm for the task of more thoroughly implementing it in order to ensure that General Secretary Kim Jong Il’s immortal achievement continues to shine brightly, long into the future.

Under the wise guidance of First Secretary Kim Jong Un, the DPRK’s local budget system will continue to demonstrate its supremacy, while achieving even greater results in building a strong economy.

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<sup>1</sup> The campaign to grant regions the title of “model army for the implementation of the local budget system” is a mass movement to promote the appropriate implementation of local budgets, ensure appropriate management of local finances, and improve the people’s standard of living. The title of “model army for the implementation of the local budget system” is conferred on counties (or cities or regions) that serve as an especially good role model in terms of improving the people’s standard of living and increasing local budgets by developing local industry and trade, and strengthening projects focused on the people’s welfare through efforts to enhance the creative local budget system policy of the Workers’ Party of Korea and powerfully deploy the three key forms of revolution (ideological, technological, and cultural).

<sup>2</sup> The Changsong Joint Meeting of Local Party and Economic Officials is a meeting that took place in August 1962 under the guidance of President Kim Il Sung, at Changsong Town, Changsong County, North Phyongan Province. Discussion focused on issues to be tackled in order to strengthen the role of the county, further develop local industry and rural management, and achieve groundbreaking improvements in the people’s standard of living. At the meeting, President Kim Il Sung reached an historic conclusion: “Let us strengthen the role of the county, further develop local industry and rural management, and significantly increase the standard of living of the people.”