

**How Institutions Matter:
Analysis of Restructuring the
Employment System in South Korea**

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Abstract

The purpose of this study is to examine the transformation of the Korean employment system since 1980. The common themes in the study of the comparative political economy of capitalist states deal with the restructuring of the democratic nation-state, the liberalisation of national economies, and the concurrent globalisation of markets and of the political institutions that regulate them. To address these issues, this study explores, on the one hand, the overhauling of Korea's labour laws in the direction of greater labour flexibility, the changes in collective labour relations, and the policy innovations on labour protection, and on the other, the transformation in Korea's traditional rule-making process to include both the government and social groups, the restructuring of industrial relations (particularly as regards changes to the supply chain structure), and the embedded role of the state and labour practices in workplaces.

Between 1997 and 1999, the trajectory of the Korean employment system experienced a critical juncture. The study therefore investigates the major labour policy reforms in this period in order to explain the transformation of the employment system and to situate the institutional outcomes within a formal conceptual setting, thereby contributing to the debate on the transformation of the Korean developmental welfare state. In so doing, this study argues that the Korean developmental welfare state has remodelled itself with the tradition of state intervention and investment, which has followed a self-reinforcing path in the employment system. Over the past two decades, the state's interventionism in conjunction with the shifting role and responsibilities of elite bureaucrats on the one hand, and the developmental principle of policy reform involving a catching-up strategy for welfare development, on the other hand, appear as major factors in the Korean developmental welfare state's transformation. It should be noted that labour had little impact on this development due to the fact that corporatism had not been embedded in Korean society to any great degree. With the result, although the institutional arrangements for worker protection in the labour market are characteristic of a flexicurity model – where workers are compensated, trained, and motivated to become re-employed in a highly mobile labour market, the model might appear to be in its infancy and to be in the path of reinforcing the labour market dualism and inequality.

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Author's declaration

All work presented in this thesis is my own unless otherwise stated. Part of the work described in Chapter 7 and Chapter 8 has been presented at the following conferences:

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Chapter 1

Introduction

1.1 The focus of the thesis

When the 1997 Asian financial crisis hit South Korea (henceforth Korea), neoliberal schools in general predicted and encouraged more liberalised, market-oriented policies and programmes both in economic and social areas. For them, globalisation and restructuring tend to redirect the state's economic role and functions to meet the neoliberal ideals of "global standards", which are, in fact, based on the Anglo-American economic model (Soederberg 2004: 72). In fact, the crisis and the state's resolution programmes under the terms of the International Monetary Fund (IMF) bailout generated an institutional basis for Korea's economic transformation into an LME (Liberal Market Economy) and the introduction and pursuit of much more openly neoliberal industrial policies. For instance, the privatisation of major public enterprises and the selling of firms to foreign investors were carried out under conditions set by the IMF and justified as the means by which Korea could match levels of international competitiveness. Of particular note among the various reforms was the enactment of the 1998 Labour Standards Act, which aimed to bring about greater flexibility in labour market.

However, in contrast to the argument that globalisation undermines the nation-state's autonomy and causes the retrenchment of state welfare (Mishra 1999: 94–100; Ohmae 1995: 59; Strange 1996: 66; Teeple 1995: 55–74; 2000: 188-190), the Korean state started to 'bring the state back in' to various social institutions (Haagh 2004: 10; 157-169). For instance, first, the beginnings of a neo-corporatist social partnership between labour, management, and government were instituted when the Labour-Management-Government Tripartite Commission (LMGTC) was established in January 1998 by newly elected president Kim Dae-jung. The LMGTC marked the first time that any form of social consensus had been achieved in Korea's institutional history. A social pact containing 98 measures that aimed at resolving the socio-economic collapse at the national level was unveiled by this new body and paved the way for the amendment of Korea's labour laws and the state's other major industrial structural reforms. As a result, contrary to some observers' conclusion that Korea's traditional unilateral policy implementation pattern

appears to fracture or disappears altogether after the establishment of this tripartite policy-making process (Beeson & Robison 2000; HS Lee 1998; Moon & Rhyu 2000; Pirie 2005b; 2008), this study argues that the state re-established itself by regaining a degree of autonomy vis-a-vis social partners by playing a leading role in setting up key policy agendas and by mediating between business and labour through the tripartite system.¹

Second, and more importantly, to mitigate the painful social costs of the structural (and largely neoliberal) adjustment, the Korean government tried to build a stronger and more durable social safety net. For instance, the Employment Insurance programme (henceforth EI) has played a distinctive role in employment stabilisation in Korea, a role not commonly found in practice in other countries. As a programme separate from unemployment insurance, EI provides firms with subsidies as part of the employment stabilisation programme. These subsidies are designed to avoid firms having to make immediate layoffs, which increased dramatically during and immediately after the 1997 economic crisis (Haagh 2004: 184). While the EI vocational training scheme for workers is solely resourced by employers, the state is in charge of its operation.

These developments were viewed by many analysts as a paradoxical move (Cheung 2005; Gills & Gills 2000; Hwang 2006; Hundt 2009; Kim & Moon 2000; Shin 2003, Yun 2008) both in terms of the increase in expenditure on and institutional innovations for labour protection and welfare, as they involved a fundamental reorganisation of Korea's social policy system and ran contrary to the general expectation that neoliberal reforms in the economic and social sectors, such as greater flexibility and decreased stability in the labour market, would be inevitable (see Chapter 2). In general, it is believed that there is a strong relationship between economic and social policies: they are two sides of the same coin, as changes on one side constrain the results of the other (Gough 1996: 209). From this perspective, Korea's reform of economic and social policies during the crisis era appears paradoxical.

Among the various paths taken towards neoliberal reform, the most significant change that this study focuses on was the 1998 labour law amendment governing dismissal of employees, which, in permitting firms to carry out collective dismissals for managerial

¹ For more on the argument that the state regained its autonomy through the LMGTC, the legacy of the Korean developmental state and the effect of an external shock (i.e. the 1997 economic crisis), see Section 6.2.1 in Chapter 6.

reasons and to pursue large-scale resignations (i.e. early retirements) and mass layoffs, allowed for far more numerical flexibility in the Korean labour market (i.e. the use of non-standard, temporary, or fixed-term contracts and more flexible working hours).² Alongside authorising the introduction of labour flexibility, however, the 1998 labour laws also sanctioned the rights of unions to undertake political activity and collective bargaining and established worker protection schemes in the workplace (i.e. the Trade Union and Labour Relations Adjustment Act and the Act on the Protection, Etc. of Temporary Agency Workers in labour laws).

According to current comparative labour market literature, which contends that distinct institutional configurations of labour and social policies generate a particular systemic logic of labour flexibility and labour protection (Barbieri & Scherer 2009; Emmenegger *et al.* 2012; Gough *et al.* 2006; Haagh 2006; Haagh & Cook 2005; Molina & Rhodes 2007; Palier & Thelen 2010; Standing 2011; Streeck & Thelen 2005), the Korean case of institutional reform in 1998 appears to have pursued a Nordic model in that it permitted greater flexibility in the labour market but guaranteed a high level of social protection. This stands in sharp contrast to the received expectation that a liberal economic system (e.g. as typified by the UK and US) will necessarily result in greater labour market flexibility and less protection.

Theoretically, this interpretation of the comparative labour market literature derives from the fundamental concepts of the new institutionalist school: first, institutions shape and restrict the ideas, preferences, and behaviours of individuals and collective action so that a particular set of institutions provides actors with rules of political struggle and competition in the policy realm; second, political struggle and competition between actors with diverse ideas, preferences, and strategies contribute to the reshaping of institutions, with a particular set of institutions thus reflecting the conflicts and contradictions in that society; third, in terms of social science methodology, and according to the research objective and scope, institutions are therefore conceptualised either as independent variables that reflect the political configuration of individuals and social groups and the way in which this configuration changes or as dependent variables to be explained by the circumstances of

² For more on the concept of labour market flexibility, see Boyer (1988) and Wood (1989: 1-43).

³ Employment practices refer to the policy outcomes from the employment system at the empirical level, which includes labour-market practices, labour relations, labour protection and other informal practices in the workplace (i.e. the lifetime employment system and seniority-based salary system in Korea).

and the political struggle and competition between actors; and fourth, because not only are actors' ideas and preferences locked in by past experiences and practices, but also so is the institution itself, institutional change occurs slowly in the absence of any (contingent) external shock.

Thus, the analytical focuses of this school aim to explore the internal and/or external conditions (e.g. the national political configuration and/or international fiscal austerity) that generate any institutional implementation. In addition, this school emphasises the factors that contribute towards a particular policy orientation in institutional reform (e.g. the extent of flexibilisation in the labour market) and the policy outcomes that stem from the complementary effect of newly implemented institutions and other existing or changing institutions (for example, the complementary effect that social policy and industrial policy have on the outcomes of labour policy outputs). In figuring out the dynamics and the impact of institutional change, the factors highlighted vary according to the researcher's methodological framework. For instance, historical analyses emphasise the self-reinforcing mechanisms (path-dependency) of institutions through use of the critical juncture framework, while rational choice analyses stress the interest optimising process through examining the individual's calculation in the process of institutional change.

This study aims to draw together and develop these two theoretical traditions by employing an actor-based approach, in which the diverse and competitive interests (goals and ideas) of political actors matter when examining institutional change and its impact over time, and ultimately bring the analytical compass back to the realm of politics. Since all institutions – including the market (which is often assumed by mainstream economists not to be an institution) – are defined in relation to the structure of the rights and obligations (including the interests and preferences) of actors, and the definition of these rights and obligations is ultimately a political act, no institutions can be seen as being free from politics (Chang 2007: 7). Thus, the labour market also can be shaped by a variety of motives and interactions (Bronk 2009: 2; Solow 1990: 31) and is one of the arenas in which struggles between political interests takes place.

Therefore, the central question that is explored in this dissertation is the following: How did the institutional reform in Korea generate the changes in the labour market and welfare system in the face of external shock (i.e. the 1997 Asian financial crisis)? Furthermore, by employing the theoretical foundation presented above, this study attempts to go beyond the

simple assessment that ‘institutions matter’ by answering the following sub-questions: What conditions made the opening up of the policy windows for institutional reform of the Korean labour and welfare system possible? What enabled particular institutional changes to be brought about? What was the policy outcome of the implementation of an institutional reform, and why did this occur?

This chapter first presents the key concepts that are employed in this study as a lens to answer these questions. Then, the previous studies that have developed welfare typologies to explain the evolution of the Korean welfare state are reviewed briefly. Finally, in order to show how this research differs from previous studies and advances the research in this area, the analytical and methodological concerns of this study, that is, the actor-based institutional approach is briefly presented.

1.1.1 Research object, scope and concept

This thesis examines the restructuring of the employment system in Korea since the 1980s as an example of institutional adaptation by the Korean developmental welfare state. To do so, it will use the term ‘the employment system’ to facilitate an understanding of the transformation in the labour market, labour relations, and labour protection in Korea.

The networks among institutions or institutional settings within and between firms and in labour policy, both legal and social, have been theoretically conceptualised as the ‘employment system’ by Haagh (2004: 155), and it is through this lens that the transformation of the Korean developmental welfare state will be analysed. The term ‘employment system’ was first used by Madsen (1999) in his analysis of the Danish labour market to describe how the combined effect of labour market regulations and policies and the organisational configuration of social partners structures a particular type of labour market (similarly Solow 1990; Chang 2007). From this, Haagh advanced the idea that the labour market is embedded in a set of institutions that have certain complementarities between the diverse policy realms of labour policy, social policy, and public policy, and which collectively comprise the employment system (Haagh 2004; 2012). In contrast to the neoclassical idea that regards markets as functioning in equilibrium when they meet Pareto optimal conditions, that is to say, where individuals behave in accordance with the

principle of optimising self-interest, this approach instead views the labour market as a social institution (See Chapters 2 and 3).

In this vein, this research assumes that analysing the combined consequences of economic, labour, and social policies for labour practice and protection is integral to determining the nature of a specific welfare system (Haagh 2011a; 2011b; 2012). The level of job security enjoyed by an individual, for instance, which is underpinned by a mixture of labour and social policies, contributes to that person's ability and freedom to control their working life and well-being in capitalist society. Thus, examining the changes that are brought about to the employment system through individual or collective actions is integral to investigating the nature and form of the welfare system. From a general perspective, therefore, it is necessary to examine not only the form taken by the welfare state, but also the changes taking place among institutions that deal with employment practices,³ as well as the networks among those institutions.

Regarding the term 'developmental welfare state', this study presumes that the developmental elements of the Korean welfare state are embedded in the way in which it has developed its employment and welfare systems. Korea has been a favourite research area for developmental studies owing to its economic growth after the Korean war in 1950. In the developmental studies that have researched Korea, the overwhelming priority given to economic growth policy (catch-up strategy) and the dominant role of elite bureaucrats in policy implementation (especially in industrial policy) has been seen as key to answering the questions raised by the developmental state thesis. Employing the key component of developmental state (i.e. submission of social policy to economic development), the developmental welfare state thesis (Aspalter 2006; Gough 2001; Kwon 2002; 2005; Lee & Ku 2007; Midgley & Tang 2001) currently emerged in the welfare literature and emphasised that democratic politics allow the transformation of developmental welfare state, in which labour market deregulation goes together with significant social policy development. In the case of Korea, recent unprecedented welfare reform is possible under the condition of democratisation and can be understood as a democratic shift to a new, inclusive welfare state beyond a simple response to economic uncertainty, by the creation of welfare policy coalition. This study largely shares the idea of developmental welfare

³ Employment practices refer to the policy outcomes from the employment system at the empirical level, which includes labour-market practices, labour relations, labour protection and other informal practices in the workplace (i.e. the lifetime employment system and seniority-based salary system in Korea).

state and considers these developmental elements to have provided the foundations for and steered the course of Korea's welfare development, and ultimately set the Korean case of welfare evolution apart from the Western experience. However, what this study challenges to the notion of developmental welfare state is that the Korea's welfare development has been conducted largely by the elite bureaucrats who took on the role and responsibility for labour protection and employment reform. In addition, the transformation of Korean developmental welfare state after 1997 crisis can be analysed by examining combined effects of the crisis, embedded role of institutional actors who accept and those who challenge existing institutions (see Chapter 8).

To sum up, the purpose of this thesis is to consider how the employment system in Korea is developing and why it matters. This implies that this research emphasises the impact that the political factors that are embedded in the Korean developmental state and their configuration have on the transformation of the employment system. To this end, the political determinants of institutional change, for instance, the role of political elites, the state's changed function, the embeddedness of the state, business and labour, and the interaction among these factors, will be sought. More specifically, this thesis takes as its point of departure the changes in the system (the political, economic and social changes) that took place in 1997, when a presidential election was held (leading to the transfer of power in early 1998), and the Asian financial crisis resulted in Korea availing itself of and consenting to the conditions of the IMF's relief loan programme. This period might be regarded as a critical juncture (Collier & Collier 1991: 27-39; Leftwich 2009: 9-10; Mahoney 2000: 513; Pierson 2000: 263) in the political reshaping of the employment system.

The next section introduces some of the previous studies on Korea's transition into a modern welfare state and points to what this research can learn from them and what it contributes to the discussion.

1.1.2 Previous studies: terminology

It should be noted here that, according to the three-part welfare state typology presented by Esping-Andersen (1990: 3-29; 1993: 3-5) in which welfare states are categorised into liberal, conservative, and social democratic regimes, Korea appears to be atypical in that it

does not fit into any of Esping-Anderson's categories. This claim that Korea's welfare state does not conform to Esping-Andersen's typology and must therefore be categorised differently derives from the logic of regional exceptionality and the developmental state thesis (See Chapter 2) and is based on three distinct characteristics of welfare development in Korea.

First, the lasting impact of rapid economic growth and the legacy of the 'Growth-First-then-Distribution'⁴ (S.-Y. Kim 2008: 72) productivist paradigm that was proclaimed by the state in the 1970s and 1980s is considered to be a persistently dominant policy preference in all social areas, a preference that identifies Korea as a 'productivist welfare state' (S. Kwon & Holliday 2007: 242). In fact, it is widely accepted that the productivist model restricted the development of social (welfare) policy during Korea's period of most rapid economic growth (Deyo 1992: 297; Holliday 2000: 709; Kang 2005: 357; S.-Y. Kim 2008: 72; Lee & Moon 2008: 14; Reiger & Leibfried 2003: 264-268). However, these studies fail to agree on whether this paradigm continued to inform and affect social policy after economic liberalisation and democratisation in the late 1980s.

In the arguments presented in these studies, social norms are identified as the independent variable, and examination of these social norms should therefore be of great value in investigating the nature of and changes in the Korean welfare state. However, it is difficult to concur with the assumption that is made in these studies that the dominant social norm underpinning the Korean welfare state and its development has been the 'growth-then-distribution' paradigm and that this paradigm explains the uniqueness of the Korean welfare system after the 1997 financial crisis. In fact, Kim Dae-jung was able to take the reins of government thanks to the distribution and economic equity issues that were central to his presidential campaign in 1997. Indeed, during the course of the subsequent Roh Moo-Hyun government, welfare institutional sets were further intensified,⁵ and even Lee

⁴ It should be noted that the notion of outcome fairness (in neoliberal theoretical terms) is implicit in this paradigm. As Haagh notes, the neoliberal policy school regards systemic welfare provision as immoral or unjustified because it not only harms antecedent (individual) rights and liberties but also fails to meet neoliberal conceptions of cost effectiveness in utilitarian terms, i.e. a determined outcome for the lowest cost. Thus, neoliberal theorists accept systemic (universal) welfare only if it represents outcome fairness (which implies cost effectiveness) in the short-term cost accountancy model (Haagh 2002a: 18).

The use of this term can be traced to S.-Y. Kim (2008), who called it a "'Growth-First-then-Distribution' strategy" (S.-Y. Kim 2008: 72; emphasis is mine) and stressed the state's intervention in industrial policy, and to H.-j. Kwon (2005a), who called it an "'economy-first" paradigm' (H.-j. Kwon 2005a: 28; emphasis is mine) and employed a broader view of the state's intervention in the economy.

⁵ See Chapters 7 and 8 in this thesis.

Myung-Bak's Grand National Party government, the opposition during the two previous presidents' political tenures, has supported this institutional set, with the public expenditure on welfare programmes continuing to increase.⁶ This therefore leaves two feasible interpretations: one, the role played by the paradigm of growth has been overestimated, or, two, there is something more powerful than this (embedded) policy preference that is giving rise to institutional innovation. In light of this, this research assumes that not only has the role played by this paradigm been over-estimated, but that other factors have played greater roles in shaping the institutional set. Moreover, defining Korea's unique welfare system as a 'productivist' welfare state operating in a productivist world (broadly speaking, the other East Asian states of Japan, Hong Kong, Taiwan, and Singapore are included under the term 'productivist') is problematic because Holliday insists that productivist welfare capitalism stands alongside Esping-Andersen's categories (Holliday 2000: 706). After all, are not all welfare states 'productivist' in this era of globalisation? As Bonoli and Shinkawa (2005) insist, 'welfare states everywhere help improve productivity and contribute to economic growth by facilitating social cohesion and peaceful class relationships. In that sense, all welfare states are productivist' (Bonoli & Shinkawa 2005: 21).

Second, the 'democratic-welfare-capitalist' or 'democratisation' thesis contradicts the 'productivist welfare state' thesis. Unlike the productivists' view that social policy has always been subordinate to economic policy (Holliday 2000: 709), the democratic-welfare-capitalist thesis concentrates on the changing (more pluralistic) role of the state, the emergence of new civic groups, and especially the extension of EI and the newly established LMGTC as innovative institutional moves towards the creation of a social democratic political system for welfare provision. In this thesis, the democratisation process in the mid-1990s served to empower the Korean labour force, instilling within it social democratic values and, with a great deal of support from the lower-middle class, made it possible for Kim Dae-jung, a left-wing politician and the long-time opposition party leader, to assume the presidency. Moreover, the decisive extension of EI and the establishment of the LMGTC after the 1997 financial crisis appear to be consistent with the government's rhetoric of productive welfare (Kim Dae-jung government, 1997-2002) and flexicurity (Roh Moo-hyun government, 2002-2007). In light of the post-crisis institutional

⁶ See Chapter 8 in this thesis.

innovations, some scholars insist that the government's increased welfare and social insurance expenditure represents the Korean state's transition from a 'developmental state' to a 'democratic-welfare-capitalist' state (Y.-M. Kim 2008: 120; Kuhnle 2002: 16; H.-K. Lee 2002: 481; 2004: 291).

However, characterising Korea as a social democratic system would also be a mistake because the coverage and quality of welfare provision is not universal (Cho 2002:293; 326-327; Chung 2002: 442-444)⁷ and the corporatist elements of the LMGTC have lost momentum owing to the two labour unions' repeated withdrawal and return.⁸ Besides, it should be noted that the adoption of institutions for a particular purpose does not automatically guarantee the success of those institutions (Chang 2006: 5). For instance, from a Korean perspective, EI and the LMGTC have been criticised because EI has provided insufficient coverage for low-income and irregular workers (Lee 2009: 6), and the LMGTC, despite its original stated purpose being the advocacy of social consensus, has largely functioned in name only.

Third, the effect of the 'symphony of democratization and globalization' (Song 2003: 405) has been argued to have given birth to the unique character of the Korean welfare system. In contrast to both the 'productivist' economic argument that globalisation would expand the role and impact of markets and the democratic-welfare-capitalist state interpretation, this explanation brings the traditional role of the Korean state back into the analysis. In this interpretation, the wave of globalisation in the mid-1990s transformed the previously firm-centred welfare system into a quasi-state welfare system, involving private funding, quasi-state organisational provisions, and state regulation. More importantly, the argument that Kim Dae-jung's inauguration and the 1997 financial crisis were fundamental to the establishment of the modern Korean welfare system and that ultimately the state had no choice but to take the responsibility for tackling mass layoffs and unemployment problems is persuasive. The Korean state found itself reinvigorated with new roles, new networks, and new instruments precisely because the socioeconomic consequences of globalisation

⁷ See Chapter 8 in this thesis.

⁸ See Chapter 6 in this thesis.

created new political demands on the democratic state (Song 2003: 406). As Haagh suggests, there was ‘a need for an enhanced role for the state’ (Haagh 2004: 153).⁹

However, this interpretation oversimplifies the Korean welfare system’s transformation from a firm-centred system to a quasi-state system. In this analysis, globalisation demanded that firms increased their competitiveness, which resulted in a decline in the role of companies as welfare providers and decreased the capacity of the firm-centred welfare system. There was, therefore, a need for the state to take on a new role as welfare provider, a role that was realised with Kim Dae-jung’s inauguration. Although this description provides an outline of why the state enhanced its focus on the rising strength of the labour sector, the changing relationships between the state, the business sector, and labour, and the challenge raised by the social norms that persisted from Korea’s democratisation period, the reality is much more complex. Doubts remain about whether welfare provision by firms has noticeably declined over recent decades, whether the liberal-democratic bloc actively supported institutional implementations for strong labour protection and the state’s role as welfare provider, whether the role of elite bureaucrats and the traditional policy preference for economic growth contributed to reinforcing the role of the Korean state in welfare development, and whether this social and political configuration lasted long enough to label the birth of (distinct) Korean welfare state. And these doubts are substantiated in the following chapters.

In light of these previous studies’ contributions to our understanding of the Korean developmental state and the Korean welfare state but also their deficiencies, this research adopts the new-institutional approach in its attempt to understand the origins and character of the Korean developmental welfare state. Taking a long-term historical viewpoint, it will focus on the antecedent conditions underpinning the institutional transformation in the wake of the 1997 financial crisis, the institutional output (the employment system) after the crisis, and how the trajectory of the Korean welfare system’s evolution and the newly established institutions were influenced by the legacy of the Korean developmental state.

In examining the dualism of Korean labour market, which of the Korean developmental state’s features and practices in the labour market and labour relations continued, or were reinforced, or decayed, and how did these elements shape the transformation of Korea’s

⁹ However, as she also observed, the embeddedness of the labour market played a role in reshaping the institutional change (Haagh 2004: 194).

employment system? For instance, have both the employer/employee relational contract and firms' welfare policies for core insider workers, which were a distinctive characteristic of Korean labour relations during the country's rapid economic development of the 1960s and 1970s, persisted as established practices since the 1997 crisis (albeit in a modified form)? To put it differently, have these traditional employment practices, characteristic of those under the Korean developmental state, continued despite the 1998 reform of Korea's labour laws that aimed to restructure labour relations in line with a liberal labour market system (e.g. an annual salary system and a private insurance market)?

Although this research accommodates the argument that the Korean employment system has undergone significant modification (D.-O. Chang 2002; Chang & Chae 2004; Pirie 2005a; Pirie 2006a; 2006b), it remains doubtful whether this change fundamentally stems from past experience and practice, or any exogenous shock to break the path. The next section therefore presents how and why this study employs the new-institutional approach and critical juncture framework in its historical analysis of the Korean employment system.

1.1.3 Institutional concerns: change and continuity

This research endeavours to draw together and develop upon other theses (primarily the developmental state thesis and the East Asian welfare state thesis) by employing a new-institutional approach concentrating on the political factors that influenced the institutional changes. In order to proceed, the most important properties of institutions need to be identified. These have been analysed in detail in recent institutionalist approaches to comparative political economy, especially in those employing the critical juncture framework to investigate the political conditions that serve to enable institutional reforms to take place (Mahoney & Thelen 2010; Soifer 2012; Streeck 2009; 2010; Streeck & Thelen 2005; Thelen 2003). In this analytical framework, then, institutional change comes about as result of the continuous and dialectical process of tension and contention between the formal system and informal practices, between rule-makers and rule-takers, and which complements the logic of the self-reproduction mechanisms in institutional change.

First, in the developmental studies that have researched Korea, the institutional arrangement of the state and the degree of its interconnectedness with business have been

seen as key to answering the questions raised by the developmental state thesis. Notwithstanding its notable achievements in understanding the nature and configuration of the developmental state, this approach is flawed in that it assesses the modern state's level of political and social development by the extent to which the capitalist state has relative autonomy from the business sector. As a result of this, state-business relationships are overemphasised and regarded as static, and the political dynamics between the state and social actors with diverse and sometimes conflicting interests – and who are necessarily motivated to seek to (re-) form, interpret, and enact institutional arrangements in their favour – are largely ignored.

Thus, the issue of in which way a change in or an evolution of the employment system under the Korean developmental state appears, essentially remains unexplored. For instance, which can be understood by illustrating both the changing relationships between the state and non-state entities and changes in the state's means of exerting control over political actors and alliances by favouring or constraining them via certain institutional arrangements over time?

As the relationships between state, business, and labour have changed in line with the development of Korean capitalism (with its distinct form and scope), a particular set of institutions that shaped the relationships between actors served to mould the employment system's particular political configuration, in which each actor sought to reform or reinforce the existing institutional set in line with their own interests. The institutional change in Korea's employment system, therefore, fundamentally derives from the inherent dynamic tensions and struggles between social actors and is ultimately a political process, a point that the developmental state thesis often ignores.

The 1998 amendment of Korea's labour laws, which is often regarded as the critical juncture for the Korean employment system, can be viewed as not only as the consequence of political struggles and negotiations over time between actors with diverse policy preferences (such as the business sector's demand for greater labour flexibility and the unions' desire to secure their political and social rights), but also as marking the point of departure for yet another stage of political struggle and negotiation during the period

following the juncture (institutional reform).¹⁰ For example, the employers' policy preference (greater labour flexibility) did not suddenly emerge during the specific period of crisis but was a long-standing goal that had been frustrated or only partly achieved via previous institutional reforms and was thwarted primarily by the strong resistance of labour, as evidenced by the Great Workers' Struggle in 1987 and a general strike in 1997.

In this sense, institutions can be seen as the exteriorisation of the contradictions of a particular society. All actors desire to achieve advantage by redirecting institutions in pursuit of their goals. Thus a radical and sudden change in institutional sets at a specific point in time may be understood as the result of actors' accumulated efforts over time to resolve social contradictions and restructure compliance within the society. In this vein, institutional change also inherently entails further potential conflicts between rule-makers and rule-takers in that society because there are inevitably policy-winners and policy-losers in any institutional reform. Herein, this study then decides to adopt a new-institutionalist approach to understand the way actors cultivate change from within the context of existing opportunities and constraints. This is because this approach enables us to systematically analyse the ongoing skirmishing between actors who wish to restructure the existing institutional arrangements and to instil their interests in the institutions, on the one hand, and to overcome the limitation of the agency/ structure debate in explaining socio-economic changes, in which agency matters more than structure or the other way around, on the other.

A further question that must be posed in relation to all institutional change (and for the purposes of this study, the 1998 labour laws) is what brings about this institutional juncture and how the new institutional set generated during the juncture is reproduced. In the classical mechanical explanation for the occurrence of the critical juncture (e.g. Calvert 1995; Collier & Collier 1991; Krasner 1984; 1988; Levi 1997; Shepsle 1989), it is assumed that a contingent and external shock (i.e. 1997 Asian financial crisis) brings about the juncture, and the self-reinforcing mechanisms of institutions serve to maintain institutional equilibrium over a relatively long period. However, as described above, the recent theorising of actor-based institutionalists (e.g. Amable & Palombarini 2009; Culpepper

¹⁰ See Chapter 4 and Chapter 5 for the history of the political dynamics between business and labour between 1980 and 1997 and their policy preferences of labour flexibility and political and social rights, respectively. Chapter 6, Chapter 7, and Chapter 8 deal with the struggles over and negotiations on these competing interests during and after the critical juncture period (1997-1999).

2005; Mahoney & Thelen 2010; Streeck 2009) stresses the endemic and endogenous properties of institutional change, where the dynamics of political activity between actors is the key factor in explaining the continuity of and changes in institutions.

Thus, an important theoretical concern of this research is to consider how these two contrasting approaches, although they both analyse the institutional change within the critical juncture framework, account for the origin and outcomes of the critical juncture. For instance, the questions of whether the traditional role played by the developmental state in the rule-making process for reform of the employment system and the developmental features in the labour market and labour relations broke down or survived the 1997 crisis, or whether the institutional reform of the employment system was the result of the accumulated demands of business, labour, and even the state are critical to this research.

Second, there has been little consensus among the many commentators who have tried to examine and explain the origins and development of the East Asian welfare system through utilising the power resources model (See Chapter 2). In attempting to explain the features of a particular welfare system, the welfare state literature that employs the power resources model compares the social policy sets of differing welfare systems and points to the importance of political configurations and the role played by labour's political empowerment (Esping Andersen 1985; Hicks 1999; Korpi 1983; 1989; Stephens 1979).¹¹ However, few people would agree that this approach has made a significant contribution to the understanding of the Korean welfare system. This may be due to its failure to investigate the policy process of the juncture in 1998 in detail and thus overestimating or ignoring aspects of the Korean developmental context, the emergence of a social democratic bloc in the policy realm, and the external pressure from the IMF and globalisation.

¹¹ For instance, see Esping-Andersen (1990). His position is that the stronger the trade unions and the greater the political influence of social-democratic parties, the more comprehensive and universal the welfare policy. Hicks (1999), Korpi (1983; 1989), and Stephens (1979) adopt similar positions. In contrast to this positive view on the relations between (labour-based) leftist political parties and the expansion of the state's welfare provision, commentators such as Rueda (2007) argue that social-democratic political parties, in the hope of mobilising political support from normal (tax-paying) workers, are more likely to push for reductions in the cost of universal compensation rather than increases in the cost of social protection schemes or training programmes for them.

For example, how elite bureaucrats, who had the traditional policy priority of economic growth and steered Korea's institutional reforms (including economic, financial, labour, and social policies), played a role in the transformation of the welfare system around the juncture in 1998 (for instance, the expansion of EI) remains unexplored in the welfare state literature that employs the power resource model. Moreover, the issue of how the new employment system institutional set that was established in 1998 affected the form and scope of welfare provision and its practice at work remains largely ignored in this approach.

Again, this research presumes that individual or collective action influences the shape that the political structure of welfare production and distribution ultimately takes, and that the roles and impact of these social actors are determined by institutional networks. The dynamics of the new institutional path are generated in the field of politics, which deals with the emergence, rise, and decay of particular legal and social institutional arrangements. This research endeavours to refine the developmental state and East Asian welfare state theses via an institutional approach that focuses on political dynamics and their impact on the institutional change to explain the transformation of the Korean developmental welfare state.

1.2 The key questions

The key question addressed in this thesis is how the employment system in Korea changed and affected the development of Korea's welfare system. To this end, this research adopts the political (actor-based) approach of the new-institutionalist thesis. It should be noted, however, that this thesis does not follow the behavioural approach of focusing on the role played by 'political giants' (although presidential and political leadership undoubtedly played a role under Korea's authoritarian regimes), nor does it employ an adaptation of the democratisation thesis, in which the rising force of policy advocates and policy coalitions is adjudged to have stemmed directly from democratisation. Instead, this thesis puts the institutions themselves at the centre of the analysis and investigates how rule makers and rule takers shape, and are shaped by, the institutions. Thus, it is necessary to take account of the roles played by political actors such as political elites, bureaucrats, business organisations, and unions in the institutional change.

Hence, the way in which a given institutional arrangement and its rule-making process constrain actors' interests and behaviour is the first sub-issue for the key question. In the case of the Korean employment system, before the Kim Dae-jung's inauguration in late 1997 and the establishment of the LMGTC in early 1998, the state had a close bond with business and played the dominant role in directing the employment system. Labour and its interests had been largely excluded from the rule-making process. As a result, labour was unable to voice or pursue its interests as regards the employment system through the formal rule-making process, and confrontational relations between business and labour were deeply embedded in practice, with the consequence that the state continued to pursue its traditional government-led strategy for economic and social development, including the reform of the employment system.

However, the formation of the tripartite system in 1998 appeared to open up more room for manoeuvre to labour and make the Korean employment system more geared towards a new social consensus model. In turn, this raises the following sub-question on the restructuring of the Korean employment system: Did the Korean developmental state's approach to reform of the employment system remain constant over time, and if not, how and why did it change? For example, did the crisis or Korea's path towards democratisation bring about a new form of rule-making process, and if so, what form did it take (i.e. tripartite system, corporatist model or a new hybrid one)? The answer to this question will provide a clue to the character of the Korean state after the 1997 economic crisis and the establishment of the tripartite system in 1998.

Second, what, then, was the institutional result of this new form of rule-making for the employment system? For instance, were the increased rights of unions and the greater flexibility in the labour market gained through the 1998 labour laws or through further reforms carried out in the 2000s? From this, the key question is whether the reforms to the formal system led to changes in employment practices (i.e. labour relations, labour practices in the workplace, and labour protection) in line with the original intention of the rule-makers or whether political bargaining between actors was key to any changes that occurred, since the real practice of transforming the employment system is enabled by the dialectical and complementary dynamics both within the formal institutions and between the formal system and informal (empirical) practices. To put it differently, this thesis does

not assume that the implementation of a formal institutional set will mean that actual employment practices will automatically function as the rule-makers intended.

Thus, the second sub-issue pertains to the policy outputs that the reform of the Korean employment system brought about and how (or whether) the policy outcomes from the reform of the formal institutions altered employment practices at the empirical level. For instance, did the 1998 amendment of the Labour Standards Act, which aimed to allow employers to hire and fire more easily, produce a visible effect in terms of increased labour market flexibility? Addressing these issues will enable us to identify what changes to the Korean welfare system have occurred because the features of employment practices are directly related to the form and extent of labour protection and welfare. In the case of the Act on the Protection, Etc. of Temporary Agency Workers, which was passed in the 1998 reform of Korea's labour laws, it was intended and expected to provide atypical (non-regular) workers with greater job security by protecting such workers from unfair labour practices in the workplace (i.e. from income and working condition disparities). Thus, not only social policies but also labour policies serve to construct a particular form of welfare system, and the employment system, which is the combined set of these policies, is an integral part of the welfare system.

The third issue, in line with the first and second issues, involves the political determinants of the restructuring of the Korean employment system: How did the transformation in the roles, functions, responsibilities, and the capacity of the state (political elites and the bureaucracy), business, and labour, manifest itself in the new tripartite system and employment system? This question focuses on how the change in the political configuration between political actors and the changing degree of embeddedness of past practices could serve to lead to the transformation of Korean developmental welfare state. In answering this question, two elements must be considered: first, employing the developmental state thesis, how did the embedded roles of the state (especially the roles of elite bureaucrats), business, and labour that had persisted throughout the developmental state era change and to what extent did this influence the transformation of the employment system and the developmental welfare state's transformation? If the traditional roles and functions of the actors (the state, business, and labour) and the relationships between them persisted in the employment system and welfare system during and after the critical

juncture, then it can be concluded that the Korean developmental state restored its capacity and maintained its traditional developmental approach in this policy realm.

Second, if this is not the case, however, (that is, if this research reveals that actors have assumed modified or new roles and responsibilities) then this research will need to explore the complex and interlocking causes of the transformation of the employment system. In other words, it will need to explore how and whether the causal factors of institutional change are interactive (i.e. it involves inter-factor relationships), multilateral (i.e. it involves the relations between actors and their interests, preferences, and reactions to the institutions), or multidimensional (i.e. it involves the labour market, labour relations, and labour protection). To put it differently, it must examine whether the restructuring of the employment system derives from a mixture of domestic political conditions and external pressures, the competing interests and preferences of actors, and the combined effect of diverse policy implementations.

Before addressing these issues, however, the research framework and methodology for this thesis will be presented.

1.3 A brief introduction to each chapter

This dissertation consists of a theoretical review of previous studies (Chapter 2), the methodological and conceptual framework used in this study (Chapter 3), five analysis chapters (Chapters 4,5,6,7, and 8), and a conclusion (Chapter 9).

Chapter 2 presents a literature review of welfare state theory in East Asia and developmental state theory. The study of the Korean welfare state, especially the recent thesis of the ‘productivist’ world of the Korean (East Asian) welfare system, is reviewed first. I will argue, however, that the current literature ignores the domestic political factors that have a *de facto* impact on institutional change and that no theoretical linkage between the notions of a ‘productivist welfare system’ and the ‘developmental state’ thesis is provided in the literature. The second part of this chapter explores the debate about developmental state theory and highlights the key elements of the Korean developmental state in Korea’s welfare evolution with the aim of identifying how and why the traditional

Korean developmental welfare state transformed. In sum, despite this research accepting the great role played by the Korean state in both economic and social policy development, neither the welfare state thesis nor the developmental state thesis can adequately explain the nature of the traditional Korean developmental welfare state and its transformation. Instead, this research emphasises the role of politics among political actors in shaping Korea's institutional set. In the third section of this chapter, therefore, the contribution of the institutional approaches to understanding the transformation of the employment system and the political economy is examined. While this section sets out the economic and rational elements of institutional approaches, which generally point to the self-reinforcing mechanisms of institutions (path-dependency) and employ the abstract concepts of increasing returns and contingency, it also highlights the key elements of the incremental change theory of institutions, which explores institutional change by employing the critical juncture framework to focus on the roles of actors and their interactions and how these are influenced and shaped over time.

Chapter 3 presents the analytical framework and methodology for this research. In this study, the Korean employment system is used as a lens to examine how the Korean developmental welfare state transformed through the 1997 Asian financial crisis. This transformation is expressed conceptually through the concept of institutional complementarity: the Korean employment system came about as a result of the institutional complementarity of industrial policy, labour policy, and social policy; furthermore, it did not suddenly emerge at a given period but rather had its own historical trajectory. Thus, it is assumed that the innovative and paradoxical institutional implementation of the employment system since 1997 can be understood as the combined result of institutional reform in various policy areas and the process of change and continuity as defined by the path-dependency thesis. Hence, this chapter will show how a focus on the employment system can serve to reveal not only the changes that occurred in the configuration of Korean employment practices (the labour market, labour relations, and labour protection) at the empirical policy outcome level, but also the political dynamics that shaped the transformation of the Korean developmental welfare state and its impact on the institutional rearrangement of the employment system. This chapter then presents the methodology used in this research and describes the method of qualitative research analysis used for the case study. It was felt that the use of semi-structured in-depth

interviews with former and current administration officials, executives and hands-on staff from the LMGTC, the KLI (Korean Labour Institute), two national unions and local unions, business organisations, and politicians would serve to provide vivid testimonies from political actors on the range of diverse institutional reforms and would guarantee data reliability and validity.

In Chapter 4 and Chapter 5, the trajectory of the Korean employment system during the authoritarian-conservative governments (1980-1998) is reviewed as an antecedent to the current system using the critical juncture framework. Here, the changes in state-business-labour relations, the role and capacity of the state, and employment practices (as regards the labour market, labour relations, and workers' security) are reviewed and reappraised. The central aim of this investigation is to reveal what changes occurred in the employment system before the 1997 crisis. These chapters first explore the changing face of the state's governance of the employment system before and after the 1987 democratisation movement (in Chapter 4) and under the first civilian government (1993-1997) (in Chapter 5). These chapters reveal that the state's shift from despotic-authoritarianism (pre-1987) to negotiated-authoritarianism (post-1987) arose from the Great Workers' Struggle in 1987 and that as negotiated-authoritarianism began to give way to authoritarian-conservatism (post-1993), there were signs that past developmental strategies were beginning to be dismantled. Chapter 4 shows that while the huge asymmetry in power between the state and labour meant that the state had unilateral hegemony over labour, it also had a high level of relative autonomy against business due to the state's interdependent interests of economic growth and political legitimacy and wish of business to preserve its position as the state's subordinate partner. Nevertheless, it was business that took the initiative in the introduction of labour flexibility measures such as the flexible labour market (outer-numerical flexibility) and the flexible working-hours system (inner-numerical flexibility).

This study highlights a state practice that came to the fore at the beginning of the Kim Young-sam government: the promotion of autonomous labour relations. Chapter 5 examines the state's attempts to break from the path of direct physical intervention in labour relations and the institutional challenges it faced. For instance, despite the state's expressed intention to see labour relations develop free from direct state intervention, both formal institutions (such as the labour relations acts banning third-party intervention and political activity by unions) and ideological control through the use of political propaganda

(such as debates on labour's responsibility for economic growth and on sharing the pain of the economic crisis, and Kim's rhetoric of *Segyewha* (globalisation)) were frequently employed to control labour and even the middle class. These institutional measures affected the ability of labour to organise effectively, and collective bargaining via enterprise unionism severely restricted the capacity of national-level unions to establish national-level agreements, with the result that the individual enterprise-level unions were, unsurprisingly, unable to thwart the implementation of labour flexibilisation measures such as those involving mass layoffs, flexible working hours, and so on.

Through the analysis presented in Chapters 4 and 5, this research shows that the legal and social changes that provided the genesis for the restructuring of the institutional setting for business and labour (that is to say, the institutional changes that allowed the establishment of a form of corporatist collective bargaining) emerged alongside the important political developments of the pro-democracy movement in the late 1980s, the economic liberalisation by the Kim Young-Sam government in the mid-1990s, and the election of Kim Dae-jung to the presidency in 1997. This explanation implies two distinct arguments: the labour market had already taken on a neoliberal form before the 1997 Asian financial crisis and was only partly modified by the crisis; and the state's on-going revision of the employment system had its origin in the political realm rather than the economic sphere. These chapters elaborate on both these processes.

Chapter 6 deals directly with the role of the Korean state in the reform of the employment system after 1997 (albeit modified in line with an empowered labour movement and pressure from globalisation) through the establishment of a tripartite institutional innovation, the LMGTC. This institutional development is recognised by many East Asian experts as a watershed moment in the retrenchment of the Korean developmental state. The case study of the LMGTC reveals two important arguments. First, it is important to note that the establishment of the LMGTC tripartite system (the first successful implementation of a corporatist institutional measure in Korean history) resulted from not only the exogenous shock of the economic crisis, but also the active choices made by social actors with diverse and sometimes contradictory interests (as the incremental change thesis contends). Second, the impact of the LMGTC changed over time due to the goals of the actors shifting in response to the changing environment, that is, the changing phases of the national crisis.

Following the actor-based institutional approach as set out in the incremental change thesis, the changes that took place in the LMGTC's policy-making process provide the following lessons as regards the transformation of the Korean developmental state. First, ironically, the state's internal autonomy was initially restored due to IMF support, but the state was able to enjoy this only in the national crisis phase (1998-1999). Second, after Korea had escaped from the worst of the crisis, business was no longer restricted by the state; its interpretation of and attitude towards the existing institution changed over time, and it began chasing its own policy objectives. Third, the institutional arrangements led to labour losing its political influence over and support from union members and the public. Fourth, the state, and bureaucrats in particular, became less insulated from the private sector, especially the business sector. Fifth, the shifting goals of business and labour, the state's segmentation, and increasing collusion between bureaucrats and business led to the LMGTC becoming increasingly insignificant as an institutional apparatus for negotiation on labour relations. This resulted in the social partners – labour and business – returning to their tradition of confrontational relations, a pattern deeply embedded in Korea's traditional system of state-led strategies for economic and social development.

Chapter 7 examines the changes in the labour market and labour practices that took place after the establishment of the LMGTC in 1997. This chapter takes as its starting point the institutional sets that were introduced by the LMGTC's 1998 social pact. Both the economic crisis itself and the state's programmes to resolve the crisis under the terms of the IMF bailout generated an institutional basis for Korea's economic transformation towards a more flexible labour market in which mass layoffs, the temporary agency system (the use of non-standard, temporary, or fixed-term contracts), and the flexible working hours system could be implemented. As a result, many commentators insist that this period marks a critical juncture in the transition of the Korean labour market and labour practices into those of a liberal market economy. This research, however, contends that labour market practices in fact took an unexpected path towards the deepening (continuity) of labour market dualism: although more institutional measures for functional flexibility (e.g. relocation of personnel and outsourcing) were used within the work places of large firms, between large firms, and at the margins, the large (core) firms' labour market became characterised by greater rigidity (it became increasingly closed/impervious), whereas greater flexibility (a more mobile/permeable labour market) became standard on the

margins. And this study assumes that this is largely due to the greater autonomy of business against the state and labour in implementation and enactment of institutions, rather than a pure product of new system of neoliberal formula (see Chapter 7).

This recent pattern of dualisation and dualism in Korea's labour market and labour practice is not restricted to the Korean context, however, but is in keeping with the experience of Western industrialised countries. In fact, dualisation and dualism in the Korean labour market and deepening and widening inequality has its origins in the mid-1990s, not in the 1998 institutional reforms, and these developments emerged as a direct result of the combined effect of institutions and a systemic change that aimed at industrial reform. This research reveals that the institutional measures that were introduced in an attempt to increase labour flexibility in fact produced the opposite effect, leading to a more rigid insiders' labour market and to division of the labour market and workers. On the one hand, the 1998 Labour Standards Act hampered employers from firing and hiring workers easily, and the Act on the Protection, Etc. of Temporary Agency Workers in 1998 increased the number of non-regular workers at the micro-level. On the other hand, the structural reform of the *chaebols* led to the reorganisation of the supply chain, with the result that the measures for enhancing functional flexibility within the company (e.g. subcontracting and the employment of non-regular workers) increased, thus affecting industrial relations.¹² Nevertheless, the persistence of firm-based unionism alongside the reorganised production system excluded non-regular (atypical) workers from the core (insiders) labour market. However, it remains unclear whether such complex institutional arrangements directly led to business unionism becoming embedded or whether the institutional and systemic environments ultimately dragged the unions into representing only the regular workers in the large firms' core labour market. Regardless of the answer to this question, it is clear that it would be wrong to apportion sole blame to the unions for this state of affairs.

This chapter also provides support for the incremental change theory of institutional change, where particular actors seek to instil their diverse and sometimes contrasting interests upon the institution. This ultimately means that once the institution has been formalised through the commitment and compliance of distinct yet diverse actors, the institution will inherently contain a degree of ambiguity over its interpretational and

¹² The *chaebol* is the South Korean form of business conglomerate: *chaebols* are family-controlled and government-supported corporate groups.

enforcement rules. Thus, it is not surprising that conflicts and struggles over the interpretation of the institution's rules, its enactment, and revision will continue. As a result, the implementation of changes to the labour market and labour practice institutional sets led to political struggle between business and labour (and sometimes the state). Therefore, the gap that inevitably exists between the origin and the formal enactment of employment system institutions creates room for such struggles and may lead to contrasting policy preferences between actors.

In Chapter 8, the developmental freedom thesis (Haagh 2007; 2011a; 2011b; 2012; 2013 forthcoming), which provides a theoretical linkage between workers' economic security (material conditions) and the welfare debate, is presented and serves to map out social policy (and its change) as regards the employment system. Developmental freedom, which is shaped by institutional sets and is underpinned by economic security (which consists of a mixture of social insurance and egalitarian rights both inside and outside production), comprises the extent of an individual's autonomy to control their stable working life. In this regard, a high degree of labour market dualism and inequality in labour practices boosts the need for wider and more durable social security. Through this, individual workers are able to renew and develop their means of replenishing their human capital so as to (re-) enter the labour market easily, secure their job by improving their work skills through training, and be protected by universal compensation under the highly flexible labour market conditions of modern capitalism. Moreover, it should be noted that the tension and conflict between economic pressures for flexible adjustment in the employment system and individual workers' needs for stable employment make politics central to any reform of the employment system.

Thus, the labour market, labour practices and labour protection are ultimately constructed by the complicated (expected or unintended, sometimes inverted or biased) complementarities of institutions and shift in line with the political conflicts that emerge due to the gap between social partners' interpretations and the actual enforcement of labour and economic policy. Therefore, comprehensive analysis of the nature of and changes to a particular employment system necessarily involves an investigation into the role and function of specific social policies, and more importantly, their interconnection or combination with labour, economic, and industrial policies.

This chapter, therefore, focuses on the restructuring of EI (Employment Insurance) and regards the reciprocity and complementarity of the institutional set as due to a combination of Korea's economic liberalisation in response to globalisation and the state's responsibility for ensuring a stable society. In contrast to the common belief that firm-based worker welfare is still the dominant form in the Korean welfare system, the role and function of the Korean developmental welfare state in welfare provision has increased significantly. However, while it is accepted that the active labour market policies (ALMP) of EI have contributed to bringing about a more protective employment system, that the scope of social protection in Korea has certainly broadened, and that the institutional purpose of Korea's social policies is no longer subject to an economic rationale, it is argued that the EI institutional set for worker protection has not produced the results that were originally intended. EI's occupation-based beneficiary system selectively served regular workers in larger firms and fostered the increasing inequality in welfare provision and ALMP for workers. Furthermore, it should be noted that labour has had little impact on the creation and evolution of the Korean developmental welfare state due to the fact that corporatism has not been embedded in Korean society to any great degree. Indeed, the findings of this study run counter to the democratisation thesis, which insists that the emergence of a policy network and coalition brought about the development of a Korean welfare state, and instead demonstrate that the Korean state reinvented and reinvigorated itself by taking on the role and responsibility for enhancing social (labour) protection by nurturing social bureaucrats.

Finally, Chapter 9 considers the interplay of the different factors elaborated upon in previous chapters. First, this concluding chapter re-examines the critical juncture framework's approach to institutional change and how the critical antecedent, political, economic, and social conditions for the opening of a policy window and the divergent policy preferences, outcomes, the end of the critical juncture, and the institutional mechanisms of reproduction have driven the transformation of the Korean employment system, its appearance, and its institutional forms. Through this more sophisticated consideration of the critical juncture framework, involving continuity and change (particularly at the empirical level), this study contends that a strong developmental context of state-centred and bureaucrat-led policy-making in Korea persisted during the implementation of labour market flexibilisation and the dualisation of employment

practices. However, the study notes that, on the other hand, the roles, functions, and responsibilities of the state and its bureaucracy as regards reform of the Korean employment system (from the perspective of institutional implementation) have altered over time.

Second, it should be noted that the institutions of a political economy cannot be understood in isolation from one another; instead, the political economy can be regarded as the complementary result of institutions in various realms. It is precisely this argument that points to the social system being not a static structure, but a dynamic process. An institution, once established, is not necessarily destined to be reproduced or self-reinforced, but rather may be continuously and creatively re-invented by actors in accordance with a specific or changing environment. Thus, it is misleading to assume that when an institution or institutional sets are implemented, further institutional change does not occur, and vice versa. Instead, the impact of both changing institutions and existing institutions at the empirical level shifts due to the political struggles between rule-makers and rule-takers with diverse expectations, preferences, interests, responsibilities, and interpretations. The change in the various institutions that underpin the Korean employment system can therefore be explored only by examining the political dynamics among social actors.

Having outlined the overall structure of the thesis, the next chapter reviews the theories on the Korean state's transformation, with a particular emphasis on the welfare state and the developmental state.

Chapter 2

Theoretical Framework

2.0 Introduction

The purpose of this chapter is to highlight the main elements of the developmental state, their nature, and their role in the evolution of the Korean welfare system. This chapter therefore presents a literature review on how the Korean developmental welfare state emerged and changed. It should be noted that it is necessary to examine studies of the welfare state outside the Korean context in order to understand where the Korean welfare state stands in the world of welfare capitalism. Because studies of the welfare state focus their analysis on typologies and comparisons of different welfare systems – and are in effect equivalent to an attempt to explore to what extent labour can participate in or affect the formulation of and changes to an welfare system under globalised capitalism – the mode of labour participation and the degree of universality of welfare provision thus provides important clues to the nature of a welfare system. In short, the literature on the Korean welfare state, especially the recent thesis of the ‘productivist’ world of the Korean (East Asian) welfare system (Gough 2001; Holliday 2000; Y.-B. Kim 2002; S. Kwon & Holliday 2007; Lee & Moon 2008; White & Goodman 1998), provides the key to explaining its origin and its transformation after the 1997 Asian financial crisis.

The second part of this chapter examines the debate about post-crisis Korean developmental welfare state theory, which has contributed significantly to clarifying the nature and configuration of the Korean welfare system. The main point of returning to and reconsidering the recent welfare debate is to identify which of its arguments can help to explain Korea’s developmental welfare state transformation, and more critically, how these arguments can be theoretically applied to the current labour market and labour protection institutional sets to illustrate the transformation of Korea’s welfare system.

In brief, despite this research accepting the stress that the productivist welfare thesis places on the role of ideology and the focus that the developmental state thesis has on the role of the state, neither the welfare state thesis nor the developmental state thesis can solely explain the developmental state’s nature and transformation. This thesis therefore employs a new-institutionalist approach in order to explore this transformation and regards the

employment system as an integral part of the welfare system. The third section of this chapter presents the conceptual and theoretical grounds of the institutionalist approach to change and continuity in socio-economic development, and presents the political factors at work in institutional change via an analysis of the critical juncture framework, which contends that past or existing institutional arrangements are the prime cause of institutional change or continuity. Through a consideration of these two critical theories in current institutional approaches, it will be shown that institutional change unfolds not only by the exogenous shocks, but by the endemic (endogenous), continuous, and dialectical dynamics between political actors with diverse interests in and interpretations of both the enactment of specific institutions and the practices embedded by institutions. The issues that emerge from the literature review are then presented.

2.1 Varieties of welfare state? Explaining the East Asian welfare states

In the Western experience, the emergence and evolution of the welfare state originates from historical compromises shaped by a distinctive tripartite combination of democracy, welfare, and capitalism (Marshall 1981: 107-111): a compromise between the state and labour (the Scandinavian social democratic model), a compromise between capital and labour (the German corporatist model), and a compromise between the state and capital (the Anglo-American liberal model). The theoretical pivot of this rough classification of Western welfare states is decommodification. Apart from in the Anglo-American liberal model, where the influence of labour is relatively weak, decommodification has been brought about by the political dynamics of labour. Moreover, according to this 'power resources model' (Esping Andersen 1985; Hicks 1999; Korpi 1983, 1989; Stephens 1979), the difference in welfare standards in Northern European, Central European, and Anglo-American countries is a result of the extent of the political influence and involvement of the labour movement and labour parties in shaping labour and social policy. In this approach, the major independent variables are unionisation as a political resource, the existence of strong unions, a leftist party with parliamentary seats, and a labour-centred class coalition.¹³ It argues that the welfare state is well established in countries that have

¹³ Korpi identified the labour union and the parties on the left as representing working-class interests in the democratic class struggle (Korpi 1983: 24-25).

well-developed trade unions and socialist parties, model examples of which are in evidence in the Scandinavian countries.

If this is the case, how does the Western experience, which is explained by the power resources model, help to explain the emergence and evolution of the welfare system in East Asian states? Furthermore, did the Korean developmental welfare state followed the established paths taken by Western welfare systems or initiate its own path-dependent course of welfare development? To answer these questions, it is necessary to begin with an account of the welfare regime thesis.

2.1.1 Welfare regime thesis and its application in the East Asian countries

The key question for the study of welfare is why nations respond so differently to a set of social risks that are largely similar (Esping-Andersen 1999: 170). At the heart of welfare research is the welfare typology that is derived from the different policies taken by each state. Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990) draws upon and draws together earlier welfare state typologies (i.e. Wilensky & Lebeaux 1965; Titmuss 1974; Furniss & Tilton 1977)(Abrahamson 1999: 400-401). Its innovation lies in Esping-Andersen's forwarding of the decommodification index as a statistical tool to measure the degree of worker's freedom from commodification in the labour market. In addition, he employs stratification as a means of analysing whether the various welfare regimes maintain (liberal model/class dualism), intensify (conservative model/status differentials), or compensate for (social democratic model) social class divisions (Esping-Andersen 1985; 1990; 1993; 1999). Here, regime refers to the mode of assigning welfare to the state, the market, and the household (Esping-Andersen 1999: 73), and the term 'the welfare-state regime' is used to illustrate the varying extent of decommodification and stratification brought about by the different dynamics among the state, market, and family.

The importance of Esping-Andersen's research to this thesis is that his analytical approach is ultimately political, something that is often neglected by welfare researchers within the disciplines of social policy or sociology. Esping-Andersen therefore provides a means of comprehending the welfare state, identifying its problems, and seeking alternatives rather than merely presenting a comparative study of welfare systems. In his approach, the process of welfare production and distribution is determined in the realm of politics; class

struggle and class coalitions affect the welfare policy-making process; and the type and arrangements of the welfare regime determines its inequality, stratification, and class structure (Brush 2002: 163).

However, despite its remarkable achievements, various aspects of Esping-Andersen's approach have been criticised, and some of these criticisms are particularly relevant for this research.¹⁴ First, it has been argued that his approach was too narrowly focused on income maintenance and thus is unable to illustrate a welfare system in its entirety, since it comprises various social protection schemes and social insurance programmes. In attempting to understand and characterise the nature of a welfare state, this approach has the political structure for mobilising power as its main focus, and it focuses less on the micro-dynamics of domestic politics; for instance, the issue of who made a difference within the domestic political context and why. Second, Esping-Andersen's typology attempts to provide a causal explanation of how the interaction among independent variables (historically established socio-economic ideology, religious values and tradition, and particular political institutions and the industrial structure) leads to one of three welfare system types. However, it remains doubtful that Esping-Andersen's typology can be applied to the case of an immature welfare system or in the case of a separate and distinctive path of development, that is, one unlike Western welfare states (Chung 2007: 265). Third, his approach focuses too much on a state-market duality and fails to take account of households and families (Wincott 2001: 411). For instance, according to Ha-Joon Chang, social welfare in East Asia is provided by a combination of (weak) social policy, company welfare schemes, family provision, and other means (2007: 5; 2004a: 247). Furthermore Song (2003) emphasises the central role played by business and family in welfare provision during the period of Korea's high economic growth (1961-1987) (Song 2003: 411).

In a similar vein, a recent academic vogue comprising the welfare regime of Esping-Andersen and the approach of 'Varieties of Capitalism (VoC)' enumerate statistical figures of that Korean labour market structure and the changes of welfare regime after neo-liberalistic globalisation in dimension of path dependency and path shaping and of institutional complementarity of production regime, especially focusing on industrial

¹⁴ For a critique of his welfare regime typology, see Arts & Gelissen (2002: 142-147). For critiques of his ignorance of gender differences, see Adams & Padamsee (2001), Christopher (2002), Brush(2002).For a critique of the un(der)acknowledged social foundation of the family/household, see Wincott (2001: 411).

relations, and welfare regime (Cho *et al.* 2008). These assessments have a different significance from general VoC thesis in the context of that exploring the theoretical relation between the Korean developmental state and the types of capitalist societies with the core term of institutional complementarity, however, these lack of qualitative analysis for examining the political dynamics along with formal and informal institution.

Based on the VoC thesis, in addition, the government partisanship is suggested as independent variable for exploring the change of welfare expenditure and welfare institutional implementation (Alvarez *et al.* 1991; Garret & Lange 1989; Kim & Fording 2002; Korpi 1983; Kwon 2010; Kwon & Pontusson 2010; Pontusson *et al.* 2002; Rueda 2007). Esping-Andersen (1990) pointed that the stronger the trade unions, and the greater the political influence of social-democratic parties, the more comprehensive and universal the welfare policy. In a similar vein, Hicks (1999), Korpi (1983), and Stephens (1979) can be addressed here. In contrast to this positive relations between the (labour based) leftist political partisanship and expansion of state's welfare provision, some commentators such as Rueda (2007) argues that the social-democratic political party is more likely to reduce the cost for universal compensation, rather it increases the cost on social protection scheme with cash or training programme for normal (tax-paying) workers in the sake of mobilising political support from them. Recently, in addition, H.Y. Kwon and his colleague (Kwon & Shin 2007; Kwon 2010) examines the effect of government partisanship on social spending in advanced democracies, which examines how the government partisanship effect manifests across the distinctive political – economic regimes – Liberal Market Economies (LMEs) and Social Market Economies (SMEs). Following his analysis, however, the government partisanship effect is transitory rather than enduring: in LMEs Left government exerts a transitory effect on increases in social spending, while Right government leads to a transitory cutback effect on social spending in SMEs. In a similar vein, it is less convincing that there is stable partisanship effect on labour laws reforms in Korea (see Appendix 1-1).

To summarise, these arguments are linked to the critique of the 'triad' problem, which doubts the usefulness of dividing welfare regimes into only three categories, something acknowledged as problematic by Esping-Andersen himself (1999: 12; 73). The critique argues that the tripartite model tends to over-simplify the complexity of social reality, especially the diversity of capitalism. This critique has presented new challenges to

Esping-Andersen's model and has led to the positing of other ideal types, such as the 'Latin Rim' model (Leibfried 1993:142-145), the 'Southern European' model (Ferrera 1996: 29-34), the 'Wage-earners' model (Castles & Mitchell 1992: 3-9), the 'Confucian (Oikonomic)' model (Jones 1990: 446), and the 'East Asian' model (Goodman *et al.*1998: 6-15; Rieger & Leibfried 2003: 243).

The 'Confucian' and the 'East Asian' models, which amply demonstrate the feasibility of there being a new hybrid system in East Asia, are vital in explaining the Korean welfare system. The common understanding among welfare researchers is that the East Asian welfare systems, including that of Korea, have attained low development compared to the economic growth that has been achieved. According to Midgley (1986), this is caused by an 'aversion to welfarism' (Midgley 1986: 234) among the political elites in the region, and this explains the lack of social policy development in the four little tigers (Hong Kong, Korea, Singapore and Taiwan).¹⁵

However, the causes of the underdeveloped welfare systems in East Asia cannot be explained by a simple assertion that welfare (or social) policy has been sacrificed in favour of economic policy. According to S.-Y. Kim (2008), the popular assertion that attributes the exclusion of social policy in the region to its subsidiary role to economic policy only partly explains the much more complicated reality (S.-Y. Kim 2008: 84) because the standard of welfare provision should be considered not merely in terms of social policy but also in terms of economic policy and the possible harmony that exists between them (Hwang 2006: 142). For example, Chang (2004a) contends that social policy does not act merely as a safety net during economic development, but can actually form an integral part of developmental strategies (Chang 2004a: 259). He challenges the assertion that East Asian economic growth can be attributed to a concentration on economic policy and the neglect of social policy. To him, while social security in a narrow sense is underdeveloped

¹⁵ In this cultural approach, the cultural legacy of Confucianism, which places the family's role and responsibility for welfare above that of the state, is emphasised (Jones 1993: 202; White & Goodman 1998: 12). In this context, however, a 'Confucian welfare state' is a contradiction in terms or, at best, refers to 'Conservative corporatism without worker participation; subsidiarity without the Church; solidarity without equality; laissez-faire without libertarianism' (Jones 1993: 214). Moreover, there is a limit to this cultural explanation in that it is unable to describe the dynamics of and explain the changes in the East Asian welfare system. This approach is essentialist, static, abstract and over-elastic (White & Goodman 1998: 13-16). More importantly, the institutional response by each national and regional welfare regime in East Asian countries varies despite the common risk of financial crisis (Gough 2001: 184). In sum, it is simplistic to argue that 'everything different can be explained by culture' (Chung 2009: 85).

compared to Western welfare states, social policies in a broader sense, such as land reform and public housing, are well developed in the region (Chang 2004a: 252-253).

The next section presents the developmental state approach to the East Asian welfare system.

2.1.2 Developmental state theory and its implication for the development of the Korean welfare system

The developmental state (henceforth DS) is defined as a state that plays a critical role in economic development through planning and organisation based on strategic targets: first, the state prioritises economic development, in which the key goals are growth, productivity, and competition; second, in pursuit of economic success, the state aggressively intervenes in the market, guiding and controlling it and the private sector via the strategic allocation of resources (Cheng *et al.* 1998; Haggard 1990; Johnson 1982; I.-Y. Kim 2001; Leftwich 1995; Rueschemeyer & Evans 1985);¹⁶ third, behind the success of the state's strategic intervention lies an efficient and rational bureaucracy (Amsden 1989; Chang 2003c; Shin & Chang 2003; Wade 1990; Woo-Cumings 1991) and state autonomy does not result in rent-seeking or looting (Evans 1995; Gough 2001; Johnson 1998).¹⁷

In the case of East Asian DSs (henceforth EADS – Korea, Taiwan, Singapore, Hong Kong, and Japan), some distinct foundations are added: the presence of a centralised state and bureaucracy, an overdeveloped state under the Cold War structure, vulnerability of capitalists and workers, and the weakening of landlordism due to land reforms. Among these elements, the focal target of the study of EADS is the role of the bureaucracy. From Johnson's (1982) discussion of the rapid economic growth of post-war Japan, the theoretical attention of researchers moved to the active role of pilot agencies (Cheng *et al.*

¹⁶ As Linda Weiss notes, the DS is not necessarily based on coercive power, but rather on infrastructural power. Both state bureaucracies and the people have a strong attachment to the state's goal of economic development, and they willingly devote themselves to this goal (Weiss 1998: 81).

¹⁷ In the neo-classical account, the state's aggressive intervention necessarily brings about rent and rent-seeking activities that are inefficient for social and economic development. For neo-classicists, therefore, state intervention harms economic development (Tullock 1980: 20; Bhagwati 1982: 994). Contradicting their view, however, East Asian DSs (especially Korea) have achieved rapid economic development. For DS theorists, the matter is not the existence of rent, but the manner of its redistribution (S.-Y. Kim 2004: 211-213).

1998: 87; Leftwich 1995: 412), particularly the Ministry of International Trade and Industry (MITI, Johnson 1982: 26). For Johnson, the Japanese model is the plan-rational DS, which stands in contrast to the market-rational regulatory state of Western democracies and the plan-ideological state of socialist countries. After his academic contribution, the bureaucrats in the EADSs were recognised as imitative of those in the Japanese model. Amsden (1989: 99-100) examined the state bureaucracy's positive role in the process of Korean industrialisation, while Wade (1990: 345) analysed the economic success of Korea and Taiwan in terms of the 'governed-market' concept. Woo-Cumings (1991: 7-10) focused on the role of state-controlled finance in the EADS, and Chang (2003c: 257-276) stressed the importance of the industrial policies selected by government. Shin and Chang (2003) attributed Korea's economic success to 'a close collaboration between the state, banks and *chaebols*, with the state as the dominant player' (Shin & Chang 2003: 1). To clarify the above interpretations, the characteristics of the DS model, focusing on the role of the state and bureaucracy, are outlined below.

State intervention

Chalmers Johnson pioneered studies on the developmental state, examining the key to the phenomenal growth of the EADS' economies through his capitalist developmental state concept (Johnson 1982: viii). The DSs pursued growth, productivity and competitiveness, employing strategic industrial policy to realise their goal of economic development. The DS offered financing, planning, production and allocation of resources. Johnson's study criticised the neo-classical account of political economy, in which state intervention invariably resulted in inefficiency and led to rent-seeking and corruption, and presented a new state concept. For him, the economic growth of the EADS like South Korea and Taiwan was fundamentally attributable both to the external factor of a new international division of labour and to the internal factors of market creation induced by state intervention, the role of local capital, and efficient production controls. In practice, the state enforced import restrictions and established tariff barriers to protect local industries while utilising state-controlled financial institutions as a vehicle to lead industrialisation (Johnson 1987). In the process of industrialisation, the EADS took on a relatively broad role of leading and regulating the market, and the state provided local businesses credit on favourable terms and tax benefits in order to drive exports (Amsden 1989: 14).

From this perspective, the form of state intervention by the Korean DS was slightly different from that taken by other EADSs (Shin & Chang 2003: 7-23). Due to the underdevelopment of the capital market, the state's intervention was necessarily 'market-substituting' rather than 'market-friendly' or 'market-enhancing' (Aoki *et al.* 1996: 8-13). The result of such state intervention has been evaluated as being as efficient as that of market mechanisms (Amsden 1989: 13-14). The role of the Korean DS was not restricted to resolving market failure but rather to playing a role as a 'market-conforming' entity (Amsden 1989: 139-143) with the consequence that bureaucratic organisation, the policy network between the public and private sectors, and the will and leadership of political elites in order to push forward the development strategy were the key features of the Korean DS (Amsden 1989: 11-18; Wade 1990: 195-227; Evans 1995: 43-73).

The question, then, is which conditions made it possible for the 'state entrepreneur' to install plan rationality and state controlled strategy in the EADS's industry. Is the strategic intervention of the state a sufficient condition to identify a state as a DS? Naturally, this is far from being the case.

State autonomy and capacity

The channel for the state's autonomous intervention in the economic development of the EADS lies in state autonomy and state capacity (Amsden 1989: 52; Wade 1990: 256; Kooh 2009: 148; Yoon 2006: 71-72). According to Evans (1995: 32), the DS is characterised by its particular role, which is based on its insulation from private interests. He claimed that the state had enough autonomy to set its own objectives, and it established an industrial network to implement those objectives.

However, securing the state's autonomy from the interests of the business sector and social groups is not sufficient to define it as a DS; rather, the capacity of the state should be sufficient to realise and give shape to the goal of development. Without this, the state could degenerate into a predatory state. Only a state whose autonomy is guaranteed by state capacity could set economic development as its primary objective and enable it to collect information and mobilise resources. In other words, the feature of the developmental state that prevents it from becoming a predatory state (such as Zaire) is its state capacity. Therefore, the very point that Evans emphasised is in fact the state's capacity rather than its

autonomy. He defined the state's autonomy as 'the *ability* to formulate collective goals instead of allowing officeholders to pursue their individual interests' (Evans 1995: 45; emphasis mine). In this sense, the term autonomy is largely indistinguishable from the term capacity.

What, then, is the key factor for determining state capacity? Before answering this question, it is necessary to mention a critique of the state-centred approach inherent in the DS thesis. Dealing with the DS theorists' statist perspective, there is an argument that the state ignores the importance of social consensus given that it is the sole actor in policy decisions and is superior to social groups. To this end, the state selected certain industries with political linkage to social groups, and the pattern of industrialisation was therefore created. Thus, the state relied on cooperative relations with society to achieve economic success, that is, collaboration between state and business.

Embedded autonomy

Evans (1995: 249) argues that the network of ties between social groups, classes, and state apparatuses are important factors for state capacity. For him, the developmental state has a link with the social sector while preserving its autonomy from plural interests, with the consequence that the state facilitated the industrialisation of developing countries. For instance, unlike in Brazil and India, where the state played a unilateral role in production, he identifies the success of high-technology industry in Korea as a result of the collaborative relationship between the state and business (Evans 1995: 140-152). In particular, Evans emphasises the DSs' connection to society by employing a concept of embeddedness, which refers to the collaboration between state and business.

Moving on from Evans' view, the chief organisational feature of the state, its internal cohesiveness, is highlighted by recent DS theorists. According to Chibber (2002), this feature was able to augment the state's capacity (Chibber 2002: 961). The term cohesiveness refers to the extent of the bonds and solidarity among members within the organisation (Oh 1999: 308), and the more members within the organisation who share its norms and objectives, the higher its internal cohesiveness (Allison & Zelikow 1999: 153). More importantly, if a high level of internal cohesiveness is met with a similar level of bureaucratic rationality, a high level of state capacity can be realised (Chibber 2002: 959-

960). Thus, this is the essence of why this dissertation stresses on the change relationship within the state entities like the President, Blue House (president office), economic-bureaucrats, and others as the informal institutions, as well the critical prerequisite of the DS.

In summary, the DS is identified by three key factors: strong bureaucratic organisation, cohesiveness within the organisation, and its connectedness with business. Examining the Korean developmental state from this perspective, particularly in the period of dramatic economic growth in the 1960's and 1970s, it can be seen that the Korean DS was a paragon of strong state capacity.

Korean developmental welfare system

In the case of Korean DS, it enjoyed remarkable success thanks to its high rate of economic growth from the middle of the 1960s, which was achieved by employing a state-centred economic strategy (Holliday & Wilding 2003: 27). Korea became one of the leading lights of the 'East Asian Capitalist model', achieving phenomenal economic growth while possessing a relatively fair distribution structure (Pempel 1999a: 155-156; Wade 1990: 38), demonstrated by the relatively small wage disparity among workers and a degree of income inequality that was very close to the level of advanced countries until the 1997 financial crisis (Croissant 2004: 515).¹⁸

Recent theorising on the productivist welfare system addresses the importance of developmental elements in Korea's development of social policy. Developmentalist ideas such as self-reliance, work incentives, and minimal intervention by the state for social welfare became rooted in the formulation of Korean welfare institutions (Kang 2005: 357). In this approach to the productivist welfare model (i.e. 'Productivist Welfare Capitalism' (Holliday 2000) and the 'Developmental Welfare System' (Goodman *et al.* 1998)), social welfare policy is regarded purely as an instrument for economic development and is considered to have been so since the developmental era. The main contribution of this approach is its insistence that social policy in Korea is still *subordinate to economic policy*

¹⁸ In the case of the Korean developmental state, most of its features have long historical traditions. According to Leftwich (2007: 21), for example, the hierarchically ordered structure of political power and authority (strong and effective bureaucracies and the autonomous power of the political elite) is a relatively long state tradition.

(S. Kwon & Holliday 2007: 242; Holliday 2000: 709; emphasis mine) and that social policy essentially remains an instrument for economic growth. It is also argued that Korea's abiding high economic growth itself acts as a form of social welfare, and the roles of the family and companies in welfare provision have been added as 'accessories' (Y.-B. Kim 2002: 335). Furthermore, it has been claimed that so-called 'pie theory', which contends that enlarging the size of the economy is a better solution for achieving economic fairness than redistribution of wealth, has been formed the basis for institutional evolution in the Korean welfare state (Lee & Moon 2008: 14). In other words, these productivists' approaches have viewed the straightforward and positive conclusion that has informed the dominant policy preference among the political elites is that social problems such as poverty and income inequality can be solved by economic development and 'trickle down'. Thus, the policy-making priority has been the institutionalisation of human capital reinforcement programmes (Deyo 1992: 297) such as education and health care rather than the development of socially progressive programmes to eliminate poverty or reduce social and economic inequality.¹⁹

Although this productivist welfare explanation certainly provides a sophisticated interpretation of the Korean developmental welfare state in that it begins to recognise the importance of the welfare-economy nexus, this view still lacks a concrete elaboration of how specific welfare programmes are related to certain aspects of the production system. For instance, while this productivists' view appreciates that state-led human capital programmes (education and wage-earner centred health care and pension systems) contributed to strengthening the production system, other important features of the DS that relate to the welfare-economy nexus are not analysed or discussed. In other words, only those features of the DS that are theoretically related to a productivist welfare system can be discerned through the productivist lens.

Certainly, it is difficult to find any comprehensive examination of employment and welfare in the DS thesis paradigm. Rather, the DS thesis widely assumes that distribution-oriented social policy tended to be excluded in DSs. To the DS theorists, (somewhat in contrast to the productivist argument set out above), the Korean welfare system largely met the

¹⁹ Rieger and Leibfried (2003) describe this as the 'minimalist' welfare system (Reiger & Leibfried 2003: 264-268), which comprises segmented contributory social insurance schemes paid for by wage earners, and state that it is inclined to concentrate resources into policy areas that develop human capital, such as education, health care, and job training.

demands of welfare provision (especially in the developmental era) despite the lack or immature nature of social policy arrangements for worker protection and welfare provision. The purpose and policy scope of state institutions was mainly to devise and implement selective industrial policy (Chang 2003c: 257-276; Pirie 2005b: 40) or protective financial policy (Woo-Cumings 2007: 157-165) without too much thought for either the poor or the unemployed. According to the DS thesis, Korea's low unemployment rate and the high rate of real wage growth (You & Chang 1993: 33), the *chaebols'* paternal orientation towards welfare provision within the company (Cho 2003: 119–120), a wage system based on seniority, a quasi-lifetime commitment (Haagh 2004: 165), and so forth provided the basis for welfare provision in Korea. In short, Korea's rapid economic growth and workplace-based developmental practices ultimately restricted the development of social policy and prevented it from forming an integral part of the DS, remaining underdeveloped in a 'social-policy-free-zone' (Chang 2004a: 259), on the one hand, and the state's full employment strategy and diverse practices of welfare provision by company were identified as the Korea's genuine welfare measures with less development of social policy in the context of Western welfare system, on the other.²⁰

Notwithstanding its notable achievements in understanding the nature and configuration of the (Korean) DS and its welfare system, this approach is flawed in that it assesses the modern state's level of political and social development by the extent to which the state has relative autonomy from the business sector in the capitalist state, with the consequence that the state and business relationships and the policy preference of economic growth are static and overemphasised. In fact, the relationship between the state and business should not be seen as unilateral. Rather, it is a complex and interactive relation that involves a process of resistance, negotiation, and compromise. Furthermore, this approach is also incapable of addressing the cause and effect of the internal and external pressures faced by the DS in recent years and the impact that these have had on its transformation.

However, this does not mean that this study totally rejects the DS thesis and productivist approach. In fact, this study follows the tradition of DS studies, but it endeavours to refine

²⁰ In the view of many DS theorists, this was largely due to the rationality and neutrality of the bureaucrats in the DS. In the case of Korea, DS theorists insist that the Korean state has embedded autonomy because bureaucrats are meritocratically selected and are therefore not corrupt; they are, furthermore, insulated from short-term political pressures (Cheng *et al.* 1998, 87; Evans 1995: 51–53; also Johnson 1982: 20; Wade 1990: 225).

the DS thesis to reflect better the changes that occur in the modern welfare capitalist world by arguing that a complicated set of institutional factors contributed to social policy not being incorporated into the DS's strategy: the lack of a welfare-oriented policy preference among the political elites and elite (economic) bureaucrats, the lack of an institutional motivation on the part of the state and business to pursue welfare to encourage growth and efficiency, and low demands for welfare provision from the public and labour, which were oppressed by the developmental institutional arrangements. The transformation of the traditional developmental welfare state after the financial crisis can also be illustrated by changes in this set of factors. These factors, which are fundamentally the political output of the changing relationships between the state, business, and labour over time, are generally ignored in the DS thesis.

There are two main theoretical challenges to the developmental state theory's understanding of welfare provision in Korea: (a) the international approach; and (b) the democratisation thesis.

2.1.3 Counterarguments to the developmental state approach on the transformation of welfare in Korea

The international approach emphasises the way in which the welfare system in East Asia has been influenced by globalisation, especially with regard to US hegemony and the post-war history of political vulnerability in this region (Gough 2001: 178). For theorists of this approach (Andrews 1994; Cerny 1995; Mishra 1999; O'Connor 1998; Schiff 2000; Scholte 2000; Simmons 1999), welfare policy (or social policy) is an area that is strongly influenced by globalisation, and the internationalisation of market capital poses a challenge to social democratic states, which are characterised by the state's prominence and their state-centred budgetary control (Mosely 2000: 738; Simmons 1999: 68-69).

In Korea, the early stages of globalisation saw the Kim Young-sam government (1992-1997) proclaim '*Segewha*' (globalisation in Korean) and implement new economic and financial policies, such as the deregulation of company policy and the opening of financial markets. The subsequent Kim Dae-jung government further pursued the neoliberal policy

formula, with the dismissal of state regulation, strict fiscal control, and acceptance of FDI (Foreign Direct Investment (Lee & Moon 2008: 23)).²¹

However, the globalisation explanation fails to explain the complexity of Korea's welfare state transformation. In other words, this approach is unable to answer the following question: if the impact of globalisation as an independent variable were as strong as is suggested, why were the labour protection and welfare schemes of the Korean state considerably strengthened, while economic and financial policies were reformed in accordance with the neoliberal formula. For instance, the state made efforts to resolve employment issues that resulted from the newly enacted labour law in 1998 (which permitted easier hiring and firing) and obtained excellent results in unemployment and with the social safety net— e.g. the worst unemployment rate (7.0% in 1998) was recovered to the pre-crisis level in two years (4.1% unemployment rate in 2000 and around 3.5% unemployment rate since then). The series of welfare reforms clearly shows that the Korean state was expanding its role in social welfare under the pressures of globalisation.²² Observing this post-crisis institutional innovation, some scholars even insist that in the context of the government's increasing welfare and social insurance expenditure (see Chapter 8), the changes represent the state's transition from the 'developmental state' to the 'democratic-welfare-capitalist' state (Y.-M. Kim 2008: 120; Kuhnle 2002: 16; H.-K. Lee 2002: 481; 2004: 291), a position that, however, is still debateable (see next section in this thesis).

This explanation given by the 'democratic-welfare-capitalist' thesis, which challenges the productivist (or developmental) welfare argument, is underpinned by democratisation theory. Democratisation theorists focus on the enhanced role of labour and civil society in the transformation of the East Asian welfare systems, especially after the 1997 Asian financial crisis. Even though civil society and labour have had slightly different influences on the reform of East Asian welfare systems, it is argued that these new groups of non-state actors have become increasingly involved in welfare politics since the mid-1980s (Wong 2004: 4; Peng 2005: 73). Above all, in Korea, 'cross-class welfare alliances'

²¹ As Haagh and Cook (2005) argue, the agency of collective actors tends to be particularly pronounced during periods of sharp political and economic change, such as the combination of economic liberalisation and democratisation (Haagh & Cook 2005: 175). The YS and Kim Dae-jung administrations can be seen in this light.

²² See Chapter 8 in this thesis.

organised by progressive civic groups and labour unions are argued to have contributed decisively to the establishment of solidaristic welfare programmes over the last decade, while productivist elements have all but disappeared (Y.-M. Kim 2008: 112; 120; also Kuhnle 2002: 16; H.-K. Lee 2002: 481; 2004: 291; Wong 2004: 145).²³ For instance, according to Y.-M. Kim, a cross-class welfare alliance emerged in the late 1990s through successfully combining the traditional power of working-class movements and the emerging power of the middle-class-led civil movement, and this has gained an unusual political influence in democratic Korean civil society, dismantling the top-down method of social policy making of the past, and weakening the old developmental elements (Y.-M. Kim 2008: 117-118).

If this is the case, did the innovative welfare reforms introduced by the Kim Dae-jung government represent an endeavour to strike a balance between welfare provision and economic development in response to the newly emergent labour and civil movement? In answer to this question, Chung (2007a) insists that, on the part of the state, a developmentalist idea remained at the heart of the welfare reforms: although it is true that the Kim Dae-jung government expanded welfare hugely compared to previous regimes, if the level of welfare coverage is examined, these welfare reforms appear to have followed a path-dependency established during the authoritarian period (Chung 2007: 298).

In this sense, the question naturally arises of what path this developmental idea took after Kim Dae-jung's inauguration: a greater role for the state or, on the contrary, a greater role for the class-coalition for welfare. The next section will examine the nature of Korea's post-crisis welfare system, focusing on the role of the state, the neoliberal pressure for welfare reform, and the rise of the pro-welfare class-coalition.

2.2 Debate on the post-crisis Korean welfare state

From the previous section, it is evident that the evolutionary path of Korean welfare diverges in 1998, after the onset of the 1997 Asian financial crisis and of Kim Dae-jung's inauguration. Before the crisis, the elements of productivist welfare capitalism had a strong impact on the establishment of welfare institutions in Korea. However, democratisation

²³ Or an 'advocacy coalition' in the term of H.-j. Kwon (Kwon 2005: 31)

and globalisation in the mid-1990s began to transform the Korean welfare system. As Tang notes, the Korean DS (and Taiwan) ‘assume[d] new responsibilities to ensure that part of the fruits of economic growth are equitably shared’ (Tang 2000: 158; also in a similar context, Hwang 2006: 163; Ramesh 2003: 88-90). It is widely accepted that there was dual-track reform in the Korean economic and social institutional set: the adoption of a neoliberal policy formula in economic policy and industrial policy, and the simultaneous adoption of socio-democratic (partly neo-corporatist) elements in welfare (social) policy. This has produced confusion among scholars in determining the nature and the cause of the transition in welfare policy and provision: should they employ an international (globalisation) approach or a developmental approach? It will be argued, however, that neither of these approaches is able to provide a comprehensive explanation for the transformation and the features of the Korean welfare system. Bearing this point in mind, the following section examines the recent debate on the post-crisis Korean welfare state.

2.2.1 Mixed views on Kim Dae-jung’s institutional innovations

The Kim Dae-jung government came to power and set about tackling the unprecedented financial crisis. The government’s claim after the crisis that it had established a democratic market economy (or so called ‘DJnomics’) implies that capital liberalisation, including fiscal austerity, liquidating insolvent financial companies, corporate governance reform, and opening the market, had been its goal.

The early years of the Kim Dae-jung government saw academic welfare studies accompany the government’s innovative welfare reforms. In particular, a welfare debate in 2002 (Y.-M. Kim ed. 2002) contributed to promoting and improving the standard of Korean welfare study. However, the debate tended to centre on aspects of Esping-Andersen’s *The Three Worlds of Welfare Capitalism*, thus resulting in similar classifications of the welfare state: for example, Chung (2002: 442-444) argues that the post-reform Korean welfare state takes the form of enhanced state intervention with neoliberal aspects; Cho (2002: 292-293) regards it as an explicitly neoliberal system; Y.-M. Kim (2002: 379) contends that it exhibits enhanced responsibility by the state; and Nam (2002: 170-172) views it as a conservative welfare institution.

To put it in more concrete terms, Chung (2002) argues that the form that the Kim Dae-jung government's welfare reforms took resulted from the influence of neoliberal pressure. He focuses on the fact that the Korean welfare state introduced by the Kim Dae-jung government drew upon the neoliberal emphasis on the principle of workfare and failed to overcome labour commodification. He concedes, however, that compared with the previous authoritarian governments, the reforms enacted by the government did make a difference by enlarging social insurance and establishing the LMGTC (Chung 2002: 56). In particular, he stresses the neoliberal features of the state's remodelling of the institutional set by employing the term 'flexicurity'. Chung holds that in the Kim Dae-jung government's efforts to overcome the crisis, the demands for neoliberal reform by the IMF and World Bank were adopted unquestioningly. As a result, the opening of the Korean economy to the international market and increasing labour flexibility were unavoidable, especially from the middle of Kim Dae-jung government's reign. Consequently, job insecurity and the number of working poor increased significantly, and social protection emerged as an important issue for the government. From this point, the Kim Dae-jung government followed a flexicurity path (Chung 2006: 63-64), which aimed to attain both flexibility in the labour market and social security for workers against such risks as employment insecurity and reduced income via the introduction of social welfare schemes. In sum, the state simultaneously aimed to make employment flexible and to undertake social protection.

From this perspective, the 'Productive Welfare' proclaimed by the Kim Dae-jung government (here, 'Productive Welfare' is not to be understood in Holliday's terms) cannot be interpreted as *fully* following a neoliberal course. Chung (2002) argues that 'the contents and performance of welfare reform by Kim Dae-jung stand on the extent of not conforming to the neoliberal order' (Chung 2002: 66), and the speed and innovation of the transformation of social welfare institutions was unparalleled in Korean history. During this transformation, state responsibility for welfare provision, rather than the individual responsibility that neoliberalism calls for, was intensified. In addition, Kim Dae-jung's reform of the institutional set prevented privatisation of the social insurance scheme, something that international organisations such as the World Bank favoured. For instance, the state's reinforcement of social protection schemes such as EI, Health Care Insurance (HCI), National Pension Insurance (NPI), and the National Basic Living Security scheme

(NBS) left little place for privatisation (H.-K. Lee 2004: 293-297; Lee & Moon 2008: 18; and diverse interviewees in the fieldwork of this research). Nam (2007) agrees with the analysis that the welfare reforms achieved a quantitative expansion of welfare (although it remained subordinate to economic strategy) and the modification of various laws and regulations (Nam 2007: 49). For these reasons, there is a strong argument for placing the Korean case into a fourth category, the developmental welfare system (Chung 2002: 432-442).

In contrast to Chung's argument that the Kim Dae-jung government simply failed to break with the neoliberal order, Cho contends that the Kim Dae-jung government's response to the crisis was entirely neoliberal in nature. Cho argues that the 'Productive Welfare' announced by the Kim Dae-jung government was in fact the ultimate expression of its policy of implementing reforms founded on neoliberal ideology, and thus the direction of the Korean welfare state shifted towards the neoliberal model (Cho 2002: 293; 326-327).

By contrast, Y.-M. Kim (2002) highlights the state's increased responsibility for welfare provision: the Korean welfare system is an intermixture of the features of a liberal system and a conservative system rather than being exclusively one or the other (Y.-M. Kim 2002: 136-137). In support of his argument, he points to the new solidaristic and redistributive health care system (the NPI and HCI) and the labour protection system (EI and Workers' Compensation Insurance, WCI) in particular. Despite not being mentioned in his analysis, it should be noted that the Kim Dae-jung government also exhibited its commitment to the reinforcement of labour rights through its recognition of the KCTU (the Korean Confederation of Trade Unions) in 1999. The KCTU was established in 1994 in opposition to the FKTU (the Federation of Korean Trade Unions), whose origins date to 1949 and which was long regarded as a government instrument with moderate views compared to the KCTU (or its antecedents). The KCTU, an illegal organisation until 1999, was included as a partner in the LMGTC, which was established in 1998. This was a historic moment in the course of the Korean labour movement, although the role and influence of the KCTU was short-lived.

2.2.2 Combination of political, social, and economic conditions

On the one hand, these analyses commonly note the remarkable expansion of welfare coverage and expenditure (such as those in EI, NBS, and NPI) that took place under the Kim Dae-jung government and its innovative attempts to embrace labour and the lower middle class (for instance, the formation of the LMGTC and the legalisation of the KCTU). On the other, they also admit that labour's role was comparatively small compared to that of the state in shaping labour reform. However, the arguments presented by the theorists above share the limitations of the power resources model in that they place excessive emphasis on the roles of the state and labour in shaping labour reforms and are shackled by their attempts to describe the post-crisis transformation of welfare provision in line with Esping-Andersen's typology. As a result, they neglect the political explanation and institutional approach that this research stresses. For instance, the question of why Korean labour chose (or should choose) the course that it did is not answered.

Other commentators (Choi 2008; Sonn 2005; also in a similar vein, H.-j. Kwon 2004; Seong 2002; Song 2003; Wong 2004) challenge the interpretation that there is a simple causal relation between the 1997 Asian crisis and the subsequent development of a Korean welfare state in Korea. For them, the argument that the 1997 crisis was a profound shock to Korean society, the living standard of the lower middle class worsened, and a relatively left-oriented political group assumed the reins of government at just the right time cannot fully explain the emergence of the Korean welfare state. Rather, they present the argument that the government's innovative welfare reforms were enacted under conditions of serious socio-economic risk: there was a temporary and unexpected expansion of state autonomy due to the sense of desperation that resulted from the financial crisis, the increased organisation of labour and civil society, the Kim Dae-jung government's reform-friendly orientation towards welfare, and *the need for welfare expansion in order to win the 2000 general election*. This explanation contrasts sharply with the power resources model, which focuses on the role of labour and the labour party, and it is the dominant view of those who advocate the influence of political factors on the quality of the Korean welfare state and its institutional transformation.

However, this approach needs to consider more closely the nature of the Korean DS. For instance, the connection between Kim Dae-jung's political preferences and decisions and

the autonomous role of the political elite and elite bureaucrats in the DS is not addressed, nor is the relationship between state embeddedness and labour and business considered.

Building upon this criticism, the institutionalist viewpoint considers that the institutional arrangement in Korea resembles a ‘hybridization’ in which the old and newly emerging institutions are contradictorily intermingled, are interacting with each other, and are searching for new institutional complementarities (Deeg 2007: 626). It is argued, therefore, that the important aspects of institutional change are found not only at the formal level, but also at the informal level (Culpepper 2005: 174-181). In this sense, the actual operation and functioning of a welfare regime will ultimately depend on politics: the degree to which rule-making actors have hegemonic power over the specific conception of the welfare regime as against the competing rule-taking actors. This will be examined in the next section, focusing on institutional complementarities and the interpretational struggle between the state, business, and labour over an institution’s meaning and configuration.

2.3 The political approach of new-institutionalism

To sum up the previous sections, the labour market was an important factor in the formation of the welfare state in Korea. However, the labour movement’s power in Korea has been relatively weak (Ma 2002: 238-247), has failed to enter into mainstream politics (Koh 2004: 25-29),²⁴ and even during the period of labour market transition (in the late 1990s) played only a small part in shaping the development of the welfare state (Haagh & Cook 2005: 191). By contrast, the state has been strong and has played a prominent role through its developmentalist intervention in Korean welfare (under-) development. Especially since the 1997 crisis, ‘commodity-differentiation’ (Lee & Moon 2008: 113; Sonn 2005: 218-223), which indicates the increasing wage gap and job insecurity between regular and non-regular workers and between *chaebol* and SME workers, has significantly increased, whereas decommodification has not. Thus, the dominant argument among scholars is that the Korean welfare system is a unique and immature system of mixed corporatist and liberal elements, but one that ultimately aligns more closely to the liberal model (Cho 2002: 292-293; Chung 2002: 56; Lee 2002: 481; Yang 2005a: 408-409) due to

²⁴ When the power resources model is applied to 1960-70s Korea, one of the reasons for the then underdevelopment of social policy can be found in the immaturity of trade union activities.

its low level of trade union organisation, the segmented firm-based union system, and the absence of a labour party (Lee & Moon 2008: 2).

However, the nature and history of the Korean developmental welfare state cannot be understood only in terms of its disunited labour movement, segmented labour market, and legacy of strong state intervention. Since little is known about the institutional foundations and conditions that impose restrictions on the formation and reorganisation of a particular political configuration between the Korean state, business and labour, this thesis emphasises that the elements that underpin the development of the Korean welfare state – weak labour and a strong state – are the result of the combined effect of socio-economic institutions that simultaneously constrain the interests and strategies of social actors. Thus, examining the configuration of and change in labour market and social protection institutions and the complementary effect of each institution is equivalent to investigating the causal mechanisms of the evolution of the Korean welfare state. In addition, it is presumed that the focal point for detecting institutional changes and the consequences of the interactions between institutions lies in the political dynamics of rule-makers and rule-takers with diverse ideas, motivations, interests, and responsibilities because, as each social actor inherently wants to instil their interests in the institution, they compete, negotiate, and compromise in the policy-making process. Even economic actors do not simply rationally optimise their trading possibilities according to given preferences, goods, and constraints. Rather, they continually create new goods, new options, and new preferences; they imagine new goals and, in the vast space of possibilities opened up by the complexity of creative interaction over time, they must imagine new possible strategies and act on them. Thus, the institutional change or policy reform appears in the form of the fundamental tensions between actors with diverse and sometimes contradictory interests in the same policy implementation and enactment. This view, therefore, requires that we have to bring politics explicitly into the analysis of the market, and not just into the analysis of the state.

This perspective, which is adapted from the new-institutionalist approach and which conceptualises institutions as the set of rules of conduct in organisations, routines, and repertoires of procedures (March & Olsen 1989: 21), provides a critical approach that stresses not only the formal-structural aspect, but also seeks to explain individual behaviour under this construct: individual preference, strategy, behaviour, and patterns and practice of interaction within the institutional context. In this sense, this thesis emphasises

that the institutional nature of the labour market and social protection is defined by a range of formal and informal institutions that embody certain rights and obligations. As institutional approaches in economics argue (i.e. Bronk 2009: 2; Chang 2003b: 54; Haagh & Cook 2005: 173; Solow 1990: 31), the employment system, including the labour market, is characterised by around a thousand collective bargaining agreements, many of which define only the main principles and procedures of negotiation. According to Bronk (2009: 2), this variety of motives and interactions, including the rights, obligations, preferences, choices, and even modes of vision and thoughts are interdependent and to some extent socially formed.

In the next section, beginning with an account of the normative foundations of institutions, the institutionalist thesis is reviewed, with a focus on its understanding of the political dynamics in the logic of path-breaking (or path-reinforcing) incremental change.

2.3.1 Normative foundations of the new-institutionalist approach

Analysts belonging to what has been labelled the '*New Institutional*' school of thought clearly separate themselves from 'old institutionalism', which merely focused on the description and comparison of formal features of state and social institutions (Rothstein 1998: 6-7). New institutionalism does not comprise one single body of thought, and three diverging analytical approaches are usually identified by scholars: 'historical institutionalism', 'rational choice institutionalism', and 'sociological institutionalism' (Hall and Taylor 1996; Immergut 1998; Koelble 1995).²⁵

Although this section will not aim to address the differences between these different schools of thought in great detail, since this research focuses on new institutionalist arguments in its analytical chapters, it is necessary to provide a brief overview of the fundamental concepts within the new institutionalist framework, especially as regards the

²⁵ Although this is a slight simplification and might downplay some of the more subtle differences between the institutional theories, this thesis follows Peters' (2005:160) conclusion and thus treats March and Olsen's (1989) 'normative' approach as more or less equivalent to 'historical institutionalist' studies. Similarly, Peters stresses "the rational choice approach to institutions appears very compatible with some aspects of the empirical approach" (Peters 2005:160). Since this variant has not played a major role in comparative research on public policy and welfare reforms, it was decided not to provide an overview of 'sociological institutionalism'. Although 'international institutions' have clearly gained significance in recent years, the scope of this thesis only allows for a focus on the impact of the OECD, IMF, and the World Bank on national social policy making in passing.

specific effects of institutional changes. The two major aspects of new institutionalist thinking that are most relevant here are the following:

(a) The argument that normative foundations, such as ideas, preferences, motivations and responsibilities, have direct effects on the nature of the institutional implementation.

(b) New institutionalism's emphasis on 'path dependency', 'policy feedback', and 'lock-in effects', suggesting that it is institutions themselves (i.e. past policy decisions) that have the greatest impact on policy reform and stasis.

Competing understandings

The first of the new institutionalist approaches examined is categorised under the term 'rational choice institutionalism'. In keeping with other scholars from this school, North (2005) suggests that institutions are created by utility-maximising individuals with clear intentions (2005: 78-79). Employing a characteristic set of behavioural assumptions, this group of scholars assert that relevant actors have a fixed set of preferences or tastes, behave entirely instrumentally so as to maximise the attainment of these preferences, and do so in a highly strategic manner that presumes extensive calculation (Hall & Taylor 1996: 945). One of the contributions of rational choice institutionalism has been to emphasise the role of strategic interaction in the determination of political outcomes.

The second approach is termed 'historical institutionalism'. The contributors to the volume by Steinmo, Thelen and Longstreth (1992) argue that one of the shortcomings of rational choice institutionalism is that it merely adds our preference formation to the analysis (1992: 9). They contend that preferences are shaped by institutions. Steinmo and Thelen note that their work borrows from the notions of bounded rationality explored by March (1978). This approach does not deny that individuals attempt to calculate their interests, but argues that outcomes are the product of the interaction among various groups, interests, ideas, and institutional structures.

Differences between 'historical' and 'rational choice' approaches become apparent as soon as we ask the fundamental question: 'what constitutes an institution in the first place'. The 'rational choice' approach stresses that individual utility maximisation lies at the heart of institutional formation, or in other words, human behaviour needs to be shaped, structured,

and constrained. In this approach, individuals are by definition *rational*, and the creation of institutions is seen as a logical consequence of this.

The ‘historical institutionalist’ definition of an ‘institution’ is vaguer. Some scholars (e.g. Thelen & Steinmo (1992)) simply enumerate examples of institutions – such as formal government structures, electoral law, and social class – and ‘appear willing to accept all of this disparate set of structures as components of the institutional apparatus that they will use to explain political phenomena’ (Peters 2005: 74). Others are closer to the ‘rational choice’ approach in their highlighting of ‘formal rules, compliance procedures, and standard operating procedures that structure the relationships between people in various units of the polity and economy’ (Hall 1986: 7). Furthermore, some historical institutionalists include organisations in their definition, such as, for example, central banks (Streeck & Thelen 2005: 12). This research, however, adopts a different view: organisations are identified as actors (players), while institutions are regarded as sets of (general) rules (North 1990: 4-5; Leftwich 2007: 11-12). Recognising this basic distinction between institutions and organisations is essential in order to establish a broad analytic framework for the institutional analysis of politics and to explore the processes of institutional innovation, evolution, and transformation in a way that links ‘the subject in a creative relationship with an institutional environment’ (Hay & Wincott 1998: 955; cited in Leftwich 2007: 12). In the case of the LMGTC in this thesis, the government, the two labour unions, and the Korea Employers Federation (KEF) are regarded as political actors that cooperate, clash, and negotiate in the process of institutional rule-making and, simultaneously, over institutional change.

Informal institutions as third-party?

Some ‘historical institutionalists’ go so far as to include the role of *ideas* in the definition of institutions. Their emphasis lies on the *formal* character of such institutions – contrary to customs, which are merely informal practices, political economies contain a set of *obligatory* and *expected norms* and sanctions (Hall 1989; Streeck & Thelen 2005:10). They further stress that these ‘formalised rules [...] may be enforced by calling upon a third party’, which is an indication of the legitimacy of the institution. Whether an institution is ‘legitimate’ in this sense is important as it separate institutions from mere forms of *voluntary agreed social convention*. ‘With an institution we are dealing only if and to the

extent that third parties predictably and reliably come to the support of actors whose institutionalised, and therefore legitimate, normative expectations have been disappointed' (Streeck & Thelen 2005: 11). 'Third party enforcement' is also crucial for the question of whether single policies should be included in 'historical institutionalist' analyses. Streeck and Thelen emphasise the essential qualities of policies, which 'stipulate rules that assign normatively backed rights and responsibilities to actors and provide for their "public"' (Ibid. 12.), the principle example used being early retirement policies. 'Policies [...] are institutions [...] to the extent that they constitute rules for actors other than for the policymakers themselves – rules that can and need to be implemented and that are legitimate in that they will if necessary be enforced by agents acting on behalf of the society as a whole' (ibid.). Thus, this approach brings the methodological focus of political research down to the micro level and places the interaction of individual interests and the political dynamics of collective action at the centre of the research.

As regards micro-level analysis, 'rational choice institutionalism' assumes that individuals seek to maximise a specific set of goals in line with their preferences. They do so by strategically choosing a specific course of action from the various possible options 'based on either intelligent calculation or internalised rules that reflect optimal adaptation to experience' (Shepsle 1986: 134). In this view, institutions are merely seen as providing information relevant to the behaviour of other actors; that is, they shape individuals' decisions for or against a specific course of action by altering the expectations an actor has about the actions that others are likely to take (see, for example, the prisoner's dilemma). Rational choice institutionalism, therefore, regards the process of preference formation as independent from the institutional setting; institutions are essentially treated as exogenous variables for choosing a specific course of action.

By contrast, at the core of the 'historical institutionalist' model of human action lies the assumption that all individuals have to cope with an overwhelming complexity and uncertainty that makes them use a wide range of cognitive shortcuts in order to make sense of the social world. Thus, an individual's decisions for or against a specific course of action are largely determined by their own 'biased' interpretation of given situations. More generally speaking, 'historical institutionalists' argue that individuals tend to follow *socially defined rules, even though in doing so many may not be in their own self-interest*. Hence, they should be seen as rule-following *satisfiers* – in many cases utilising a 'trial-

and-error approach to public politics – rather than as operating strategically as benefit *maximisers*. As a result, any form of individual decision bounded in rules is less likely to change and is more likely to be locked in, as is argued by the path dependency thesis contends in the case of institutional change.

How, then, do institutions change in line with the concept of path dependency? Does institutional change come about via the materialisation of an exogenous shock or via the internal process of conflict and negotiations? The next section deals with the historical institutionalist approach towards the issues of institutional change.

2.3.2 Path dependency: increasing returns vs. incremental change

The interaction between historically rooted patterns of institutional arrangement and institutional innovation matters to the development of social economies and underlines that the beliefs and behaviour of individuals are, at least in part, socially formed (Bronk 2009: 289). ‘Path dependency’ is central to the historical institutionalists, who argue that ‘processes in which choices made in the past systematically constrain the choices open in the future’ (Myles & Pierson 2001: 306). The established policy path means that (authoritative) resources are often highly likely to be allocated and directed to certain options rather than others, affecting the relationship between different policy strategies and privileging some actors over others.

To the historical institutionalists, therefore, formal institutions are by definition change resistant and typically designed to make it very difficult to overturn. If anything, institutions feature a high degree of ‘stickiness’, which is ‘built into the design of political institutions to reduce uncertainty and enhance stability, facilitating forms of cooperation and exchange that would otherwise be impossible’ (Pierson 2004: 43). Furthermore, preferences are formed by the institutional context within which they emerge and therefore ought not to be treated as fixed. However, institutions play a determinant role since although they shape the actions of individuals, they are at times affected by collective and individual choices. The notable feature of historical institutionalism is that it advocates an image of social causation that is *path dependent*. The same operative forces will generate the same results everywhere given that the effect of such forces will be mediated by the

contextual features of a given situation often inherited from the past (Hall & Taylor 1996: 941).

Returning to the matter of institutional change in the welfare arena, if a change in welfare institutions (including institutional change on labour and employment issues) is consistent with its own historical trajectory, then it should be understood as path dependent. If this is not the case, then the focus should be on what caused the institutional innovation to begin to develop along a different path from its conventional historical trajectory. In keeping with Hall and Taylor's assessment presented above, historical institutionalists have devoted a good deal of attention to the problem of explaining how institutions produce such paths, that is, how they structure a nation's response to new challenges. Early historical institutionalists emphasised the impact of existing 'state capacities' and 'policy legacies' on subsequent policy choices. As Hall and Taylor note:

In keeping with this perspective, historical institutionalists also divide the flow of historical events into periods of continuity punctuated by 'critical junctures'; i.e., moments when substantial institutional change takes place, thereby creating a 'branching point' from which historical development moves onto a new path. The principal problem here, of course, is to explain what precipitates such critical junctures, and, although historical institutionalists generally stress the impact of economic crisis and military conflict, many do not have a well-developed response to this question (Hall & Taylor 1996: 942).

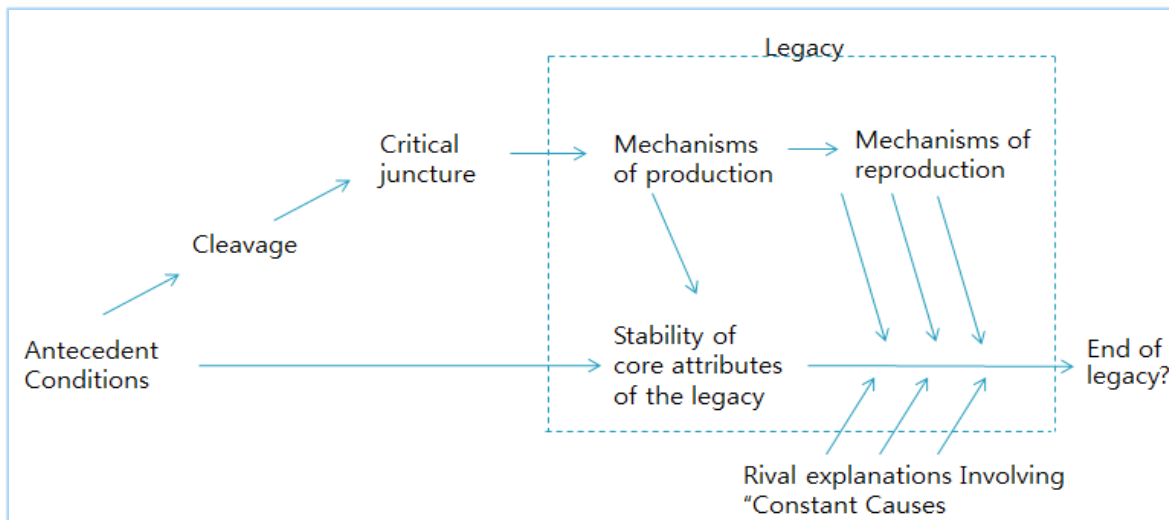
This traditional logic of path dependency and critical juncture (Collier & Collier 1991; Crouch & Farrell 2004) was theoretically forged by the assumption that institutional change takes place via periodic cycles of self-reinforcement (Calvert 1995; Krasner 1984; 1988; Levi 1997; Shepsle 1989), by *inertia* and *stickiness* (Pierson 2000: 252-253; 2004: 17-18),²⁶ and *contingency* and *conjunctures* (Mahoney 2000: 514; Pierson & Skocpol 2002: 702). Although the terms used vary according to the point that each observer wishes to stress, the overall logic can be summarised by the concept of 'increasing returns' (Pierson 2000), meaning that when attempts are made to overturn well-established existing patterns or rules, they are generally unlikely to succeed due to the high returns (costs) for this transaction, even when the change is seen as necessary and rational and garners

²⁶ While Arthur (1994; cited in Pierson 2004) identified four factors of a technology that trigger 'increasing returns' (large set-up or fixed costs, learning effects, coordination effects, adaptive expectations), it was North (1990; cited in Pierson 2004) that argued that the same features play a decisive role in explaining both emergence, persistence and change of (formal and informal) institutions (see also Pierson 1993).

considerable support. Furthermore, the older the institutions that are targeted for change, the higher the returns will be for that change.

Despite the traditional critical juncture framework’s important contribution of placing the question of how institutions change at the centre of institutional studies, this approach, which is constructed around the analogy of mechanical equilibrium (borrowed from physics) and the assumption (borrowed from utilitarianism) that agents are self-interested maximisers (Bronk 2009: 6), is static and lacks well-developed causal explanations on the precipitators of the critical juncture that it is argued triggers institutional change (as is seen in Figure 2.1 and in the last part of Hall and Taylor’s quote above).

Figure 2.1: The building blocks of the critical juncture framework



*Source: Collier & Collier (1991: 30).

This shortcoming has led to recent developments on the ideas of incremental institutional change and the endogenous properties of institutions, which have helped to refine the theorising on the critical juncture framework (Amable & Palombarini 2009; Culpepper 2005; Mahoney & Thelen 2010; Streeck 2009). To these theorists, only rarely is the path-dependent lock-in effect on institutional symmetry or continuity broken (or punctuated) by an unexpected exogenous shock (Mahoney & Thelen 2010: 3; Streeck 2009: 2). Instead, the various slow-moving causal processes open up the possibility for institutions to evolve in more incremental ways. This does not mean, however, that this school rejects the path-dependency model altogether. Rather, it is argued that path-dependency should be understood as a long-term process in which slow-moving causal processes act to bring

about institutional change, especially where ‘short, formative moments of exogenous shock causing institutions to be profoundly rearranged ... fail to materialise or remain too weak to overcome the [endogenous] forces of self-enforced stability’ (Streeck 2009: 14). This capacity for institutional change derives from the inherent dynamic tensions and pressures for change that are embedded in institutions (Mahoney & Thelen 2010: 14). Because existing socioeconomic institutions are the product not only of the conflicts and agreements over their *design* between the elites that control them, but also over their *enactment* between “rule-makers” and “rule-takers” (Streeck 2009: 15), it is precisely these self-undermining conflictual and dialectical properties of institutions that underpin the interpretative struggle between those institutional actors who accept and those who challenge existing institutions (Mahoney & Thelen 2010: 14).

It is necessary, then, that this incremental approach *amalgamates the meso-level approach of structural functionalist explanations and a methodological reductionism at the micro-level in the analysis of institutional change* by ascending and descending the ‘ladder of abstraction (Sartori 1970: 1040)’. This highlights conflicts between expected and actual behaviour or conflict between the preferences and institutional implementations of political actors in the open dynamics of institutional continuity or reproduction. To put it differently, ‘it is more important to study the effects of interacting institutions or organizations than just to admit that “institutions matter”’ (Amable 2000: 680). Furthermore, this implies that institutional change is the intended or unintended result of individual and collective action in the context of institutions, that is, in compliance with or defiance of social rules. Understanding institutional change therefore requires exploration of the relationship between social rules and social action, in terms that can account for human action as rule-making, rule-taking, and rule-breaking, spelling out what it means to follow a rule or not, and how this reflects on the rule itself.

Through this revised framework, Thelen and her colleagues have suggested that there are diverse modes of gradual institutional change at work. First, Thelen demonstrated the *conversion* and *layering* mechanisms of incremental change. *Conversion* refers not to the complete dissolution of a particular institution, but to the change that is bought about through the shifting of part or all of the roles and functions of institutions by accommodating new goals or through the involvement of new actors in an institutional alliance. *Layering* refers to the process of grafting on new institutional elements while

maintaining the existing institutional setting (Thelen 2004: 35). In subsequent theoretical developments, *displacement*, *drift*, and *exhaustion* were added, which refer to the gradual substitution of prevailing institutions by other existing institutional forms that had previously been at the periphery, the decline of an institution due to deliberate neglect, and institutional dismantlement over a period of time and the ultimate disappearance of the institution, respectively (Streeck & Thelen 2005: 19-30).

The contribution of this approach is that in recognising the mechanisms of gradual institutional change, it enables the opening of room for manoeuvre in the critical juncture framework and appreciates that institutions are re-invented by actors in light of both specific (political and social) situations and changing general circumstances. According to Streeck's recent analysis, incremental institutional change is underpinned by the dialectical and continuous process of interaction between institutional actors:

As rule takers creatively apply a rule that is supposed to govern them, they inevitably produce outcomes that rule makers could not have expected when making the rule, since they could not possibly anticipate the variety of future conditions under which the rule would have to be followed. Nor could they know in advance the innovative ways rule takers would invent either to follow or to circumvent the rule... As a result, rule makers may, in the light of what with time and 'in practice' has become 'the rule', feel a need to revise it in order to restore its originally intended meaning. Thus, not only rule-breaking, but also rule-following tends to set in motion interactive processes between rule makers and rule takers which make the institution and its meaning evolve over time (Streeck 2010: 6).

These modes of incremental change may take place in response to endemic conflicts and contradictions (Streeck 2009: 14-15) in the absence of an exogenous shock, meaning that the institutional change is likely to be both slow and transformative. Furthermore, institutional outcomes 'need not reflect the goals of any particular group; they may be the unintended outcome of conflict among groups or the result of "ambiguous compromises" among actors who can coordinate on institutional means even if they differ on substantive goals' (Mahoney & Thelen 2010: 8). To incremental change theorists, then, institutions inherently contain ambiguity, since as the institution is the material result of the political dynamics of competition and negotiation, it necessarily contains the diverse and contrasting ideas, interests, preferences, and practices of institutional actors.

Therefore, investigating the cause of a particular path of incremental change depends on the extent of the ambiguity within the institution and the political configuration. First, the degree of ambiguity of an existing institution can be determined by the extent of its openness to contending interpretations and variation in its enforcement of institutional rules, which means that compliance (or defiance) with institutional rules is treated as a variable. When there is a high level of discretion in the enforcement of institutional rules in an existing institution, this gives rise to different (often starkly contrasting) interpretations of the institution among actors (Mahoney & Thelen 2010: 20-21). Second, given the view that institutional stability rests not just on the accumulation but also on the on-going mobilisation of resources, one important source of change is shifts in the balance of power (Mahoney & Thelen 2010: 9). Where actors have strong veto possibilities at the moment of institutional change through access to institutional or extra-institutional means of blocking change, then change will either not take place or a different mode of change will occur. The effects of institutional discretion and political configuration on the four incremental change outcomes are shown in Figure 2.2.

Although the purpose of this research is not to measure the analytical reliability of these four modes of incremental change, this model serves to increase our understanding of the relationships between actors and the way in which they change at the moment of institutional change, which affects the real practice of policy enactment at work. Since one of this study's key questions is whether the institutional reforms in 1998 (i.e. the transition to a tripartite system and a more flexible labour market) derived from the breakdown in existing institutions or their replacement by new ones, the *displacement* mode of institutional change is of particularly relevance here, especially given that the contingent-exogenous shock of the 1997 crisis has been generally regarded as the primary cause of the institutional reforms. To put it differently, of the four ideal-types identified, the 1998 institutional reforms particularly resembled the *displacement* mode.

Figure 2.2: Contextual and institutional sources of institutional change

		Characteristics of the Targeted Institution	
		Low Level of Discretion in Interpretation/ Enforcement	High Level of Discretion in Interpretation/ Enforcement
Characteristics of the Political Context	Strong Veto Possibilities	Layering	Drift
	Weak Veto Possibilities	Displacement	Conversion

*Source: Mahoney & Thelen (2010: 19).

In addressing this question of whether the institutions were displaced or replaced, the following questions must be asked: (1) How did the roles and functions of veto players (i.e. business organisations and unions) contribute to the displacement of institutions? (2) How did the state lead and drive a particular set of institutions? (3) Was the exogenous shock sufficient on its own to precipitate institutional change directly? On the other hand, the reforms after the 1998 labour laws that aimed at reinforcing labour flexibility and the tripartite system can be seen as characteristic of the *layering* mode of institutional change. Furthermore, when the shifting roles and functions (or sometimes preferences) of actors in the enactment of institutions under changing circumstances is examined, the real impact of the institutions can be seen to have diverged from the original intentions of the institutions – that is, they can be seen to fall into the *conversion* or *drift* categories – especially given that rules were ambiguous enough to permit different (often contrasting) interpretations and preferences among actors.

Since the focus of the incremental change thesis is on the stage of production and reproduction of the mechanisms of institutions *within the critical juncture framework*, the next section reviews a new theorisation of the critical juncture framework that demonstrates the systemic logic of the conditions of critical juncture.

2.3.3 Critical juncture: the conditions

The incremental change thesis and the newly theorised form of critical juncture framework (Abbott 2001; Falleti & Lynch 2009; Slater & Simmons 2010; Soifer 2012; Weyland 2002) are mutually supportive. The critical juncture is a commonly deployed analytical device that has contributed much to our understanding of political and institutional change. However, it is also noteworthy that scholars have often been satisfied with labelling a critical juncture as a time period or a ‘turning point’ without inquiring into what makes that period distinct from those that precede and follow it. While the incremental change thesis focuses on how causal factors during (and after) the moment of ‘loosened’ institutional structure offset the processes of long-term continuity, the focal point of the new approach to the critical juncture framework concerns what enables the critical junctures to open and close before (and during) the moment of choice between diverse options.

The common presumptions that underpin both the incremental change thesis and the new critical juncture approach are that most historical moments are characterised by slow-moving process or incremental change rather than punctuated change, since no social order can ever be perfectly reproduced in its enactment (Streeck 2010: 6), and that incremental change is more common than punctuated change in reality. Nevertheless, this research certainly does not reject the role and function of exogenous in institutional change altogether. For instance, it is clear that the 1997 crisis acted as the catalyst in the ‘loosening’ of the structural stability of Korea’s institutions at the time. What is debateable, however, is that the crisis was the only condition that permitted institutional alternatives to become apparent and the extent to which the crisis directly influenced the actual institutional change and its nature.

According to Soifer (2012), this new approach is distinct from the traditional critical juncture framework in that its analysis focuses on the *permissive conditions* and the *productive conditions* that enable the juncture to occur. Permissive conditions are defined as ‘those factors or conditions that *change the underlying context to increase the causal power of agency or contingency and thus the prospects for divergence*’ (Soifer 2012: 1574), while productive conditions are defined as ‘the aspects of a critical juncture that shape the initial outcomes that diverge across cases’ (Soifer 2012: 1575). For instance, in the formation of the Korean tripartite system in 1998, the crisis can be regarded as the

permissive conditions that disrupted the embedded patterns, practices, and institutional setting of the Korean rule-making process and prepared the ground for the launch of either an entirely new institutional configuration or one based on modified forms of the previous institutional pattern.

It should also be noted, however, that the permissive conditions, while necessary, are insufficient on their own to bring about institutional divergence at the critical juncture, which appears as the watershed moment for institutional transformation or adaptation, and it is the productive conditions that serve to determine which institutional set is adopted over other choices. For instance, social actors with new ideas, interests, preferences, and responsibilities at the juncture compete, negotiate, and compromise (calculate) on the setting up of new institutional sets. In the Korean case, such social actors' interactions (the productive conditions) in combination with the permissive conditions that existed in 1998 led to the 1998 social pact and the 1998 amendment of the labour laws.

As with the permissive conditions, productive conditions are again necessary but insufficient alone to produce the divergence. Permissive conditions simply provide a window of opportunity in which institutional divergence and alternatives may occur. To sum up, only when both conditions are combined can there be institutional divergence in the critical juncture (Soifer 2012: 1574-1580).

As a result, two conditional situations may occur. First, when permissive conditions exist but productive conditions do not, the crisis continues due to the absence of the necessary dynamics or motives for institutional change. Second, and more significantly for this thesis, when productive conditions exist but permissive conditions do not, it is more likely that incremental changes occur. To put it differently, when the window of opportunity for institutional change is closed or the room for manoeuvre is limited (generally due to the absence of an external crisis), institutional change can be realised only by the political struggles between actors who wish to restructure the existing political configuration and institutional arrangements and to instil their interests in the institutions, as incremental change theorists argue. If the permissive conditions and productive conditions are initially coexistent but the permissive conditions later disappear, then the critical juncture ends with the disappearance or dissolution of the permissive conditions, and both the divergence and the struggles and competitions between actors will continue. To both incremental change theorists and new critical juncture theorists, this is observed much more frequently than a

critical juncture phase with a clear beginning and an end, even when a long-term historical view is taken.

Nevertheless, the real practice of institutional implementations since 2000 appears much more complex. For instance, when the economic crisis in Korea had in effect ended by 2000 and that the permissive conditions had therefore disappeared by that point, a range of further labour policies and social policies to enhance labour flexibility and labour stability have been enacted since the 1998 labour law amendments (self-reinforcing), in contrast to the case of introduction of tripartite system which lost their institutional and functional influence since 2000 (decaying). Thus, the question arises as to why the reproduction mechanisms of institutions appear to have been successful or sometimes failed to function effectively in the absence of both permissive and productive conditions, and why the institutional divergence and the political tensions evident in the system in 1998 have remained.

The following chapters will seek to answer these questions by investigating the way in which institutional change takes place through the competition and compromises made among institutional actors in response to shifting circumstances and conditions.

2.4 Conclusion and emerging issues

This thesis emphasises the ways in which the state, labour, and business interact over time to promote, negotiate, or block changes in formal and informal institutions. Although the political interpretation of Korea's post-crisis welfare system presented in the current literature is revealing, it fails to address the political determinants of institutional change in regard to the role of ideas, interests, and preferences in institutions, the causal mechanisms of institutional change (i.e. the concepts of increasing returns and incremental change), and the political dynamics and its impact on and restriction of institutional change under the critical juncture framework.

The functional explanations of the power resources model, the productivist welfare model, the developmental state thesis, and the classical welfare typology thus fail to provide a satisfactory explanation of changes in institutional arrangements, and the cause and effect of those changes, despite their significant achievements in their own areas.

From a methodological aspect, it is the contribution of the new-institutional approach that this thesis employs, which situates institutions themselves at the centre of the analysis and serves to investigate how institutional actors shape and are shaped by institutions, that permits the role of the interests, preferences, motives, and responsibilities of actors under specific contexts and institutional structures to be explored in the political process of institutional change.

In the next chapter, the analytical framework and the conceptual foundation of institutional complementarity that this thesis employs to understand the politics of and the institutional change in the evolution of the Korean developmental welfare state will be presented.

Chapter 3

Methodology

3.0 Introduction

This chapter presents the analytical framework and methodology for this research. The first section of this chapter proposes an analytical model for understanding the institutional change of the *employment system*. Toward that end, this thesis suggests this conceptualisation must be comprised of formal elements (e.g. diverse policies and regulations on labour, economics and welfare) and in formal elements (e.g. labour relations, labour practice and labour protection at work), as well as the key factors that impact institutional changes, including the state, business and labour, as actors, and globalisation and democratisation as conditions. This helps the researcher determine the direction and content of the changing relations among these elements and identify the institutional outputs (i.e. employment system). The second section of this chapter states a research method, which discusses the application of the analytical framework including the resources from which the data is drawn and the method and range of the data collection. In order to enrich the explanation, this study uses documentary literature, archives from the governmental bodies of Korea and data collected from verbal encounters (interviews), as well as references and contemporary literature from various interdisciplinary departments, including politics, economics and social studies. Finally, the last section of this chapter demonstrates the actual process and methodological disciplines of fieldwork research that this study conducted in Seoul.

The next section presents the research framework of this thesis, employing the term employment system.

3.1 Conceptual framework

In a recent academic trend, a broad and general theorising that aims to reveal the structural complexity of the modern capitalist state through the Varieties of Capitalism (VoC) framework has emerged within comparative political economy (Hall & Soskice 2001). For instance, Aoki (1994) presents his argument utilising the institutional complementarity:

‘long-term employment is more feasible where the financial system provides capital on terms that are not sensitive to current profitability. Conversely, fluid labour markets may be more effective at sustaining employment in the presence of financial markets that transfer resources readily among endeavours thereby maintaining a demand for labour’ (Aoki 1994: 672; cited in Hall & Soskice 2001: 19).

However, this thesis doubts whether the notion of government partisanship is able to adapt for the case of Korean developmental welfare stat, since the trajectory of party systems (or party politics) in Korea before political democratisation in 1987 can barely show the evidence of political partisanship which refers to supporting their party’s policies and even reluctance to acknowledge correctness on the part of their political opponents in almost any situation. And more significantly after democratisation in 1987 and in the period of institutional transformation during 1997-2007 when this thesis examines, the government partisanship was at incipient stage apart from the arguments whether labour force could access the process of shaping institutional implementation without any institutional blocking or leftist-labour party existed in the political reality.

In this vein, this research assumes that the real practices of employment, including the labour market, labour relations and labour protections, are the complementary results of various institutional policies, such as labour policies, economic and industrial policies, and social policies, and are referred to as the ‘employment system’. As such, this thesis closely examines the term employment system, which is conceptualised as the interaction between the formal institutional sets of diverse policy regulations and the informal institutional sets of the labour market, labour relations and labour protection. Thus, the ‘employment system’ is a key concept when investigating the complex nature and change of modern capitalist welfare systems.

Focussing on the methodological matter of measuring institutional complementarity, however, is not an easy task, since the institutional complementarity appears not only at the formal level of institutional interaction, but also at the practical (informal) level of institutional enactment. For instance, labour relations between labour and business, the state’s embedded role and practices toward business and labour and the institutional preferences of elites and bureaucrats interact at the level of informal institutions (practices), while the real practice of labour relations is designed and shaped by a distinct set of (formal) labour policy and industrial policy. Thus, an institutional complementarity is the

combined result of the interactions within the formal rules, and the interactions between the formal rules and the informal practices, which implies that the real impact of institutional implementation can be measured only by exploring its operation with other factors.

More specifically, as Chang (2007: 5-29) emphasises, an institution has multiple functions and interacts with other institutions. Institutions may not function well if they are incompatible with other institutions (Chang 2007: 6), a characteristic that this study presents as the idea that *the complementarity of institutions could be reversible or biased against the original intention of the rule-makers*. For example, budgetary institutions provide several functions, such as investing in productive assets (e.g. physical infrastructure, R&D facilities), making provision for social protection (the welfare state) and increasing macroeconomic stability (e.g. through its ‘automatic stabiliser’ function). At the same time, the same function can be served by different institutions in different societies (or in the same society at different times). For example, social welfare is typically taken care of by the welfare state in most European countries. The same protection is provided by a combination of a (weaker) welfare state, company welfare schemes, family provision and other means in East Asia (Chang 2007: 5). Moreover, institutions do not function in a vacuum; rather, they interact with other institutions. If a country tries to change its institutions by importing new forms of institutions (or even by trying to import the kinds of institutions that are currently absent in that country), the imported institutions might not function well if they are incompatible with the local institutions, perhaps because they are founded upon moral values that are incompatible with local moral values, or perhaps because they assume the existence of certain other institutions that are missing in the local context (Chang 2007: 6).

Thus, the nature and dynamics of contemporary capitalism—or the nature and dynamics of part of the social order (i.e. the employment system)—‘can be identified and assessed only in the context of other institutions, ... or complementarities, [which] sometimes arose by accident and sometimes by political design’ (Streeck 2009: 2-3). For instance, ‘labour markets as embedded in employment regimes [system] analytic priority is not given to labour market as independent (natural law-like) systems’ (Haagh & Cook 2005: 173), since the labour market is formed by collective (political) bargaining agreements that employ a variety of motives and interactions. The variety of motives and interactions, including the

right, obligations, preferences, choices and even modes of vision and thoughts, are interdependent. Moreover, to some extent they are socially formed and they simultaneously structure the market. To put it differently, the whole is more than the simple sum of the parts; rather, the nature and development of the whole can be seen as a function of the mutual complementarities and complex self-reinforcing interdependence of the parts (Amable 2009; Bronk 2009: 88).

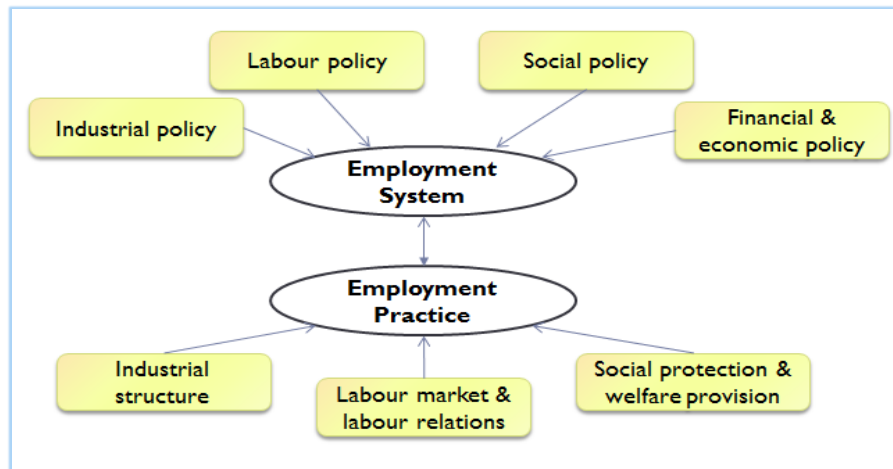
Based on this reasoning, this thesis ultimately arrives at the term ‘employment system’, which was first theorised by Louise Haagh (2004: 155). This concept will be more fully discussed in following section.

3.1.1 Conceptualisation of the Employment System²⁷

The conceptualisation of the ‘employment system’ was first presented by Madsen (1999) and further theoretically refined by Haagh (2004: 155). According to these theorists, the employment system is conceptualised as a set of institutions combining labour policy (implying a certain extent of labour flexibility), industrial policy (structural reforms for redistributing resources and the state’s selective strategy for economic growth), financial and economic policy (regulation or deregulation of the private sector) and social policy (implying a certain degree of labour protection), which directly build an institutional arrangement for the employment system, and indirectly affect the character and transformation of employment practices at the empirical level (see Figure.3.1). It is also important to note that while the informal institutions embedded in employment practices through past practices (e.g. lifetime employment, seniority-based contracts and firm-based welfare provision) will also be regarded as elements responsible for (or causes of) the nature and transformation of the employment system, they will also simultaneously be regarded as policy outcomes from (or effects of) the formal set of the employment system, so that the relationship between the formal system and informal practices can appear as being interrelated and dialectical. Thus, this conception is useful not only for disassembling and looking into all the involved institutions, respectively; it can also be used as an inference of the complementary results of an institutional set’s involvement with the employment practices.

²⁷ The theoretical implications of employment system conceptualisation and its contribution to this research are examined again in the conclusion chapter of this thesis (see Section 9.1 in Chapter 9).

Figure 3.1: Institutional Complementarity of the Employment System



For instance, the nature of the labour market in a particular society can be understood by the employment system, which is comprised of the firm policy, the labour policy and the social policy, and which is viewed as an output of the institutional complementarity of those policies. In such policies, change is equal to institutional change, so that the employment system is enlivened and varies following the complex causal connection of institutional change. In the case of the Korean employment system in 1998, a new labour law that allowed firms to engage in massive layoffs contributed to providing the labour market with greater flexibility (both numerical and functional), while the great expansion of unemployment coverage in the Employment Insurance Act (amended in 1998) was enacted to resolve the social problems of the unemployed. If there were only institutional measures for higher labour flexibility without significant innovation in labour stability, then the labour market could have clearly gained a higher degree of labour flexibility. However, the reforms in labour protection that served to widen the protection coverage hampered a pure neo-liberal shift in the Korean labour market, with the consequence that more workers would be protected and have the opportunity to be rehabilitated in the labour market through unemployment compensation programmes, such as cash benefits and job training schemes.

Thus, while it is true that the Korean labour market became much more fluid, it also gained a degree of stability, although the complementary effects of these policy reforms have not been clearly revealed yet. For instance, it remains doubtful whether the real practices (implementation) of the labour market (policy outcomes), enabled the Korean labour market to become a neo-liberal system, a Nordic system or a hybrid system. This is a key question that will be explored in this research.

In addition, regardless of institutional reforms, whether the real practices in the workplaces were innovated and re-directed in line with the goals and intentions of the institutions remains uncertain, since the embedded practice and the legacy of past patterns is slow-moving with inertia, and is about the relationship between the actors. For example, workers in big manufacturing companies who have enjoyed the protections of lifetime employment and a seniority-based salary system would not adopt and enact new institutional measures for labour flexibility, including collective dismissals and a (performance-based) annual salary system. Moreover, employers would seek out (institutional or sometimes expedient) ways of evading the increasing taxation associated with taxes that could be levied by expansions of the social protection schemes. Furthermore, the real practice of labour relations can be affected by other surrounding institutions, such as the behaviour or leadership of a union and its leaders, labour courts' determinations, administrative regulations, and so on.

If the institutional reforms were met with a strong possibility of being vetoed or were faced with the possibility of the institution experiencing an increasing returns mechanism if the reforms were enacted, the real policy outcomes of these institutional changes would be different from their original intention, as incremental theorists argue (see Chapter 2). Thus, herein is the reason that this research assumes that the employment system should be accessed and understood by examining the dialectical relationship between the formal employment system and the informal (employment) practices, and the political dynamics between the rule-makers and the rule-takers within the system.

In this research, the concept of the employment system could show that the labour market is a socio-political institution in which a variety of labour flexibility can be found. The labour market is neither just an accounting of technological and budget constraints nor a formal mechanism used simply to ensure equilibrium between supply and demand. The labour market, like other economic markets, *is a vehicle for the exercise of forms of social authority* originating outside the market, and operating both outside and inside the market. The labour market is a bundle of institutions and these are nested, rather than performing as a 'subject to' other institutions (Harriss-White 2003: 481). In this way, the labour market as a social institution allows for a variety of motives and interactions (Bronk 2009: 2; Solow 1990: 31) and is one of the arenas for struggles between political interests. Thus,

this research presumes that the political dynamics between institutional actors and real changes are nested in complicated institutional sets, as presented in the next section.

3.1.2 Actors and conditions in employment system transformation²⁸

While the focal point of the analysis must lie in the modes of institutional change and its dynamics—the five modes of incremental institutional change being *displacement*, *layering*, *drift*, *conversion* and *exhaustion* (Streeck & Thelen 2005: 31; and see Section 2.3 in Chapter 2)—these modes should be examined by focusing on the actors that are restricted within the institution and who are willing to change the institution in order to meet both their own interests and the changes in the actors' circumstances within the institution (Mahoney & Thelen 2010; Streeck 2009; 2010; Thelen 2004). This analytical approach is in line with the traditional analytical focus of the historical institutional approach, which examines how complex institutions structure social conflicts by privileging some interests while disadvantaging others (Hall & Taylor 1996: 954).

By bringing the role of institutional sets, and the interaction between the state and society, to a research centre while rejecting the image of a 'neutral' state (as the developmental state that theorists frequently argue for in the case of classical developmental state studies),²⁹ this approach has become an advanced form of the state-centred theorising approach for overcoming the statist's restriction that assumes the overwhelming role and capacity of the state. Although this research follows and adopts (at least, partly) the developmental state theses, the problems associated with this way of thinking are fundamentally caused by two critiques. First, the relationship of the state to business tends to be seen as a panacea to provide a sole problem-solving platform. In other words, it should be considered that there are many 'other factors' conducive to progress, independently or synergistically (Chan, Clark, & Lam 1998: 3). In fact, due to over-emphasising the relationship between the state and business, there is no inner connection with society (especially labour) and no politics in the developmental states. Theoretically, in this approach, the state is viewed as just a neutral and rational thing. Second, due to the challenges of coping with the developmental state's dynamics, the thesis of the paradox of

²⁸ The theoretical implications of the transformation mechanism in the employment system and its contribution to this research are examined again in the conclusion chapter of this thesis (see Section 9.2 and Section 9.4 in Chapter 9).

²⁹ See footnote 20 in Chapter 2.

success (Evans 1995: 229) has been generally adopted by many theorists. That thesis posits that state-led development has given rise to the growth of social forces, such as the working class and the capitalist class, which challenges the state itself. For instance, an enlarged labour force on a fast track, and economically satisfied but politically dissatisfied citizens that resulted through a rapid economic growth period in Korea, resisted a unilateral way imposed by the state (Korean democratisation in 1987). In addition, a labour force and thorough democratisation enabled the government to shift to Kim Dae-jung in 1997 (Song 2003: 415–425).

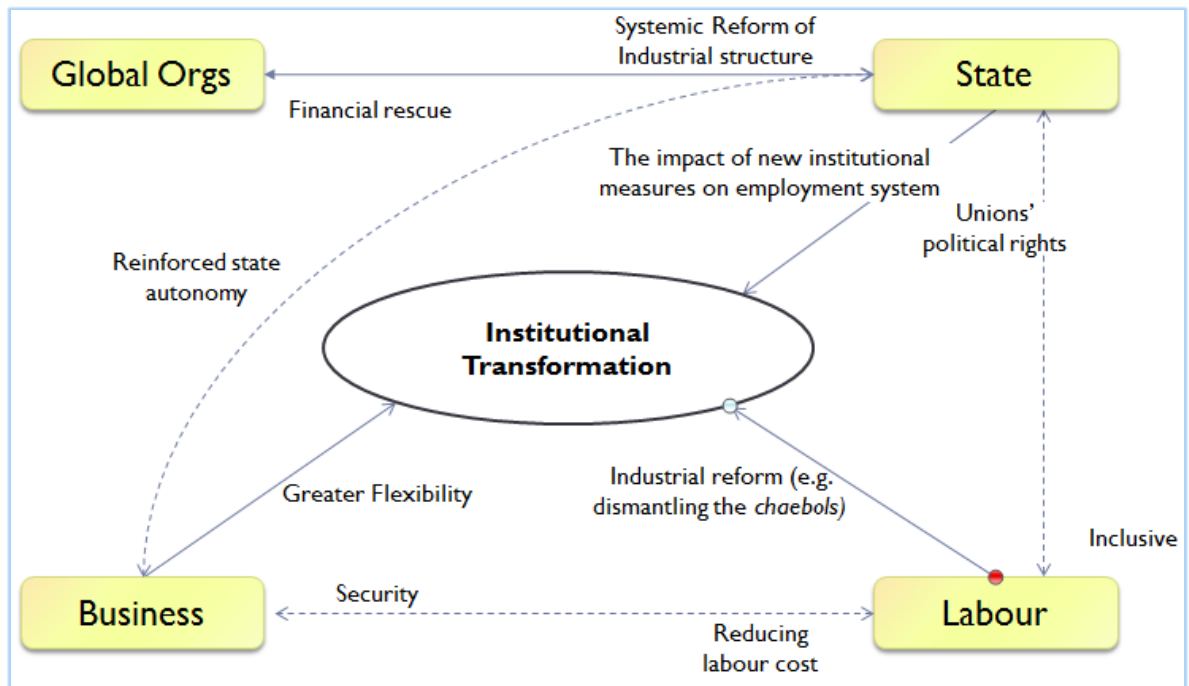
Under the perspective of a historical institutional approach, the political orientation of a ruling coalition that refers to the relational structure between the state and business is highlighted as a critical variable involving the institutional implementation of labour, firms and employment. While the neo-classical assessment is that the state is identified as the origin of ‘rent’, with the consequence that the solid bond between the state and business causes the retrenchment of welfare in the whole society, the historical institutional approach argues that the rigid relationship between the state and business could comprise a development-oriented policy coalition, so as to be beneficial for economic development. This argument has critical implications related to the developmental state theses that are placed on the centre that studies Korean economic growth in the historical context, since the role of the developmental state lies not only in the degree to which it corrects the market failure but also in the extent to which it brings about the emergence of institutional basis.

In the case of the Korean employment system, for instance, such an emergence of socio-political institutions brought about by the state appeared with the formation of the LMGTC in 1998. The LMGTC was initiated with tripartite elements, responding to the national crisis in 1997; however, it could be seen as an institutional successor of the previous government’s attempts to build a corporatist’s practice (e.g. collective bargaining at the national level) within an institutional setting, in which business organisations and trade unions had failed to make any significant compromise until 1998 (see Chapter 5). The difference between the LMGTC and the previous government’s institutional attempts lies in the fact that the state actively sought to reshape the relationships between the state and business and between the state and labour. Institutional interests might be generated by the state as well as the internal demands of the institutional actors (e.g. the labour union’s

empowerment in 1997) and the response to and reaction against surrounding conditions, such as international pressure (e.g. the IMF's demand for industrial reform in exchange for the rescue loan).

Consequently, other actors (e.g. the business and labour) and conditions should be considered when creating a model for institutional change. The international environment, as an external factor, and the politics among the actors (the state, business and labour), as an internal factor, are the objectives we should apply to an inquiry that examines how these factors affect the relationship between the state and business and the mode by which these two actors are inter-related. In this context, the most significant part of this analytical model might be to allocate the actors' roles (such as the political elite, business and labour) in the process of (re-) constructing the employment system (see Figure.3.2). Figure.3.2 shows the impact that globalisation and political demand had on the labour sector, the state and business with regard to institutional changes in the employment system in the transition period of 1998.

Figure 3.2: Change in the Employment System



Globalisation is a trend that is increasing the mobility of products, services and the factors of production across national borders (Shin 2004: 123). In applying this brief definition to the model used in this thesis, this research focuses on the importance of mobility across

national borders, which makes it possible for the factors of production and services to be exchanged not just within national economies but across more than two countries. Globalisation and economic liberalisation do influence the state. National competitiveness is redefined as having competent firms or a strong business sector with stable financial fluidity. When this occurs, the investment coordination mechanism of the state is dismantled, and the state is required to access a select-and-concentrate mechanism. During the 1997 crisis, the IMF repressed the Korean state, ordering it to decrease the state-centred management and the strategies of the financial market and industrial policy and to enlarge the way that direct foreign investment occurred at the institutional level. This is how the national government accelerated the reform of institutional sets for resolving globalisation. The role of the state is confined to supervising financial institutions and maintaining a competitive market order. At the institutional level, the state provided easier firing and hiring regulation sets and extended a social protection program, i.e. the employment insurance scheme (EI), the National Basic Living Security scheme (NBLS), Etc.

However, it is problematic to accept that only economic liberalisation of the globalised world results in a complete re-arrangement of the social structure (for instance, Cho (2002) and Lee and Moon (2008)), although it is true that world financial architectures, like the IMF and World Bank, did so more or less during and after the crisis. The focal point of this theoretical evolution for this thesis centres on a longer-term historical viewpoint; as such, it matters whether or not various institutional implementations (the establishment of the LMGTC and labour policy and social policy reforms) were *contingent* and *exogenously* motivated (i.e. 1997 financial crisis) or necessarily *incremental* and *endogenously* motivated (i.e. developmental legacy and dynamics of democratisation and presidential power shift).

Nevertheless, this thesis presumes that change in the employment system occurs as a result of the complex causal connections among the state, business, labour and globalisation. If this assumption is correct, the state-business relationship should be re-illuminated in light of the questions about how they progressed and the major factors that led to such a change in the employment system. Second, in Korea, the innovative change in the employment system has occurred as a result of a long trajectory of institutional transformation along with economic liberalisation; it is not a sudden result from the 1997 financial crisis. If this is correct, this research should be able to pinpoint the factors that enabled this institutional

transformation to occur and identify how this happened in relation to the inter-relationships between the other actors and factors. This research especially seeks to determine whether or not globalisation has any effect on creating this change, and identifying the role it played in triggering or originating the entire financial crisis explosion.

In this vein, the embedded role of the state, as well as the role played by business and labour, lies in the employment practices, which act as a highly informal mechanism. A set of shared understanding about what other actors are likely to do is what leads the actors to a specific equilibrium, and that is often rooted in a sense of what behaviour is appropriate in such circumstances (Hall & Soskice 2001: 13). Furthermore, historically the actors have built up a set of common expectations, which have been learned and reinforced by repeated practice in line with *a priori*. For instance, the Korean state derived full mileage out of informal administrative guidance, which is known as *Haengjong Chido* in Korean (Woo-Cumings 2007: 158), and acted as a conflict manager (Chang 2003a: 69-70); firms tried to exercise an alternative way of internally moving within the firm rather than imposing massive lay-offs (Haagh 2004: 157-169). For these reasons, this thesis presumes that the institutional change in the employment system, before and after the crisis, generated new practices within the formal employment system in which the interests, preferences and various practices at work were put into place.

In summary, the focus of this research lies in investigating impact that the role and function of each actor has on the process of employment system change, and the way in which each actor interacts to reform the employment system within the institutional restrictions.

The following sections present the research methods used in this study and the fieldwork research that was conducted within that conceptual framework.

3.2 Research method

The purpose of this section is to outline the research method adopted for this study, including the field research. This thesis uses two research methods: content analysis and semi-structured in-depth interviews.

Content Analysis

Methodologically, this thesis uses the historically-oriented interpretive policy analysis on the basis of the historical-descriptive method. Ragin (1987: 3) argues that this is a ‘type of empirical study in a way that it attempts to account for specific historical outcomes or processes chosen for study because of their significance for current institutional arrangements or for social life in general.’ Castles (1989: 12) also makes plain that:

‘[A] historical approach is essential not merely in providing analytical leverage on the role of human agency in the public policy equation but, not less important, in making it possible to treat structural contexts as a totality, rather than as mere rankings or weights on a series of discrete variables. History reveals the one sense in which it is meaningful to say that the sum is more than its parts: the sense in which human action is embedded in its particular context.’

Given the historiographic nature of this research, its use of diachronic analysis (i.e. based on time series data) rather than synchronic analysis is of central use in order to benefit from secondary analysis by analysing data on similar issues that was collected at different times. This secondary analysis enables the researcher to employ longitudinal research designs (Frankfort-Nachmias & Nachimias 2000: 278). At the same time, the ‘documentative method,’ using both primary (official and other records) and secondary documentary sources (constructive descriptions included), are used for ‘conceptual (armchair) theorising,’ the usefulness of which is pointed out by Jones (1985: 29):

‘the value lies not so much in whether any particular theory is considered to be right or wrong, but in the extent to which various of the conceptual frameworks put forward turn out to be useful aids to the interpretation of social policy material.’

The historiographic material used in this thesis is obtained through documentary research and interviews. As a secondary analysis, and as a part of the unobtrusive (non-reactive) measures used for data collection, documentary research is carried out by using archival records, including actuarial records and judicial records, government documents, the mass media and private records, such as autobiographies.³⁰ For the analysis of the sociopolitical conditions examined in this thesis, this study makes extensive use of political and diplomatic records, including reports of proceedings from the National Assembly

³⁰ For documentary research, see Frankfort-Nachimias and Nachimias (2000: Ch. 13).

(equivalent to 'Hansard' in Britain), content analysis of presidential speeches, newspaper articles, monthly periodicals and related laws and regulations. Scott (1990: 59) argues that these administrative papers are 'the single most important category of documentary sources used in social research.' Furthermore, official statistics produced by the government, government-affiliated organisations and national research organisations, such as the Korea Labour Institute, are collected for a longitudinal and nationwide analysis.

Semi-Structured In-depth Interviews

In addition to these secondary sources and documents, semi-structured qualitative interviews were conducted using the elite-interviewing techniques³¹. There are several reasons why a qualitative research methodology is selected for this study. Most importantly, understanding and exploring the ideas and the experiences of political elites, bureaucrats, labour leaders, business leaders and scholars in national research organisations is a core component of this research, and the decision to adopt a qualitative methodology is closely linked to the research study's central goals and concerns. A qualitative research methodology is far more appropriate and useful than a quantitative methodology for focussing on the in-depth experiences and voices of people (Arksey & Knight 1999: 38; Bryman 2004; Mason 2002). Qualitative research also offers 'richness' of information because of its attention to detail. This thesis, therefore, deems a qualitative approach appropriate for this exploratory study of the Korean developmental welfare state, an area where relatively little research has been previously conducted.

Specifically, the semi-structured in-depth interview method is adopted for this research because it provides enough freedom for the interviewees to speak freely about the topics related to their interests (Hakim 2000: 35). Thus, this method is more likely to elicit the issues that are of greatest importance to the respondents (Barbour 2008: 119). The semi-structured interview also assists the researcher in maintaining sufficient structure to address the topics that relate to the research (Bailey 2007). In addition, this provides the researcher with the opportunity to compare and contrast the different perspectives of the interviewees. For instance, it is possible to examine how and why bureaucrats (or political elites), business and labour leaders thought similarly or differently about the same topics.

³¹ For elite-interviewing techniques, see Dexter (2006).

Nonetheless, this method also has certain limitations, such as access to data and the possibility of insufficient information about the ways in which the data is collected. More importantly, there is likely to be an inevitable gap between the use of primary data and its secondary use as far as the specific research purposes and intentions behind the data collection are concerned.³² For this reason, the analysis of primary data is used in order to bridge any potential gaps and also to determine the officially unknown ideas and processes that sometimes are hidden within the findings obtained from administrative records.

The interviewees are selected on the basis of their possession of expertise in the arenas of government, labour and business; the interview participants are high-ranking officials who have either been involved in the design and (re-) creation of the employment system and or those who have been involved in the implementation of a specific policy. Scholars of national and private academic institutes are also interviewed, since the influence of their involvement in policymaking has changed and has been considered to be of great significance. All the interviews are recorded, transcribed and translated. A topic guide of a core list of questions used at each of the interviews is prepared. Although all the interviews are conducted based on a different list of questions, some of the questions are posed to more than one interviewee if the interviewees are thought to be in possession of similar knowledge.

Overall, the use of the qualitative semi-structured interview is both an appropriate and useful tool for gaining an understanding of the political processes, changing preferences and practices involved in shaping institutional policy implementation. However, it is important to acknowledge that since qualitative research emphasises ‘context,’ ‘culture’ and ‘meanings’ (Howe 1992; Mason 2002; Maynard 1989), the resultant knowledge is ‘situational and conditional’ rather than universally applicable to all situations and circumstances (Rubin & Rubin 1995: 38). Given this, this thesis attempts to understand the research issues from the perspectives of the interviewees within the particular situations they faced.

Reliability and Validity of the Research

In the qualitative research methodology, defining the concepts of reliability and validity is problematic. As noted by many scholars (Bryman 2004; Crabtree & Miller 1999; Creswell

³² For this concern, see Frankfort-Nachimias and Nachimias (2000:279).

2008; Golafshani 2003; Long & Johnson 2000; Whitemore *et al.* 2001), this is because such concepts are derived from *quantitative* research methodology, which advocates for the measurement and standardisation of data. Furthermore, different philosophical traditions underpin the two methodologies: positivism and interpretivism. Therefore, the concepts have been defined and used in a variety of ways by scholars using qualitative methodology. Moreover, it appears that the two concepts have often overlapped or have been closely linked in qualitative research methodology rather than treated as being mutually exclusive.

Although defining reliability and validity precisely has proven to be troublesome, during the course of research reliability can be taken to mean ‘to ensure that data collection is undertaken in a consistent manner’ (Long & Johnson 2000: 31). In order to establish the reliability of this research, this thesis particularly seeks to ensure the ‘transparency’ of processes (Flick 2006; Mason 2002) by presenting, in detail, the processes used in this research. The method used to conduct this research is firmly based on the aims and questions relevant to the study. In terms of the data collection process, the differences between the initial plan and the actual work carried out in the field should be clearly illustrated. In addition, this thesis explains in detail how the analysis of the collected data was carried out. The processes of analysis shall be ‘iterative,’ involving going back and forth between the coded original data and the issues studied (Flick 2006; Mason 2002). Above all, this research pays particular attention to consistency throughout the entire research process—from designing the research to presenting the data findings.

The validity of research can be examined in many ways. However, this research seeks to assess validity by adopting the arguments of Crabtree and Miller (1999: 193) concerning depth of description, rigour and reflexivity. Although they have mentioned other aspects of validity, such as accuracy, intellectual honesty and searching for alternative hypotheses and interpretations, these aspects are not included in this research for the following reasons. To some extent, accuracy can be viewed differently depending on the positions taken by researchers and the different contexts of the research. Intellectual honesty can be included with reflexivity. Searching for alternative hypotheses and interpretations does allow for the possibility of diverse interpretations. Therefore, it is important to consider the three aspects of Crabtree and Miller’s position that are relevant to this study and that have been adopted by the researcher. First, in terms of depth of description, this research supplies detailed

information about the issues by providing richness in the form of collected data. In presenting its findings, this research focuses on including ample comments from interviewees and delivering the contextual conditions related to the comments in the empirical findings chapters. Second, in terms of the rigour of the research, the data is collected strategically, and the collected data is systematically coded and analysed by using ATLAS-ti software. In other words, this thesis seeks to ensure that the processes of data collection and analysis is carried out in a systematic and integrated way (Crabtree & Miller 1999: 194). Finally, reflexivity is concerned with the researcher's influence on the study's findings and interpretations (Crabtree & Miller 1999). As Malterud (2001: 484) points out, qualitative research does not deny the researcher's influence on a study. However, researchers should reflectively examine their influences during the research processes. Given this, this thesis pays particular attention to reflexively examining the researcher's influence on the processes of analysing and presenting the research findings.

3.3 Fieldwork research

The main objective of the fieldwork is to understand the experience of political elites/bureaucrats, business leaders and labour leaders in terms of the employment system (and its changes), in order to support the main arguments of this research. The rationale for selecting individuals from these groups as interviewees is that they are the main players and stakeholders in both institutional implementation and enactment.

3.3.1 Unit of analysis

A total of 22 participants were interviewed. Of those, 13 interviewees were bureaucrats and (ex-) politicians, four were executive members of a business organisation and a private company and five were members of labour unions (see Table 3.1). The interviewees were selected on the basis of their expertise in government, labour and business and they were chosen from among high-ranking officials who were involved in the design of institutional sets or specific policies.

Interviewee Selection

First, this project makes every effort to identify and analyse the role and function of state in the institutional implementations of the Korean employment system and its changes.

Toward this end, this research views the Korean state as a mixture of political elites (presidents and executive members of the ruling party in the Blue House, *Cheongwadae*, which refers to the Korean presidential residence), members of the ruling party and the bureaucrats in the central government (see Section 6.3 in Chapter 6). The state's power can be activated by and derived from the combination of these three parts with ideological and functional cohesiveness between them (see the discussion in Chapters 6 and 8). This research specifically followed the tradition of the developmental state theses in that it emphasises the role elite bureaucrats play in the institutional implementation of the employment system. Thus, a critical purpose of this fieldwork research lies in capturing narratives of the elite bureaucrats' personal experiences, which include policy origin, preference, cooperation and conflict between the elites and other actors (i.e. business and labour), internal power struggles between each of the bureaus within the central government and the influence of political leadership and international pressure. For instance, the bureaucrats are categorised by bureaus (e.g. the Ministry of Labour and the Ministry of Finance and Economy), and the politicians are treated separately, as seen below, since this research assumes that diverse interests, preferences, motivations and responsibilities appear differently not only within the state entities (i.e. Blue House, ruling party and bureaucrats) but also within the types of bureaucrats (e.g. within economic bureaucrats and social bureaucrats), with the result that institutional implementation can be accomplished through the political process of negotiation and compromise among divergent interest groups.

Second, executive members of the Korean Employers Federation (KEF) were interviewed because they have represented the side of (business) management in the LMGTC since LMGTC's formation in 1998, and they comprise one of the two competing member groups of the Labour Relations Reform Commission, which was established in 1996 prior to the LMGTC.³³ They also perform the function of acting as a counterpart to the Korean Confederation of Trade Unions (KCTU), both within and outside of the LMGTC. KEF's historical dynamics, i.e. its conflicts with labour within the LMGTC and other institutional

³³ The other member group of the Labour Relations Reforming Commission was composed of representatives of labour. Labour representation was split between the Korean Confederation of Trade Unions (KCTU) and the Federation of Korean Trade Unions (FKTU). By participating on the Labour Relations Reforming Commission alongside the FKTU (at the invitation of the government), the KCTU was recognised for the first time as a representative of labour, although it was not formally legalised until 1999. See Chapter 5 and Chapter 6.

realms (and mediation in these conflicts by the state), is analysed in terms of the employment system.

Table 3.1: List of the organisations and actors interviewed

Type	Organisation	Working career
State	MoL	A director of the Employment Policy Division
	MoL	A chief officer of the Equal Employment Bureau
	MoL	A chief officer of the Industrial Policy Bureau
	MoL	A officer in the local Employment Security Centre
	MoL/KLI	A former government officer and senior researcher/university professor
	MoL/KLI	A former government officer and senior researcher/university professor
	MoL/KLI	A former member of the Consultative to the Minister of Labour and senior researcher
	EPB/MoL/KLI	A former government officer and researcher/university professor
	MoFE	A chief officer in the Policy Coordination Bureau
	MoFE	A chief officer in the Financial Policy Bureau
	Ruling party	A senior researcher in the ruling party
	Ruling party	A researcher in the ruling party
	Ruling party/Blue House	A former politician and a member of the presidential transition team (1997-1998)/a university professor
Business	KEF	A vice president
	KEF	A chief officer
	Hyundai Motors	An officer of the Parliament Cooperation Bureau
	Hyundai Motors	An officer of the Labour and Welfare Bureau
Labour	KCTU/Hyundai Motors Union	A former head of the Hyundai Motors union
	KCTU	A former executive member
	KCTU	An executive member of Korean Metal Workers Union under KCTU
	FKTU	An executive member
	FKTU/Blue House	A former Presidential aide in Blue House/ an executive member of FKTU

* MoL: the Ministry of Labour/ KLI: Korea Labour Institute/ EPB: the Economic Planning Board/ MoFE: the Ministry of Finance and Economy

In addition, Hyundai Motors, which is representative of the multinational corporations that are key contributors to the Korean economy, is investigated as a case study at the individual company level. Hyundai Motors was selected for study because its labour union

has been at the centre of the Korean labour movement since 1987. Both labour leaders and members of the Hyundai Motors management bureau were interviewed. From their accounts, this research expected to gain quality information about the real changes that occurred in labour relations and in the practices of adopting flexibility and security in the workplace. For example, it was expected that the interviewees could provide evidence of the way in which employers brought about structural reform by means of massive layoffs, dispatching workers, the introduction of flexible working hours, early retirement, internal replacement, the replacement of the seniority-based salary system with an annual salary system, the way in which employers dealt with the union, Etc.

Third, in parallel with interviewees reflecting the opinions and experiences of business leaders, union leaders were interviewed to investigate the role that labour played in reforming institutional arrangements and the union's contribution to the changes of employment system. In the case of the LMGTC, executive members of two competing unions, the KCTU and the FKTU, were interviewed. Both the KCTU and the FKTU were involved in drawing up the first LMGTC agreement in February 1998. However, while the FKTU has continued to participate in the LMGTC since that time, the KCTU has not done so. Thus, in the interviews the executive members of these unions were asked questions about what differentiates these two unions, what caused the split in the labour movement, and what effect this split in labour representation has had on the reform of institutional arrangements.

Participant Recruitment

To recruit interviewees, the researcher approached a former LMGTC committee member and a vice-head of the research institute of the *Min Ju Dang* (Democratic Party, the former ruling party during the period upon which this research focuses, 1997-2007) to arrange appropriate interviewees. The researcher had requested that these contacts could recruit experienced bureaucrats, business managers and labour leaders who had served on the LMGTC or who had played a role in the reform of the EI scheme. Potential interviewees were approached by sending a letter of invitation, an information sheet and a consent form via e-mail³⁴; the researcher then contacted potential interviewees by phone to determine if they were interested in participating in the research. Single interviews were conducted and

³⁴ See Appendix 9.

each interview took about two hours. Before the interview, the participants were asked to sign the consent form that they had received by e-mail.³⁵

In addition to utilising the assistance of both a former LMGTC committee member and a vice-head of the former ruling party's research institute, the researcher of this thesis also hoped to employ a 'snowball' sampling method. The rationale for this is that it would not be beneficial to depend entirely on the assistance of these two sources because some of the interviewees, in particular members of the business sector and labour, seem to be in close contact with these sources. These two sources were interviewed by the researcher as part of a pilot interview project in December 2010, and it was felt that they were likely to introduce prospective interviewees whose experiences and thoughts were similar to theirs. Indeed, the former LMGTC committee member arranged meetings with two bureaucrats from the Ministry of Labour and an ex-political bureaucrat. However, they were somewhat reluctant to criticise the government, political elites, labour or even institutions, such as the LMGTC and the EI scheme, although they did raise other important issues. Thus, to attain a variety of opinions and experiences and to cross-check the facts and history, snowball sampling was useful in achieving data reliability and objectivity.

All the interviews were audio-recorded using a digital recorder and then transcribed and translated. A topic guide of a core list of questions used at each of the interviews was prepared.³⁶ Although all the interviews employed a list of questions specifically tailored to the interviewee, where interviewees were believed to be in possession of similar knowledge, some overlapping of questions occurred between the interviewees.

3.3.2 Data protection

This section presents the way in which the data obtained through interviewing was dealt with in accordance with the data protection scheme of the UK.

Before conducting the fieldwork research, methodological disciplines and actual ways of data protection, through and after the fieldwork, were reviewed and confirmed thoroughly by the Humanities and Social Sciences Ethics Committee of the University of York. On the Fieldwork Research Declaration form that the researcher submitted to the committee, the

³⁵See Appendix 10.

³⁶See Appendix 11.

researcher noted that the fieldwork research was guided and restricted so as to meet the following requirements that ‘all personal and sensitive data must be collected and stored in accordance with the Data Protection Act 1998’ of the UK. Above all, this research strictly adhered to the guidelines for conducting the field work and safeguarding the protection of the data that was collected.

Anonymity

Ensuring the ‘anonymity’ of the data is a core component of any data protection scheme. Toward this end, the researcher ensured the anonymity of interviewees by re-labelling their names. Initially, all the interviewees were received the following information about the study’s anonymity: “Your name will not be used in my thesis or in other papers. Your name will be written as A, B, C or P1, P2, P3”. All the interviewees were briefed as to how the data would be collected and stored in accordance with Data Protection Legislation: All published data would use these codes and the participant’s identity would not appear in any published work.

During and after the fieldwork, the digital recorder audio recordings were transferred to the researcher’s laptop computer and they were encrypted with a personal identification number immediately after each interview was completed. The audio recording on the digital recorder was then removed. The audio recordings held on the researcher’s laptop computer were also deleted once they have were transferred and stored onto the York University’s Filestore (personalised data storing system with encryption) after returning to York.

Furthermore, the audio recordings on the laptop were transcribed into Korean using MS Word and then translated into English. During this process, no printed copies of these audio recordings were made, and only the electronic versions of transcripts, translations and code sheets were stored on the researcher’s secured laptop computer. All field notes made during the interviews were scanned and stored as PDF files, and the original field notes were destroyed. During the journey from Seoul to York, all the research materials remained in the researcher’s possession at all times and were checked-in as hand baggage.

For organising the audio recordings into written data, each interviewee was given an individual code number, which is printed on a separate sheet, and only the researcher could have access to this coding sheet. All written data were presented using these codes, and no

reference to a participant's actual identity appears in any of the written material. All data, related documents and transcripts were kept in electronic form on the researcher's laptop. As with the audio recordings, all data and documents in electronic form were encrypted and stored on the University's central storage drive, Filestore, and the files originally stored on the laptop were totally deleted.

Finally, written forms of data have been printed out and used only in the researcher's office at the University of York and have been stored in a locked drawer in the office. The key to the locked drawer is accessible only to the researcher. The building in which the office is located is open from 8.00 to 18.00, and the office is secured by a key-number lock. It can only be opened with the researcher's key-number.

3.3.3 Analysis and presentation of the collected data

This section discusses the way in which the data collected for this research was analysed and presented.

Thematic Analysis: Coding and using ATLAS-ti Software

During the field research, the researcher began transcribing the collected interview data in order to interpret correctly what had been related by the interviewees. After returning to the UK, the researcher began to transcribe the collected data in earnest into Korean. This produced around 400 pages of transcribed text. The collected data was analysed through the qualitative data analysis software ATLAS-ti (Version 7.0.2). Since the software permitted data entry in Korean, it was possible to analyse the original Korean transcripts, although the software required that the concepts and themes be coded in English in order to conduct the analysis. Nevertheless, that software program was useful for analysing the Korean data as the researcher was able to detect the delicate nuances and the meanings of the words that the interviewees used.

Before beginning the detailed analysis, some methodological issues had to be considered and addressed in order to conduct the analysis based on informed knowledge and to ascertain the most appropriate way of approaching the analysis. Herein, this researcher then decided to adopt 'thematic analysis'(Flick 2006) to systematically analyse the

transcribed data. In order to carry out the thematic analysis, three types of coding were employed: open coding, axial coding and selective coding (Flick 2006; Neuman 2006). In the original data, the open coding was first employed. As such, the codes were created openly in terms of concepts, happenings and the various issues, rather than adhering to any particular theoretical thinking or any concept of a specific destination for the coding. When the data analysis reached its final stage, it is important to note that the open coding uncovered *unexpected new* themes, as Neuman (2006) predicts. Initially, there was little expectation that open coding would contribute to the unveiling of the new findings. However, by further carrying out axial coding and selective coding, these themes were gradually revealed in the data. Secondly, axial coding was carried out by linking the open codes and attempting to find the concepts or themes that were relevant to the research. In order to perform the axial coding, all the data with open codes were printed out and divided into groups according to similar coded topics or concepts. By grouping the open codes, the researcher aimed to discover where the similarities between them lay. Through this process, some potential thematic linkages between the codes were discovered. Thirdly, after detecting a number of core themes, selective coding was carried out. The coding 'involves scanning all the data and previous codes' and looks 'selectively for cases that illustrate themes and make comparisons and contrasts after most or all data collection is complete' (Neuman 2006: 464). Selective coding was the final stage of the data analysis.

Over the course of the analysis, it should be noted that these three types of coding are closely related to each other rather than being mutually exclusive (Flick 2006). Moreover, the coding was an on-going process, as the researcher had to move back and forth between the coded data and the issues this study wanted to explore (Flick 2006; Mason 2002). Even when the research findings were revealed, it was necessary to keep returning to the coded data in order to check and examine if there were other data relating to the findings. In particular, as the in-depth analysis of data was being carried out, unexpected meanings and findings freshly emerged. The researcher has since continued to check to establish if there are missing items or un-coded data that might await further analysis.

It is obvious that this thematic analysis with the ATLAS-ti software has proven to be useful in identifying some of the themes and concepts arising from the collected data. Furthermore, the software enabled all the coded data to be very accessible through Microsoft Word. However, there were some practical challenges involved in conducting

the analysis. As the 400 pages of original data had to be performed using open coding, it took a long time to complete that stage of the process. In addition, although the software effectively provided the coded data for all the interviewees, it appeared that over-reliance on the coded data alone would obscure or neglect the distinctive contexts that each interviewee faced. Therefore, it was necessary to return to the original data in order to understand the coded data from the perspectives and contexts of each interviewee.

Additionally, the field notes that were taken in Korea left the researcher with a vivid memory of the interviewees' nuances and thoughts when the interviews were conducted. The field notes helped the researcher to distinctly remember the interviewees' emotional and functional interests, motives and responsibilities on every policy implementation. In particular, the atmosphere in the places where the interviews took place and the perceptive remarks that the interviewees made were written in the field notes, and they provided insights into understanding and analysing the interviewees' responses in depth.

Quotes and Language Issues

When the findings from the data were presented, including the conflicting perspectives and accounts of the interviewees, this research adhered to the following principles. First, this research paid particular attention to choosing and using the quotations that would be most relevant to the specific issues and would best explain those issues. Second, this research sought to use the quotes of as many interviewees as possible. Even if issues were identified by only a small number of the interviewees, the researcher paid particular attention to using their quotations equally, wherever possible. Finally, this research attempted to convey the *richness* of information. In particular, when some discrepancies in the evaluation of the issues existed, the researcher tried to depict this by contrasting the diverse, different and conflicting viewpoints of the interviewees (Ritchie *et al.* 2003). In other words, rather than the researcher privileging his/her own perspective as a researcher, this researcher tried to demonstrate sensitivity towards simultaneously presenting the range of the different or conflicting perspectives of the interviewees (Corbin & Strauss 2008; Mason 2002: 185). However, sometimes this researcher had to evaluate the conflicting accounts of some of the interviewees. In those instances, the researcher paid particular attention to evaluating those accounts or issues in an *objective* and *critical* way so as not to show bias towards any specific group of interviewees. Based on this, the researcher weighted the interviewees' responses differently in terms of using their quotes. For

instance, although a number of important issues were raised by a small number of interviewees, since they provided very meaningful points that were worth examining this research, the researcher reported them in detail.

As Temple and Edwards (2002) point out, language serves not only to convey concepts or meanings but to deliver particular cultural and social meanings. Therefore, words that ostensibly have the same meaning in different languages may, in actuality, be understood and interpreted differently. In relation to this, some difficulties in producing accurate and meaningful translations were encountered when presenting the quotes. In addition, sometimes the meanings of Korean words were unable to be properly presented, particularly when the interviewees used demonstrative pronouns. In order to prevent misunderstanding, the researcher clarified the meanings of particular demonstrative pronouns by providing detailed explanations of their meanings inside brackets. In summary, given the differences between Korean and English, the researcher paid attention to carefully translating and presenting the quotations.

Chapter 4

Antecedents to the Critical Juncture: Between Legacy and Innovation

4.0 Introduction

In explaining the Korean state during the period ranging from 1970 to 1980, most studies use the concept of the developmental state. The success of the developmental state was founded on the following three prerequisites: a huge reservoir of cheap labour (Jang 2010: 206), the reshaped international division of labour since the Second World War, and the national “Growth-First” consensus (B-K Kim 2003: 54; S-Y Kim 2008: 72; S. Kwon & Holliday 2007: 242).³⁷ Although Korea’s phenomenal economic growth was partly due to an abundance of cheap labour, it should also be noted that the Korean state possessed a relatively fair distribution structure (Pempel 1999a: 155-156; Wade 1990: 38), evidenced by the fact that wage disparities among workers were relatively small and the level of income inequality was very close to that of advanced countries until the 1997 financial crisis (Croissant 2004: 515). As Haggard’s (2000) study shows, Korea’s Gini coefficient of urban wage income inequality (38.6 in 1980, 31.0 in 1993 and 29.5 in 1996) was much lower than Sub-Saharan Africa and Latin America in the 1980s and 1990s (Haggard 2000: 188).

While the term, developmental state has been defined in many ways, (and there have been many economic explanations for the success of Korea’s developmental state), a developmental state can be summarised as a state’s entire institutional and socio-structural focus on economic growth, aiming for maximum output through the mobilisation of all available resources. It can also be defined as the distinct political configurations (e.g. the close bond between the state and business and the exclusion of labour) in which elite bureaucrats play a critical role in designing and implementing the institutional arrangement for economic growth (Chang 2003c; Evans 2005; Leftwich 2009; Woo-Cumings 1991).

³⁷ For more on the international division of labour in the 1970s, see the early studies by Frobel, Heinrichs, and Kreye (1978) and Wallerstein (1979).

However, in Korea, by the 1980s these economic and political conditions had ceased to exist, and the state-led strategy for economic growth had run into difficulties due to increasing pressure from the international wave of neo-liberalism. Most importantly, the change in the Korean socio-economic situation at that time was strongly derived from the democratisation movement and from labour's empowerment in 1987. The Great Workers' Struggle of 1987 marked a watershed for Korea's employment practices, including the labour market, labour relations and labour protection, with the accompanying 6.29 Declaration of Democracy by the leader of the ruling party in June 1987, symbolising the democratisation of Korean society.

In light of the significance of these developments, this chapter examines the employment system from the 1980s until 1993, the period in which quasi-military regimes governed the country. The focus of this chapter lies in investigating the changes that have taken place in the employment system since 1980, when the traditional developmental state (Park Chung-hee government, 1963-1979) ended. Therefore, this study takes the Chun Doo-hwan government (1980-1988) as its starting point. Under the Chun Doo-hwan administration, the liberalisation of financial, economic and social sectors emerged and the Korea developmental state began to change. However, those changes come to an end with the Roh Tae-woo government (1988-1993), when the quasi-military dictatorship began to be dismantled after democratisation in June 1987.

4.1 The developmental state's legacy during the Chun government (1980-1988)

Until the middle of the 1980s, the general theme of labour laws was that the state legally guaranteed the unions' right to take limited action as long as they did not influence economic policy and corporate management. By repeatedly revising labour laws, the state sought to restrict the systematic development of unions and to prevent the labour movement from developing into a more radical political movement. What is of particular note is that while the state blocked all demands for the legalisation of political activity by the unions during this period, labour steadily acquired greater organisational power and became increasingly ideological. In short, to the state, labour was not a social partner in the efforts to ensure socio-economic development; rather, labour was a target group over

which the state should have control, as was the approach taken by the state in the past, during the Park government.

Furthermore, policy interests and preferences of political elites and bureaucrats were still subject to the national goal of economic growth, and the policy issues of labour were not an exception. For instance, the Chun Doo-hwan government (1980-1988) acknowledged that stabilisation of labour relations was essential if sustainable economic growth was to be achieved. Regarding stabilisation as Korea's first priority, Chun initiated a three-way reform process that included financial liberalisation, enterprise unionism and industrial rationalisation. Moreover, during the course of these reforms, Chun never gave up state (or Blue House) control over the reform process, which remained firmly in his hands as was also the case with his predecessor (Park).

The following section will examine how the state controlled and steered business and labour during the changes to the employment system during the Chun Era. In order to do this, it is first necessary to clarify the institutional arrangement that existed in the 1980s.

4.1.1 The state's institutional measures against labour

As a result of the economic downturn that began in late 1978, many companies were unable to avoid temporary closure, shutdown or short-term working, with the consequence that there was a significant increase in the unemployment rate and frequent late payment of wages.³⁸ This economic unrest undermined labour relations, which emerged as the crucial social issue of that time.³⁹ The industrial dispute at the Y.H. Trading Company, where workers occupied the offices of *ShinMin Dang* (the official opposition party, the New Democratic Party), became a critical social issue and, ultimately, provided the seed for the assassination of President Park on 26 October 1979 (also known as 10.26).⁴⁰ However, at

³⁸ The employment rate increased from 3.2% in 1978 to 5.2% in 1980 (Source: Korean Statistical Information Service (<http://kosis.kr/>); Data accessed on 14/08/2012, 17:54 UTC (GMT)).

³⁹ Oil price increases and the Korean government's tight fiscal policy also contributed to the mass redundancies and overdue wages. According to the Ministry of Labour (2006a, 76), there were 7,300 labour disputes in 5,286 workplaces between January and May 1979, of which 82.5% stemmed from overdue wages.

⁴⁰ In 1979, the CEO of the Y.H. Trading Company fired 187 female trade union members under the pretext of poor management. Those workers protested and staged a sit-in at the offices of *Shin Min Dang* (the New Democratic Party), which was the official opposition party. The government mobilised the police to break

that time the labour movements failed to systematically organise a united and coordinated effort at unionising (whether at the industrial level or at the enterprise level), and strikes remained localised and confined to individual workplaces.

The 1980 amendment of the labour laws

Due to economic decline and the political vacuum that had existed since late 1979, labour relations in Korea worsened and neither employers nor workers appeared to possess the ability to resolve the conflict. Thus, between May and November 1980, Chun Doo-hwan's National Defence Emergency Policy Committee, the junta that formed after his *coup d'état*, conducted the Trade Union Purification Action (*nojo-junghwajochi*), employing the Special Rules for the National Emergency Measure, which dismissed 12 leaders of industrial unions and devised strict regulations for full-time union officials.

Following this, in December 1980, Chun pushed for an amendment to Korea's labour laws that was intended to transform Korea's union system from an industrial union system (although very weak) into an enterprise union system (enterprise unionism), and which became the origin of the Korean practice of enterprise (firm-based) unionism, which is still in place today. Other significant restrictions on labour relations and the basic rights of workers were enacted through this amendment: third-party intervention in workplace industrial relations was outlawed; the constitutional mandate on the right to collective bargaining was removed; the rules governing the establishment of unions were strengthened; restrictions on union officials were introduced; the union shop system was eliminated; and unions' finances were opened to public scrutiny (*Kyunghyang-Shinmun* 26 December 1980). The state's actions were intended to suppress the labour movement, minimise the number of labour disputes through strict regulation and, ultimately, paralyse labour unions.

Changes in governmental organisation also occurred. The Chun government, which was formed after the (indirect) presidential election in December 1980, brought the National Labour Office under the control of the Ministry of Labour in March 1981 (*Dong-A Ilbo* 10

up this protest, and the police did so with ruthless force, illegally detaining many of the protestors. At that time, police violence against workers, journalists, and opposition National Assembly members and members of *Shin Min Dang* was widespread and commonplace, and one female worker fell to her death from a *Shin Min Dang* office building window. In the aftermath of the brutal suppression of the protest and the illegal detentions, protests spread throughout the country, and the leader of *Shin Min Dang*, Kim Youngsam (who became president in 1993) was expelled from the National Assembly.

March 1981). In keeping with the Ministry of Labour's elevated status as a major government department, the National Labour Office's promotion in status reflected the Chun government's determination to reshape Korean labour relations. However, it is misguided to assume that this organisational change was an attempt by the state to develop labour relations, increase employment or improve labour practices. Rather, it is more persuasive to view this organisational change and the 1980 amendment of Korea's labour laws as an institutional means for suppressing the labour movement.

The Works Council Act

Simultaneously, the Chun government adopted a carrot-and stick approach towards labour and restricted the scope of the labour movement's struggles to issues, such as wage increases and workers' welfare. In this regard, strengthening the works council system in individual companies was a critical institutional development for labour relations. On 31 December 1980, the Works Council Act was enacted with the aim of encouraging both employers and workers to consult with one another in order to promote the welfare of workers and increase the profitability of corporations.⁴¹ In so doing, the state's objective was to improve industrial relations in a way that favoured the government. While the Act gave works councils the authority to manage working conditions within the individual workplace, that did not result in the practice of collective bargaining between employers and workers in Korean labour relations. First, in order for the works councils to have developed and operated successfully, the collective bargaining principle that upheld the equal rights of the employer and employees should have been established in practice; the reality was very different. Second, the Works Council Act itself placed severe restrictions on the basic rights of workers, including restricting their right to organise, to collective bargaining and to collective action. Third, employers and workers had little practical experience with, or a tradition of, any type of cooperation between workers and management or of workers' participating in the decision-making process with management. Moreover, the Works Council Act failed to provide any concrete guidance about how to establish and run the works councils or any details about the role of the actors.

To summarise, it is true that the state endeavoured to install a new employment system. The real effect of institutional implementation, however, was not so different from the

⁴¹ See Appendix 1

previous pattern of the traditional developmental state. The state had a dominant role and function in changing the employment system (especially with regard to labour relations), by providing labour with restricted rights and obligations. A more persuasive explanation is that, in this period, the institutional changes in the employment system were steered solely by the state, which desired to enhance the perception of socio-economic development in the eyes of the public in order to smother the real problem, which was a lack of political legitimacy. Furthermore, both business and labour were not strong enough to demand and integrate their policy preferences into institutions. Although institutional measures for enhancing flexibility in the labour market were implemented, this can also be seen as a result of the institutional legacy of the developmental state, which gave policy priority to economic growth, rather than a result of a political agreement between the state and business.

4.1.2 Blue House leadership

This section will provide evidence showing that business was not an autonomous actor under the Chun government, even though the Korean developmental state was strongly pro-business and anti-labour in the 1970s and 1980s. In other words, a state-led economic growth strategy lay at the heart of the East Asian developmental states (including Korea). With direct control over the financial sector, the state supported specific industries and businesses that could then exploit resources exclusively and enhance their competitiveness in the international market. Throughout the period of the developmental state, the state, characterised by its high cohesiveness and its tendency to sequester planning within the state bodies (i.e. the Blue House, bureaucracy and ruling party), took the lead in the mobilisation and distribution of internal and external resources for economic growth. In turn, the economic growth during the industrialisation period explicitly legitimatised the political elites' political power.

For business, the core areas of industry that the state focused on became a crucial issue, since a business in the 'right industry' could take a commanding position in terms of industrial development and capital accumulation. Hence, the argument that the state and business shared a symbiotic relationship is highly persuasive, or as B-K Kim (2003: 53)

notes, 'Korea's ruling political elite saw the *chaebol* as both a liability and an asset in its quest for economic growth and political legitimacy'.

Although Chun succeeded in the institutional implementation of both labour laws (as seen in the previous section) and industrial policies, his origin of industrial reforms appeared, at least ostensibly, to be innovative and path-breaking. However, these reforms were not always successful. For instance, he enacted the Monopoly Regulation and Fair Trade Act as an industrial rationalisation and financial liberalisation measure, but it was initially ineffective in enhancing market competition. Furthermore, although he repeatedly stated his slogan of 'social justice' and 'economic liberalisation' in public, his approach remained firmly tied to President Park's growth model and it did not amount to a fundamental 'neoliberal' overhaul of Korea's financial and industrial policies (Moon 1994: 142, 145; E-M Kim 1997: 167-211). Chun's privatisation drive, launched in 1981, is another example of his attempts to liberalise Korea's economy. However, fearing capital flight, Chun's *Min Jung Dang* (Democratic Justice Party) refused to endorse the wholesale privatisation of Korean banks. The party's rejection of wholesale financial liberalisation reflected its concerns about abandoning the Ministry of Finance's traditional dual strategy of state control over the major commercial banks and private ownership of provincial banks and non-bank financial institutions (NBFIs), such as finance companies, insurance companies and mutual saving banks. According to newspaper reports, the failure to implement genuine financial liberalisation meant that monopolistic control of capital remained firmly in the hands of *chaebol*, thereby hindering competition rather than reinforcing it (*Kyunghyang-Shinmun* 5 October 1982; *Dong-A Ilbo* 11 October 1982).

From this perspective, then, it is misleading to regard the Chun government as being neoliberal, although there was a massive influx of foreign capital during its tenure. Upon taking office in 1980, the Chun government's institutional implementation of economic stabilisation and economic liberalisation resulted from the state's autonomous decision to solve the structural difficulties that had stemmed from the strong drive to foster the heavy chemical industry in 1970s, on the one hand (Haggard & Moon 1990: 219), and, on the other hand, from the external pressure of multilateral agencies, such as the International Monetary Fund (IMF), the World Bank, the World Trade Organisation (WTO) and donor governments, such as the United States (Chang 2003a: 1). During the early stages of the Chun administration, the IMF and the IBRD demanded the liberalisation of imports,

reform of the tariff system, deregulation of foreign exchange and the reduction of guidance policy finance, and the Chun government sought enormous sums in foreign loans in order to resolve the economic recession during that period (Yoon 2006: 87-88).

However, it is an oversimplification to regard the Chun government as being neo-liberal because correctly identifying the nature and behaviour of the state involves far more than a mere analysis of economic indicators. In the case of Chun's government, there is little evidence to suggest that the state relinquished control over labour policy, or even industrial or financial policy. Shin and Chang (2003) describe the Chun government as follows: 'General Chun was by no means a neo-liberal himself, but he allied himself with Neo-Liberal bureaucrats and implemented a series of institutional changes that signalled the start of a Neo-Liberal offensive against the developmental state [...] While its force was somewhat diminished, developmentalism still remained the overarching ideology of the regime, and proved formidably effective in the development of certain industries, especially information technology industries. Many of the formal institutional changes in Neo-Liberal direction made under Chun, such as financial liberalization and the introduction of Industrial Development Law, were limited in scope and had their effectiveness curtailed by the inertia stemming from the more slowly changing informal institutions such as bureaucratic convention and business practice' (67).

In order to stabilise the economy without completely overhauling Korea's financial and industrial structures, at last, Chun relied heavily on labour control. The rhetoric of 'corporatist' bargaining evaporated as he explicitly codified all informal practices and customs into formal institutions through the amendment of Korea's labour laws in 1980, with the result that labour lost its collective power.

4.1.3 The rising force of labour

Labour disputes before 1987

The deficiencies of both the formal institution and the lack of practice with regard to collective bargaining worsened labour relations and employment practices, as did the state's direct repression of labour movements. Although the workers' collective movements expressed their discontent about poor working conditions, low wages and

flaws in labour institutions more intensely from 1983 onwards, at that time, labour disputes remained fragmented and sporadic rather than cohesive and systematic. In fact, as seen in Table 4.1, the number of cases of labour disputes was not particularly high before 1987. Before 1987, the number of labour dispute cases that concerned wage increases was low; however, in 1987, the rate of disputes peaked at 70%. This was likely due to labour at last venting its pent-up discontent about the wage restriction policy during the wave of democratisation in 1987.

Table 4.1: The number of disputes by reason (%)

Year	Total	Wage Increases	Unpaid Wages	Collective Bargaining	Working Conditions	Dismissal	Others
1979	105	31(29.5)	26(34.3)	-	-	6(5.7)	27(25.7)
1980	206	58(27.2)	68(33.0)	-	16(7.8)	15(9.3)	42(25.7)
1981	186	38(20.4)	69(37.1)	1(0.5)	36(19.4)	9(4.8)	23(12.6)
1982	88	7(8.0)	26(29.5)	5(5.7)	21(23.9)	2(2.3)	23(26.1)
1983	98	7(7.1)	36(36.7)	6(6.1)	19(19.4)	6(6.1)	15(15.4)
1984	113	17(15.0)	39(34.5)	-	14(12.4)	5(4.4)	36(31.8)
1985	265	62(23.4)	61(23.0)	-	47(17.7)	22(8.3)	61(23.0)
1986	276	62(22.5)	48(17.4)	-	48(17.4)	34(12.3)	73(26.4)
1987	3,749	2613(69.7)	45(1.2)	170(4.5)	566(15.1)	51(1.4)	293(7.8)
1988	1,873	946(50.5)	59(3.2)	328(17.5)	136(7.3)	110(5.3)	274(14.6)

*Source: Ministry of Labour (2006a: 90).

Another significant feature from this data is that the increasing trend toward dismissal appeared during this period, but it not was determinative, while the wage increase was much higher, as shown in this table. This means that the institutional pillars of the system were quite stable, but the traditional low wage system in the labour market was about to change due to significant demands from labour. In fact, at this time, the core feature of the traditional Korean employment system, which embodied a high level of job security and a relatively very low level of wages, was faced with the challenge of changing into a system of high security and high wages.

The 1987 Great Workers' Struggle

The wave of strikes (also known as 'the Great Workers' Struggle') that accompanied the 6.29 Declaration of Democracy in 1987 was a stepping stone to the wholesale transformation of the labour movement; the scale and the nature of labour disputes, the

types and the scale of organisation, and the nature of the labour movement itself were all about to change.

The 6.29 Declaration of Democracy is a symbolic moment in the course of Korea's democratisation and it is often identified as the turning point for the military authoritarian regime (Chun government). On 29 June 1987, Roh Tae Woo, the leader of the ruling party (later, he was president between 1988 and 1993), announced that the government had accepted the public's demands for a direct presidential election system and democratisation throughout society.

Even before 1987 there had been intense pressure for democratisation. Chun reinstated the political rights of 'old' opposition politicians and dissident (*chaeya*) leaders in 1984 and, in doing so, he unleashed a powerful force for democratisation that would culminate in the June Uprising of 1987. On 13 April 1987, Chun announced the Protection of the Constitution Action, which banned all discourse about the constitutional amendment. As a result, further deterioration of the situation was unavoidable, and the torture and death of a Yonsei University student in police custody led to historic rallies on the streets from 10 June to 27 June (also known as the June Uprising), which at their peak numbered about one million participants in 37 cities. The Chun government finally accepted the public's demands, although it had previously considered crushing the demonstrations with the army (by that time the police were paralysed).

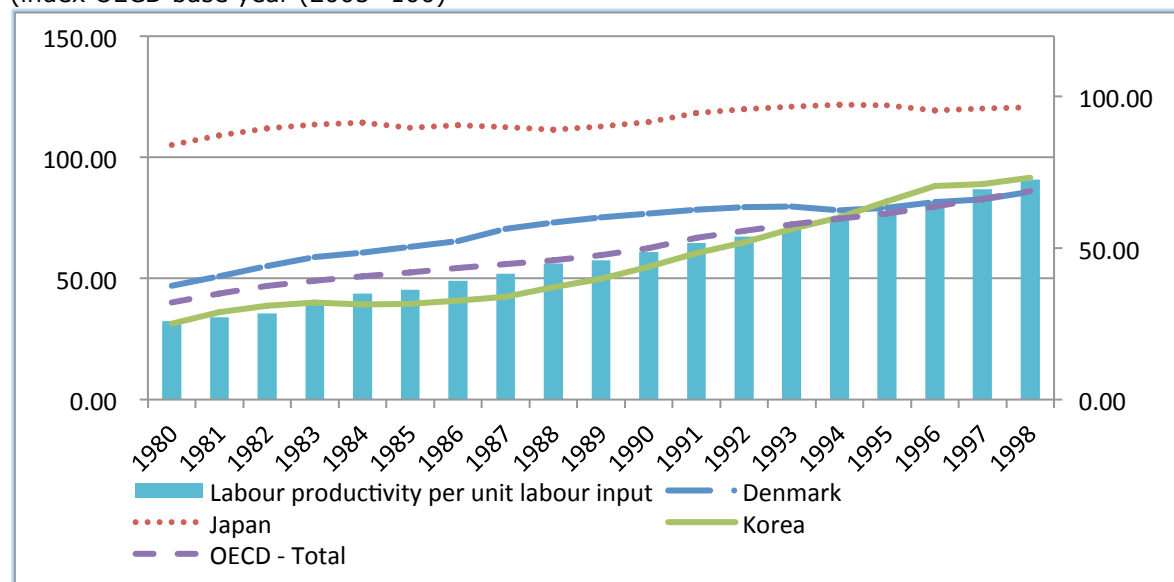
After the declaration, the Constitution was amended on 27 October 1987, introducing a direct presidential election, and the presidential election was held on 16 December 1987.

Thanks largely to the June Uprising in 1987, great development occurred in Korean democracy; however, labour relations and income distribution typically remained undemocratic and unequal. From 1986, there was an economic upturn that led to a 12-13% annual rate of economic growth and a national trade surplus of USD 4.6 billion dollars in 1986, 9.9 billion dollars in 1987, and 14.2 billion dollars in 1988. By contrast, however, real wage rates had decreased continually from 1980 to 1986, and the working environment remained harsh, with long work hours, poor working conditions and frequent industrial accidents. For instance, although labour productivity rates increased by 12.5% every year from 1980 to 1987, wage increases remained fixed at 5.0% during the same

period (Ministry of Labour 2006a: 272) and workers' income levels were frozen by 1987, as shown in Chart 4.1.

Chart 4.1: Unit Labour Costs, and Labour Productivity per Unit Labour Input

(index OECD base year (2005=100))



*Source: OECD Stat: Data accessed on 14/ 08/ 2012, 21:07 UTC (GMT).

*Note: data for Japan 1980-1989 are estimated values.

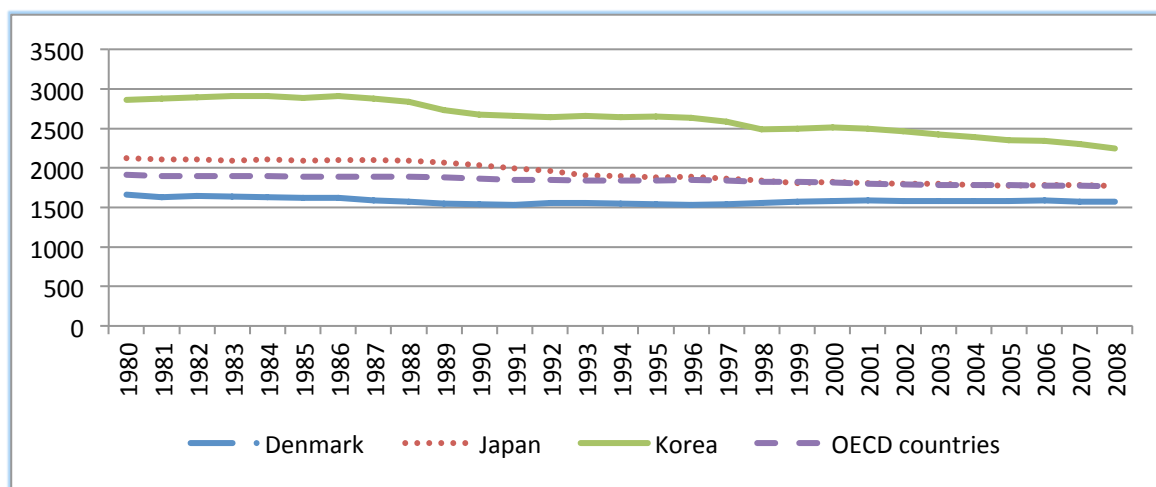
As is generally known, unit labour cost (ULC) measures the average cost of labour per unit of output and is calculated as the ratio of total labour costs to real input. Thus, ULCs represent a direct link between productivity and the cost of labour used in generating output. A rise in an economy's unit labour costs represents an increased reward for labour's contribution to output.⁴² As shown in Chart 4.1, ULC in Korea for the period ranging from 1982 to 1987 averaged around 40 against the 2005 mark of 100, although the level of labour productivity per unit labour input was continually increasing during the

⁴² In broad terms, the OECD and the ILO regard unit labour costs as showing how much output an economy produces relative to wages, or labour cost per unit of output. ULCs can be calculated as the ratio of labour compensation to real GDP. Thus, the concept of labour cost is broader than compensation of employees, as it includes expenditures on welfare services, recruitment and training, and other miscellaneous costs, including work clothes and taxes on employment (International Labour Organization (ILO) Resolutions Concerning Statistics of Labour Cost Adopted by the 11th International Conference of Labour Statisticians, October 1966, para. 3).

The statistical concept of ULC is associated with four indicators: wage rates, earnings, compensation of employers and labour costs, and are defined, by the International Conference of Labour Statisticians (ICLS), as total labour costs expended in the production of one unit of output (<http://stats.oecd.org/mei/default.asp?lang=e&subject=11>).

same period.⁴³ After 1987, Korea's ULC saw a trend of gradual, slight increases; however, there remained a substantial gap between the ULC levels of Korea and Denmark, one of the most advanced countries in the world, and an even greater gap between the ULC levels of Korea and Japan, the economic leader in the region. These figures demonstrate that Korean labour practices during this era were characterised by the maximum possible extraction of labour; workers earned low incomes but generated high productivity. Further evidence of the poor condition of working practices during this period is provided by the index of average working hours per week, which stood at around 51 hours during the period of 1980-1987 (Ministry of Labour 2006a: 272). As seen in Chart 4.2, which compares the incidence of the working hours of selected OECD countries, Korea's real working hours per individual worker in one year were almost twice those of individual workers in Denmark, especially during the period ranging from 1980 to 1987, although there was a declining pattern after 1988.

Chart 4.2: Average annual hours actually worked per worker (hours)



*Source: OECD Stat: Data accessed on 09/02/2012, 17:27 UTC (GMT).

It is not surprising, therefore, that there was an upsurge in worker's discontent and industrial action. Beginning with the strike at the Hyundai Engine factory on 5 July 1987, the Great Workers' Struggle spread throughout the Masan Free Export Zone, with strike action taking place at 41 of the 75 companies in that area. In Changwon, 80,000 workers

⁴³ The main purpose of the Labour Productivity measure compiled through the OECD System of Unit Labour Cost Indicators is to enable users to decompose movements in the annual Unit Labour Cost into a numerator that shows Labour Compensation per Unit Labour Input and a denominator that shows Labour Productivity. For details, see OECD Productivity Database (http://www.oecd.org/topicstatsportal/0,2647,en_2825_30453906_1_1_1_1_1,00.html#30453948).

(out of a total of 150,000) participated in the strike action, and, nationally, 3,341 strikes occurred from July to September.⁴⁴

The Great Workers' Struggle marked a watershed in the development of the labour movement in Korea and led to increased democratisation of the workplace, the widespread emergence of legal unions (see Appendix 2), large wage increase, and improvements in working conditions.⁴⁵ According to an interviewee from a Korean employers' organisation, the Great Workers' Struggle was the seed for the democratic unions that were later organised into the Korean Confederation of Trade Unions(KCTU)⁴⁶ (interviewee P1⁴⁷). It should be noted that, the militant 'struggle-first and negotiation-later' approach to labour disputes, which would come to characterise subsequent Korean industrial relations, was shaped by the Great Workers' Struggle. For the state and employers, an awareness that labour disputes posed a severe risk to stability in terms of business management, and ultimately to economic development, took root (H.-J. Kim 1990: 58). Finally, it was recognised that heteronomous control over labour relations was unsustainable because it would lead only to more unrest and worsening labour relations. In other words, while the state's labour policies, which were implemented mainly to secure business interests and employers' absolute dominance over workers, could be seen superficially as attempts to promote stable labour relations, they in fact fostered instability and unbalanced labour relations, a fact that was clearly exposed by the June Uprising and the 6.29 Declaration of Democracy. Therefore, after the Great Workers' Struggle, the state sought a dual strategy of guaranteeing the labour unions' legal activities and prohibiting the growth of ideologically-oriented labour movements.

In December 1986 and December 1987, the government made drastic amendments to the labour laws, which included major changes to the Labour Standards Act, the Trade Union

⁴⁴ This struggle soon faced a concerted crackdown by the Chun government, which began on 28 August at the funeral of Lee Suk-kyu, a worker at Dae-Woo Shipbuilding. At that funeral, 933 people were arrested and 67 dissident leaders (including a solicitor, Roh Moo-hyun, later to assume the presidency in 2003) were placed under arrest (*Dong-A Ilbo*, 3 September 1987).

⁴⁵ During that period, 1,361 unions were organised nationally for six months and the rate of unionisation increased from 14.35% to 17.3% (Ministry of Labour 2006a: 100).

⁴⁶ The Korean Confederation of Trade Unions (KCTU) (or its antecedent, the Consociation of National Labour Unions (CNLU) established in 1994) is regarded as holding more radical views than the Federation of Korean Trade Unions (FKTU), which was founded in 1961 and which was widely regarded as a government-controlled union.

⁴⁷ A KEF executive who had participated in the Labour Relations Reforming Commission (LRRC) and LMGTC negotiations since 1996

Act, the Conciliation Act and the Works Council Act (see Appendix 1). These efforts to establish balance in labour relations reflected the need to create an institutional setting for autonomous bargaining between employers and workers and to rule out intervention by the state. More specifically, these amendments recognised the need for greater freedom to form and operate unions and the need to alter the balance of power between employers and workers. However, obstacles to the transformation of labour relations still remained, such as the bans on third-party intervention, establishing multiple unions within the same company and political action by labour unions, as well as restrictions on the right of public officials to organise. For those issues, the discourse on institutional change to the labour laws took place during the Roh Tae-woo government, as will be discussed in the next section.

4.2 The zenith of organised labour movements under the Roh government (1988-1993)

Under the Roh Tae-woo government, the core of the institutional reform of the employment system centred on establishing enterprise unionism, focusing particularly on providing guarantees that workers' actions for wage increases would be legally protected; however, if disputes took a political form, the workers would face strong legal action. To do this, the Roh government's basic policy was presented in a document by the Ministry of Labour as follows: building up the infrastructure in order to minimise state intervention in disputes between employers and workers and to ensure autonomous negotiation and resolution between employers and workers; promoting 'healthy unions' by restricting the influence of political movements on unionism; transforming previous labour relations riddled with distrust and antagonism into healthy labour practices through mutual understanding and reconciliation; strengthening labour representation; ensuring the internal stability of unions through union management training and financial support; reshaping institutional arrangements; and preventing the infiltration of unions by 'impure forces'⁴⁸ (Ministry of Labour 1988: 3). How, then, did these policies differ from those of the previous Chun government, and what changes did the Great Workers' Struggle bring to the employment system?

⁴⁸ The impure force is assumed to refer to leftist, pro-communist groups.

The following section, first examines the change in the political configuration between the state, business and labour, and its impact on the employment system during this period.

4.2.1 Challenging labour and Roh's veto

After the Great Workers' Struggle and the 6.29 Declaration of Democracy, the discourse on the amendment of labour laws to reform Korea's distribution structure was prevalent among political parties, the Federation of Korean Trade Unions (FKTU) and even business organisations, including the Korean Employers Federation (KEF), in late 1987.⁴⁹ On 27 September 1987, constitutional reforms were passed by referendum, and the Labour Standards Act, the Labour Union Act, the Conciliation Act and the Workers Council Act were revised on November 1987.⁵⁰

The 1987 amendment of the labour laws

Under the new Ninth Constitution, which introduced a minimum wage system, equal employment opportunities, and the rights to organise, conduct collective action and undertake collective bargaining, the labour laws were amended. First, the flexible working-hours system, which allowed employers to demand that employees work more than 8 hours per day and more than 48 hours per week, was abolished. Moreover, the coverage of this Act was extended to companies with more than 10 workers. Second, the Equal Employment Opportunity Law was passed, providing female workers with equal opportunity to find employment, outlawing discrimination in job training, posting and promotion, and proscribing gender discrimination in terms of retirement and dismissal.

⁴⁹ The Korea Employers Federation (KEF), which was established in 1970, currently negotiates on behalf of management in the Labour-Management-Government Tripartite Commission (LMGTC). Personnel management, labour relations, workers welfare and industrial safety are their major concerns. The other four organisations (of the Five Economic Organisations) that represent business interests as pressure groups in Korea are the Federation of Korean Industries (FKI), the Korean Chamber of Commerce and Industry (KCCI), the Korean International Trade Association (KITA) and the Korean Federation of Small and Medium Businesses (KBIZ).

Of these, the FKI, established voluntarily by private businessmen in 1961, has the most influence on society and over employers in business and it aims to encourage further development of the liberal market economy by promoting various economic policies.

⁵⁰ The Ninth Constitution (1987-present) established the direct presidential election system and the single five-year presidential term as measures to prevent the monopolisation of power that had existed under previous authoritarian governments. Under the Ninth Constitution, Roh Tae-woo (the former leader of the ruling party in the Chun government) was elected president in December 1987.

Third, the Trade Union Act was revised to reduce restrictions on the formation of unions, such that larger trade unions and industrial unions would be able to be established.⁵¹ In addition, the restrictions on union officials were lifted, and the union shop system, which made membership in the union compulsory if the union represented more than two-thirds of the workforce, was legalised. Fourth, the Conciliation Act reduced the range of enterprises to which the term ‘public corporation’ could be applied, which meant that transactions on the Stock Exchange, mining companies and industrial energy businesses were removed from the public corporation sector; therefore, the rule that dictated that workers in those industries could not become union members was lifted. More importantly, an arbitration system was implemented so as to encourage independent negotiation between employers and workers at the enterprise level before applying the Conciliation Act. Fifth, notable amendments to the Workers Council Act, which contributed to providing works councils with greater autonomy and the ability to operate, helped to eliminate some of the grounds for disqualifying workers’ membership on works councils and removing the right of bureaucrats to dissolve a council.

However, the labour laws that were revised in December 1987 mostly aimed to suppress the further advancement of labour mobilisation and the union movement, while just making unionisation and collective bargaining easier at the enterprise level. The so-called ‘three prohibitions (*Samkeum*)’ in the labour law largely constrained labour. That is, the ban on multiple unions intended to prevent further unionisation, and the prohibition of ‘third-party intervention’ kept the independent unions within the enterprise level isolated, while suppressing their horizontal and vertical network and solidarity. Under the two provisions, the national centre of democratic unions was long denied by the state and business. The ban on a union’s political activities effectively suppressed the workers’ political mobilisation and engagement in institutional politics. In the long run, while unions could mobilise at least on the enterprise level, the prohibition of the unions’ political activities became a more severe hindrance to the future consolidation of the Korean labour movement. Thus, after the democratic transition, the labour laws functioned as a weapon to suppress organised labour and the labour movement, moving it onto a kind of political path, while keeping it within the realm of industrial relations and market confrontation.

⁵¹ Before the Trade Union Act, unions could be formed by the approval of more than 30 workers or more than 1/5 of workers, but only at the enterprise level.

To summarise, the historical legacy of the exclusionary, market-oriented employment system pushed the unions towards a militant unionism, unlike the Western experience in which (trade) unions have underpinned the labour-centred political party in major politics and have influenced the political bargaining system between business and labour on the whole. As the developmental state required only economic mobilisation of labour while suppressing political mobilisation of labour, the Korean employment system was dominated by ‘market policy’ and the growth-first discipline rather than state corporatism. That is, labour’s condition was mainly determined by its market position instead of politically accommodating labour into state corporatism. Labour hardly had experienced political bargaining under the developmental state (at least, before the LMGTC agreement in 1998).

This is quite different from Latin America where political inclusion of labour coincided with the development strategy of an import-substitution phase of industrialisation, which for many countries began in the 1930s. Securing the adherence of labour unions to the state or to political parties in power, the authoritarian regimes, thus, prevented labour mobilisation against the state. Consequently, labour relations in Latin American countries had already been characterised by the prevalence of political bargaining and the historical weakness of collective bargaining as a regional characteristic before transitions to formal democracy occurred (Cook 1998). The Brazilian labour unions, for example, had been deprived from being able to engage in collective bargaining and all bargaining was carried out at the individual level and through legal courts using labour lawyers (Kweon 2010: 81). On the contrary, unions in Korea preserved collective bargaining at the enterprise level.

Roh’s veto of the 1988 amendment bill

This explanation that the traditional idea and function of the developmental state had an impact on creating a labour exclusive employment system can be supported by the fact that President Roh vetoed the 1998 amendment bill.

After the labour law amendments in 1987, a vigorous discourse about further labour law amendments occurred throughout 1988. The FKTU was not satisfied with the 1987 amendments and petitioned the National Assembly to introduce further amendments that would permit the establishment of multiple unions within the same company, entitle unions

to engage in political activity (*Kyunghyang-Shinmun* 20 July 1988) and lift the ‘three prohibitions’. Opposition parties also held a ‘Hearing of Three Opposition Parties for Amendment of Labour Laws’ in order to draw up a common bill (*Dong-A Ilbo* 30 July 1988). Furthermore, the newly emerging labour unions (later the KCTU) submitted a draft proposal to amend the labour laws (*Kyunghyang-Shinmun*, 16 July 1988). The common issues between the three opposition parties and the new labour unions were the right to establish multiple unions within the same company, the right of governmental officials to organise, the right for unions to engage in political activity and the elimination of third-party intervention.

Contrary to the moves of the opposition parties and labour, the Korea Employers Federation (KEF) appealed to political parties and the government with its ‘Statements on the Movement for Amendment of the Labour Laws’ (in August) and the ‘Opinion of Business on the Opposition Parties’ Proposal for Amendment of the Labour Laws’ (in December) (KEF 1989: 64).

Through the allied power of labour and the opposition parties, and especially since the official opposition party had secured a parliamentary majority in the 13th general election (April 1988), in December 1988 the National Assembly passed legislation that sanctioned the establishment of a governmental officials’ union and a teachers’ union, eliminating the ban on political activity by unions. However, President Roh exercised his power of veto over the National Assembly’s amendments, except where they applied to the Labour Standards Act (see Appendix 1 and Appendix 1-1).⁵² Ultimately, the amendments of 1988 were not implemented.

4.2.2 Flexibility and dualism in the labour market

In 1987, labour had secured the institutionalisation of collective bargaining, resulting in a more than 10% increase in real wages for those employed in *chaebol*, and it had become increasingly difficult for businesses to continue their labour-exclusion strategy when workers belonged to unions that based their strategies on strong collective bargaining power. However, labour flexibility began to be introduced in the late 1980s, and from early

⁵² See the amendment to the Labour Standards Act (March 1989) in Appendix 1.

1990 it became common for businesses to restructure personnel within individual companies.

Deregulation of labour policy

The deregulation of labour policy involves the withdrawal of state protection for workers against the excesses of the market, although the Korean state's protection of labour rights had been minimal.⁵³ From 1990, the Roh administration continually attempted to abolish various regulations on labour relations and the labour market, something that business had long demanded, and it promoted autonomous labour relations. Initially, the Roh government relaxed the conditions governing layoffs in order to support industrial reform and industrial rationalisation, which required a reduction in the number of jobs in declining industries.

A Supreme Court ruling in 1991 sparked the end of job security. This ruling stipulated that it was reasonable for companies to make redundancies in cases that involved a change in work organisation in order to restore competitiveness, restructure the company or introduce the latest technology (Supreme Court, Ruling No.91Da8647). This ruling extended the 1989 provision that such mass redundancies could be made only if there was an urgent managerial need to make them in order to prevent the business operation from being jeopardised (Supreme Court, Ruling No.87DaKa2132)⁵⁴. This 1991 ruling effectively provided legitimacy to companies that wished to restructure personnel on the basis of a managerial risk assessment.

Following this ruling, on 1 July 1992 the Ministry of Labour decided that the recent Supreme Court rulings should be applied to all workplaces through *Haengjong Chido* (administrative guidance),⁵⁵ even if employees did not agree with the need to make redundancies, the procedure to be used, or the scale of the layoffs (*Maeil Business Newspaper* 7 January 1992). The state's rapid response to the 1991 Supreme Court ruling

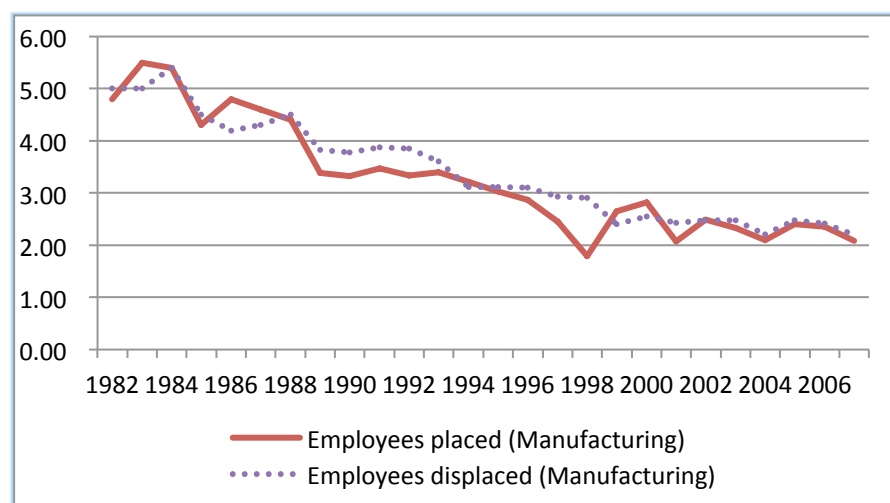
⁵³ It should be noted, however, that the 1987 amendment to Korea's labour laws (see Appendix 1), which was derived from the political dynamics among the state, business and labour, had taken some measures to provide some labour protection (certainly much more than in the past).

⁵⁴ Article 27 of the 1987 Labour Standards Act outlawed the dismissal, layoff, suspension or transfer of a worker or a reduction in his/her wage without justifiable reason. In light of previous Supreme Court rulings, the justifiable reason was restricted to instances of acute managerial need, such as bankruptcy, temporary closure or shut down.

⁵⁵ Woo-Cumings (2007:158) identifies this administrative guidance (*Haengjong Chido* in Korean) as a kind of informal institution.

was due to its intent to foster the market competitiveness of companies through increased labour flexibility. For instance, the state's determination to deregulate labour relations and the labour market was demonstrated by the Economic Planning Board's (EPB) statement that the relaxation of the restrictions on layoffs was inevitable if the problem of inefficient distribution of human resources were to be resolved (*Maeil Business Newspaper* 25 January 1992).⁵⁶

Chart 4.3: Employees placed/ displaced rate (Manufacturing, %)



*Source: Ministry of Labour (<http://laborstat.molab.go.kr/>): Data accessed on 15/08/ 2012, 15:42 UTC (GMT).

*Note: 1) data from companies with 10 and more employees.

2) employees placed = employees hired that month/ employees in the previous month X 100.

3) employees displaced = employees displaced that month/ employees in the previous month X 100.

This trend of pursuing numerical flexibility in the labour market can be represented by examining the changing trend of labour elasticity, as seen in Chart 4.3 and Chart 4.4.

For manufacturing industries, which are more sensitive than other industries to changes in economic conditions, the ratio of employees placed was more than or equal to the ratio of employees displaced, up to 1988. However, from 1988 this pattern was reversed and the ratio of employees who were displaced far exceeded the ratio of those who were placed.

⁵⁶ Many developmental state studies view the EPB as the pilot agent in the Korean developmental state (see, for example, Choi 1987; Haggard 1990; Minns 2001; etc.). Many scholars point to the 1994 absorption of the EPB into the Ministry of Finance and Economy under the Kim Young-sam government as marking the official abandonment of the developmental state model.

By examining the GDP elasticity of employment (Chart 4.4), a more dramatic change in the labour market becomes apparent. A basic definition of employment elasticity is ‘the percentage change in the number of employed persons in an economy or region associated with a percentage change in economic output, measured by gross domestic product’ (Kapsos 2005: 2). Thus, this represents the extent to which an increase in employment accompanies an increase in GDP. In general terms, employment is identified as elastic when the rate is over 1, while employment is inelastic when the rate is under 1.⁵⁷ From the chart in footnote 57, it can be seen that the rates of elasticity of total employment during this period show a fluctuation around the 0.3 point. Compared to the rates for Western Europe for the period ranging from 1991 to 1995, Korea’s rates of employment elasticity have remained more consistent, suggesting that the labour market in Korea is more flexible than the labour market in Western Europe, but more strict than the labour market in North America (see footnote 57).

A more important figure is the decline in the rate of employment elasticity in manufacturing industries, which increased rapidly between 1988 and 1989, but which began a major downturn after 1990. This can be explained by the large numbers of employee dismissals from major manufacturing companies in the early 1990s. By contrast, service industries, which were generally run by small-medium size businesses, maintained

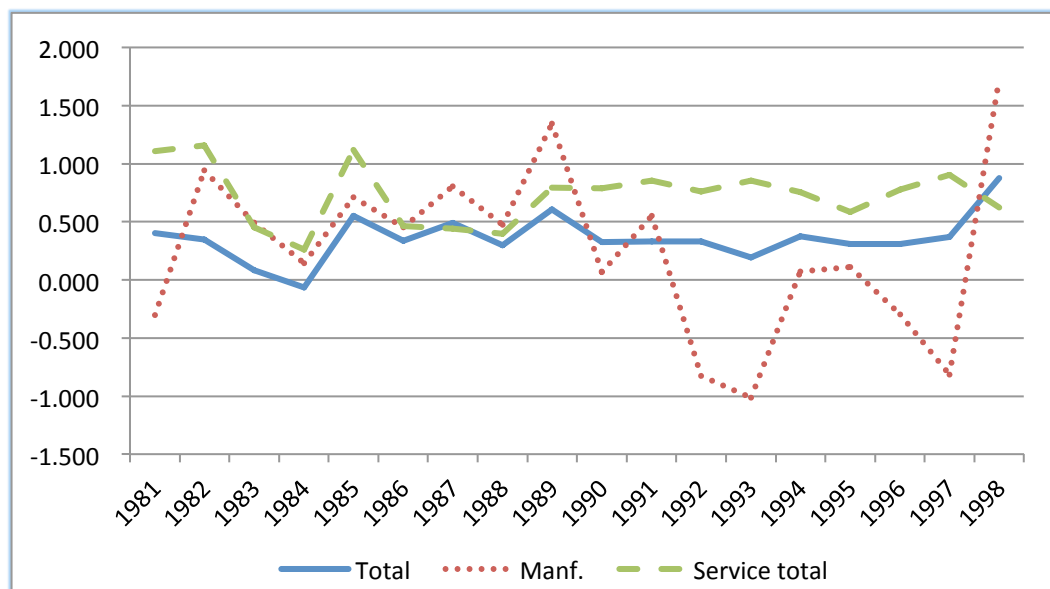
⁵⁷ Within this broad definition, the indicator of the employment growth associated with a given output growth is provided by the employment elasticity of output growth (for overall GDP, measured as the proportionate change in employment divided by the proportionate change in GDP during a given period). Therefore, employment elasticity can be regarded as an alternative term for employment intensity of growth. Employment elasticity reflects the inverse of labour productivity. While an elasticity higher than unity implies a decline in productivity, a lower than unity elasticity means that employment expansion is taking place along with an increase in productivity. A rise in productivity would lead to a reduction in employment elasticity. Therefore, raising employment elasticity in individual activities should not be an objective, as this would mean a further lowering of productivity in economies that may already be characterised by widespread low-productivity employment (Islam 2004: 4-5). A new methodological approach to GDP elasticity of employment has been used in recent research by the ILO, and an index of the employment elasticity of countries has been produced (see Kapsos 2005). The employment elasticity for selected regions and countries according to Kapsos’s new model are given below. As can be seen, in the case of Korea, the difference in employment elasticity over the periods covered by the research is not large.

	1991-1995	1995-1999	1999-2003
Western Europe	-0.09	0.36	0.42
North America	0.67	0.44	0.23
Denmark	-0.02	0.42	-0.04
Japan	0.34	0.20	-0.24
Korea	0.30	0.17	0.38
UK	0.12	0.43	0.37

*Source: Kapsos (2005).

an employee level of around 0.7 throughout the 1990s. This phenomenon implies that the labour market of companies in the manufacturing industries, which were generally run by large firms, has become more rigid, but the labour market of service industries (which were mainly SMEs) has remained flexible, and unions at the big manufacturing companies still successfully maintained the stability of the labour market at that time. In fact, the dualism of the labour market can be confirmed by the fact that the rates of GDP elasticity in the manufacturing industries has been significantly lower than the rates of GDP elasticity in industry as a whole since 1992, except during the 1997 Asian crisis (see Chart 4.4 and Appendix 3).

Chart 4.4: GDP elasticity of employment by industry



*Source: Department of Statistics, Bank of Korea (<http://ecos.bok.or.kr>).

*Note: GDP elasticity of employment = rate of employment/rate of GDP.

To summarise, it is true that labour was under the control of the state and business with various institutional measures such as those implemented during the past developmental era; however, the traditional employment system of a high level of job stability (and even high wage gains) were successfully maintained after the 1987 Great Workers' Struggle. More importantly, those measures also contributed to ensuring the dualism in the Korean employment system. While the movement for the establishment of democratic trade unions from the 1970s onwards, and the changes in the industrial structure during the 1980s, were actually blocked by the state's institutional measures, some unions (in the big firms or *chaebols* in the manufacturing industry) with militant unionism that were invigorated since

the 1987 Great Workers' Struggle, resulted in the segmentation of workers and the breaking of labour homogeneity by firm size and by industry.

This segmentation of the Korean labour market was due to the combined effect of the Supreme Court's rulings, which allowed higher labour flexibility—as an institutional measure for rapidly increasing labour costs since the 1987 Great Workers' Struggle—and the militant unionism of core insider workers' unions, which were derived from the tradition of a labour exclusive-employment system (e.g. the absence of a labour-centred political party or the lack of practice of collective bargaining). This situation, then, has been reinforced through the early 1990s, as will be discussed in the next section.

4.2.3 Complementary effects of militant unionism and state's wage regulations

In the early 1990s, the labour movement that had emerged and grown as a consequence of the Great Workers' Struggle sought to apply pressure on businesses for wage increases and pushed ahead with establishing a nationwide alliance of unions. At the same time, pressure from businesses pushed through an amendment of the labour laws that mainly focused on the provision of an institutional guarantee for the diversification of employment types (functional flexibility). Facing an international recession, concerted pressure by businesses for revision of the labour laws, and escalating wage demands, the state was confronted with the dilemma of continuing its previous form of involvement and modus operandi in labour relations or adopting a new approach. In the early phase of this confusing period, the state unsurprisingly chose to pursue its familiar and well-trodden path, which sought to resolve the crisis by repressing labour while simultaneously maintaining a business-friendly position. In fact, the Roh government attempted to pass a labour law bill in 1991-1992 in response to the demands of business, the core point of which was the Total Wage Payment System, an aggressive state policy that endeavoured to change the wage system so as to suppress labour by unifying the wage structure (merging all types of extra pay or benefits) and to pay bonuses in line with company performance (Jang 2010: 218).

Total Wage Payment System

After democratisation in 1987, the annual wage gain rates increased sharply to 13.6% in 1988 and 17.5% in 1989, and more significantly, the wage gain rate increases for

production workers were 15.5% in 1988 and 20.0% in 1989 (Ministry of Labour 1989: 5). To counter this, the state introduced a wage stabilisation programme in 1991. This wage stabilisation programme involved the government imposing aggressive wage controls on public enterprises and the 30 largest business groups.

As a result, the annual wage gains for workers in the 30 largest business groups decreased from 18.8% in 1990 to 17.5% in 1991; however, the rate was still high in comparison to the rates of the OECDs and the region and it remained above government expectations. In addition, wage stabilisation in other business groups or small and medium enterprises was unsustainable due to the strong demands by workers for wage increases in those business groups, which had generally seen lower wage increase than big businesses since 1987 (KEF 1992: 62-63). Despite the state's aggressive measures to bring about wage restriction, Korea's real wage growth rates were 10.1% in 1987, 21.1% in 1989, 18.8% in 1990, and 17.5% in 1991 (Ministry of Labour 2006a: 122). Hence, the Roh government implemented the Total Wage Payment System in 1992.

The Total Wage Payment System is a wage-decision system that determines the annual rate of wage gains by dividing a worker's total yearly wage (the sum of all forms of salary, extra payments and bonuses) by twelve. Via this system, the government expected to simplify and rationalise the wage system, a system complicated by various kinds of extra payments, and which also incurred the transaction costs of individual bargaining on these payments. This policy also aimed to reduce the wage gains gap between workers in large, medium and small businesses. In addition, the government ordered that the bonus pay practice, through which various bonuses had been paid regularly, be changed to a company performance-based or workers' merit-based bonus system.

Despite the implementation of the Total Wage Payment System, which had pronounced that wage gains for 1992 should not exceed 5%, the rate of wage gain in 1992 was 15.2%. Ironically, one of the reasons for the failure of this policy was that the company performance-based bonus system introduced by the government brought about wage increases as companies passed on some of their gains to workers. In particular, in the case of public enterprises and the 30 big business groups, large extra payments were made under the result-based and long-service (seniority) systems, which led to substantial real wage gains (KEF 1993: 155-156).

This phenomenon can be identified as a result of the conflict between institutions with regards to labour laws, which may produce unexpected institutional outputs as a result of institutional complementarity. In this case, the intertwining of the Total Wage Payment System with the performance-based wage system and the seniority wage systems ran contrary to the original purpose of the institution(s).

In addition, business failed to persuade workers to accept lower wage increases. Labour resisted and criticised this policy as a dirigiste measure aimed at weakening the rights of collective bargaining and equality in labour practice (*Dong-A-Ilbo* 24 March 1992). Furthermore, the unions pointed out that government employees were excluded from the Total Wage Payment System, even though the wages of government officials had increased significantly (Ministry of Labour 2006a: 124).

In short, the wage struggle resulted more in concentrating the economic gains on workers in large firms rather than in equalising the impact upon the labour as a whole. One main reason for this is that the wage increase of workers was not based on an institutional consensus through a collective bargaining structure; instead, it was based on implicit acceptance by the employers of the relatively strong disruptive power of workers, which was strongest in the conglomerate company unions. The different degree of economic accommodation reflects the difference in the ‘power of capital in the market’ rather than the labour’s institutionalised power. As a result, the uneven accommodation of the unions’ demands, depending on the respective market position of the business, became the source of a new kind of inequality and dualism in the labour market. Ironically, in this context, the more the workers engaged in the wage struggle, the wider the gap would be within the working class. This was an unintended consequence of militant unionism and the state’s institutional measurements.

4.3 Concluding remarks

According to S-E Park’s study (1992) the change in the mode of authoritarian control over labour from 1987 switched from being one of despotic-authoritarianism to being one of negotiated-authoritarianism and hegemonic control, by which the institutional reforms for enhancing labour flexibility in favour of business and for securing the right of collective bargaining in favour of labour, were implemented.

Although the despotic-authoritarian and the negotiated-authoritarian systems shared a common feature, in that the labour movement was severely restricted and the interests of labour were excluded, the latter differed from the former in that it was business that took the initiative in the introduction of labour flexibility measures, such as the flexible labour market (numerical flexibility) and the flexible working hours system, diversification of contract type and wage system and workforce outsourcing (functional flexibility). What this study adds to Park's study is that the negotiated-authoritarian system, therefore, was characterised by the continued exclusion of labour, as evidenced by the outlawing of the Consociation of National Labour Unions (CNLU), which was the forerunner of the KCTU, and the state's policy of labour flexibility. Consequently, the market logic that gave full priority to economic growth and enhancing productivity began to assume control over shaping the employment system.

In combination with enterprise unionism and militant unionism, especially of unions in the core insider labour market, these institutional reforms negatively affected workers by preventing them from developing a wider class consciousness and leading them to increasingly identify themselves as being employees of a company rather than being part of the wider working class. More importantly, due to the rivalry between the national-level unions (the KCTU and FKTU), labour disunity made it more difficult for workers to coalesce and for the unions to become a strong political actor. Furthermore, the embedded practice of a labour exclusive-employment system contributed to a break in labour homogeneity. For instance, there were no institutional channels for labour to present its political and socio-economic interests, due to the absence of a labour-centred political party and the lack of collective bargaining.

As a result, labour's responses to the strategies of the state and business were improvised and uncoordinated (and frequently militant), and in making distribution issues (wage increases, etc.) its top priority, the labour movement after 1987 failed to produce its own long-term strategy to cope with the new and elaborate strategies of the state and business. The focus here is on the institutional arrangement that restricted labour's capacity to organise and accommodate itself into state corporatism. The institutional conditions of this capacity were also affected by labour's unity and the resources that it could mobilise. This chapter reveals that, around the 1987 Great Workers' Struggles, the dual union system (enterprise unionism and industrial unionism), the competing two national-level trade

unions, and the cleavage of the labour movement's ideological cohesiveness (business unionism) appeared to play a role in affecting labour's capacity to organise, and this institutional mixture is a critical factor of the employment system changes that lie ahead.⁵⁸

⁵⁸ For more about business unionism, see Chapter 7 in this thesis.

Chapter 5

Precursor to the New Employment System: A Corporatist Approach in the Kim Government (1993-1997)

5.0 Introduction

Korea's first civilian government took office in February 1993, ending 30 years of authoritarian military regimes. The Kim Young-sam government implemented wide-ranging economic, political and social reform programmes under the slogans of openness, democratisation and internationalisation. The so-called 'Five-Year New Economy Plan', which stressed civic participation and creativity, was one of those reform programmes (Republic of Korea Government 1993: 5-10). The Ministry of Labour's *Five-Year New Economy Plan: Reform of Labour Relations, 1993-1997*, set out its position that 'the impetus for economic development lies in the people's voluntary participation and active creativeness, not in the government's guidance and control' (Ministry of Labour 1993: 4-5). This statement points to the Kim government's effort to distance itself from the previous military governments. To achieve the ends set out in the five-year plan, the government stressed the implementation of institutional changes to foster rational labour relations and mutual trust between employers and workers, which would provide workers with enhanced opportunities to participate in the policy-making process in government and within companies.

Although the manifesto laid out in the government documents sought to project the Kim Young-sam government as the architect and protector of Korean democracy and as marking the end of authoritarian practice in politics and governing, the government still faced a problem of political legitimacy. In the run up to 1992 presidential election, Kim Young-sam, the leader of the second-largest opposition party and one of strongest candidates for the presidency at that time, agreed to merge his political party with the third-largest opposition party and the ruling party, entirely excluding the main opposition party, whose leader was Kim Dae-jung (who was president from 25 February 1998- 24 February 2003). For President Roh and the ruling party, which did not hold a majority in the National Assembly, the merger was an opportunity to regain a parliamentary majority,

seize the initiative and secure their retirement. For Kim Young-sam, it provided the opportunity to secure the strong support of the ruling party in the upcoming presidential election and to overtake his long-time rival, Kim Dae-jung, who was the leader of the main opposition party at that time.

This is known as the *Samdang-Hapdang* (the Three Party Merger), and in this research, rather than marking a shift from authoritarianism to democracy, it is considered to be an authoritarian pact because the liberal-democratic blocs, including Kim Dae-jung and his party, and the democratic unions bloc (i.e. the CNLU) were totally excluded. This political merger can be regarded as a coalition without a policy and the result of the overlapping interests of the (traditional) major politicians.

Not surprisingly, therefore, the Kim Young-sam government from the outset continued on the path of state interventionism, maintaining a close bond with business and excluding labour. The difference between Kim Young-sam's government and previous governments lies in the fact that the Kim government moved forward with institutional plans to enhance corporatist practices at individual workplaces and to steer the employment system at the national level. In regards to wage policy, the government prescribed 'autonomous wage bargaining between employers and workers' as the way forward; in regards to the employment system reform, it built a corporatist's institutional body, the Labour Relations Reforming Commission (LRRC). To what extent, then, did the state intervene to promote an 'autonomous relationship' between business and labour, and what was the institutional output from this change in the employment system?

The focus of this chapter lies in investigating the Korean (developmental) state's changing role towards the employment system, in line with Korean democratisation since 1987. For example, did Korea's path towards democratisation bring about a new type of rule-making process in the employment system and, if so, what form did it take (i.e. a tripartite system, a corporatist model or a new hybrid system)? Furthermore, how did the 1997 Asian financial crisis affect the change that occurred in the institutional policy regarding the Korean employment system, and how did that contribute to bringing about the critical juncture in the Korean employment system during the period of 1997-1999, with its combination of the endogenous elements of political dynamics and the mechanisms of institutional change?

Thus, this chapter addresses the political determinants that affected the restructuring of the Korean employment system: How did the transformation in the roles, functions, responsibilities and the capacity of the state (political elites and the bureaucracy), business and labour, manifest in the new employment system? This question focuses on how the change in the political configuration between political actors could serve to lead to the Korean developmental state's transition into a new approach to economic growth and employment system. In answering this question, two elements must be considered. First, in employing the developmental state thesis, how did the embedded roles of the state (especially the roles of the elite bureaucrats), business and labour, which had persisted throughout the developmental state era, change and to what extent did this influence the transformation of the employment system and the developmental state's transformation? Second, employing the fact that institutional changes are interactive (i.e. they involve inter-factor relationships), multilateral (i.e. they involve the relationships between the actors and their interests and preferences, and their reactions to the institutions), and multidimensional (i.e. they involve the labour market, labour relations and labour protection), one must examine whether the restructuring of the employment system was derived from a mixture of domestic political conditions and external pressures, the competing interests and preferences of the actors and the combined effect of diverse policy implementations. For instance, can the labour flexibility in the Korean labour market be better understood by considering how the socio-democratic movements in Korean politics and the neo-liberal pressures from the international market, business' policy preference for greater flexibility in response to liberal reform of the economic system and labour's resistance, and the complementary effect of labour laws and socio-economic reforms, were combined and how they interacted?

Toward this end, this chapter begins by examining the impact that the Korean state's new institutional challenge of corporatism has had on the employment system.

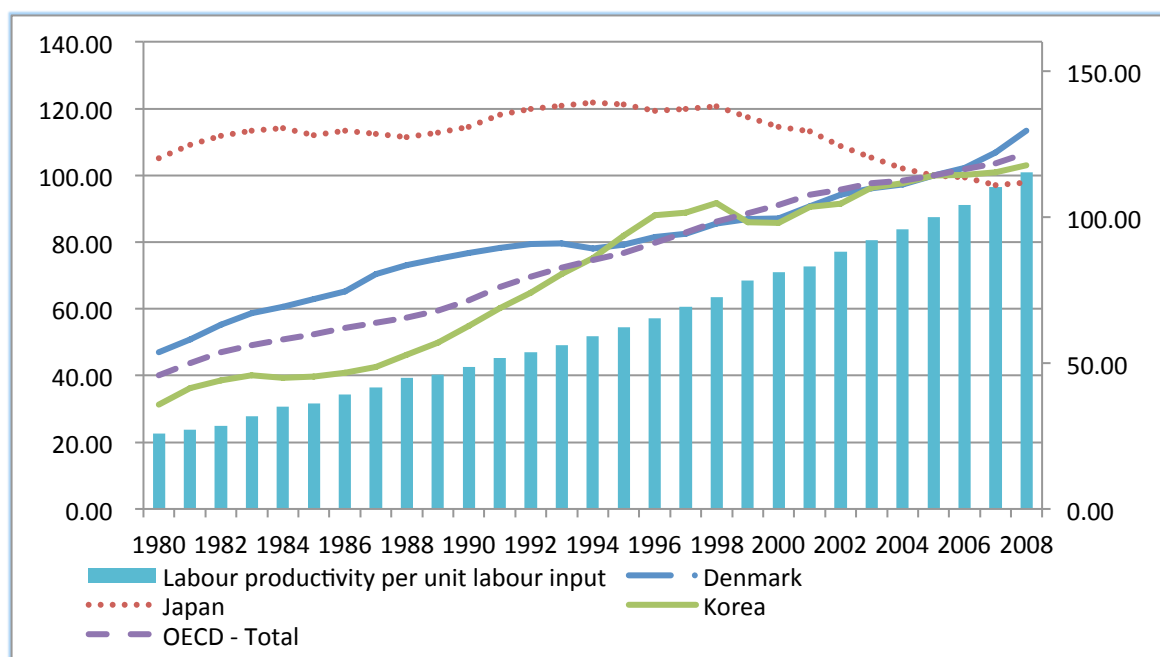
5.1 A period of corporatist fervour

As seen in the previous chapter, the wage gains after the 1987 democratisation struggle and the rising power of the labour movement were the result of power struggles between *chaebol* employers and workers; they were not the result of a national economic situation

or individual companies' managerial conditions. Until 1991, the government's wage policy was focused on a wage stabilisation strategy that aimed to stimulate the national economy, curb prices and improve labour productivity. However, that policy failed. During the period ranging from 1989 to 1991, annual wage increases remained at over 18% and, more significantly, the wage gap between large corporations and small and medium businesses showed no signs of reduction. Therefore, in 1992 the government implemented the Total Wage Payment System. Nevertheless, it too failed, in part as a result of institutional complementarity (inverted against the original policy object) between the newly implemented measures and the embedded practices of the wage system (e.g. the seniority-based wage system and the result-based wage system).

Chart 5.1: Unit Labour Costs, and Labour Productivity per Unit Labour Input

(index OECD base year (2005=100))



*Source: OECD Stat: Data accessed on 14/ 08/ 2012, 21:07 UTC (GMT)

*Note: 1) data for Japan 1980-1989 is estimated.

2) for terminology, see footnote 42 in Chapter 4.

As seen in Chart 5.1, the unit labour cost (ULC) continually increased after 1987 and exceeded the increases in the labour productivity per unit labour input from 1992. This trend is significant in that Korea's ULC overtook the ULCs of the OECD, as a whole, and the ULC of one of the most advanced countries, Denmark, after 1995. Although this

upward trend began to slow after 1996, the significance of these figures is that they indicate that Korea experienced high rates of wage increases from 1992 to 1996, but labour productivity increases fell short of wage increases during this period.

In this context, the newly launched Kim Young-sam government implemented a series of institutional measures to stabilise wages. As will be discussed below, such a strategy was, in effect, a means of forming the corporatist's practice of collective bargaining at each workplace and at the national level, without the state's direct intervention.

5.1.1 Wage bargaining between labour and business

The real practice of establishing collective agreements on wage issues occurred between labour and business, not among the labour-business-government tripartite arrangement. The Kim government pressed ahead with the following plan, which was announced as part of the Economic Management Plan (28 December 1992), and confirmed that the wage policy would be determined through a labour-business consultation process.⁵⁹ The FKTU-KEF Wage Consultation was created to negotiate a standard rate of annual wage increases and to recommend that rate to individual companies. From that point, other than the government setting the institutional setting for wage bargaining, the entire process was to occur without any direct state intervention.

It is clear that collective efforts were made to reach collective agreements during the period ranging from 1993 to 1995. This involved two rounds of FKTU-KEF Wage Consultation (1993, 1994) and two FKTU-KEF joint declarations (1993, 1995). The first wage bargaining in 1993 was notable for being the first time in Korean history that an attempt was made to reach a collective agreement on wage bargaining. It was also the first time that a plan was derived not from the state but from the KEF, whose suggestion was accepted by the FKTU. This marks the point at which the government withdrew from the use of authoritarian wage controls, such as its wage guideline scheme and the Total Wage Payment System.

⁵⁹ In order to secure sustainable economic development in light of the problems that were anticipated due to the international and national economic situation, the government was to construct a basic policy direction for fiscal health, financial growth, foreign exchange and social development. The Ministry of Strategy and Finance was to produce a draft policy and, through consultation with other economic departments of the government, this would be finalised and made public at the beginning of the year.

However, this first consultation faced criticism because the pact involved only two high-ranking organisations. The behind-the-scenes negotiations did not involve the democratic union blocs or even the FKTU's member unions. In particular, the FKTU faced criticism over its wage restriction policy, with critics arguing that it was effectively acting in collusion with the state to limit wage increases. In other words, the bottom-up approach advocated by the corporatists was never present during this consultation.

Another important aspect of the FKTU-KEF negotiations during this period was that the FKTU stressed the need for third-party involvement in the FKTU-KEF wage bargaining process. Although the FKTU had positively reviewed the 1993 wage consultation process, it felt that it would be beneficial for the government to be involved in debating the implementation of the FKTU-KEF recommendations and their policy implications. The FKTU's insistence on a tripartite arrangement that included the government led to the government's participation in consultation on the issues of policy and regulation reform. Thus, the 1994 FKTU-KEF Wage Consultation had two negotiation groups: (1) labour and business on wage bargaining itself and (2) labour, business and government on policy and regulation reform. As a result of this consultation, the FKTU and KEF agreed on wage increases of 5.0–8.7% and made 13 recommendations to the government.

The FKTU's assertive approach to tripartite consultation, however, provoked antipathy from the Consociation of National Labour Unions (CNLU) and democratic labour blocs, and this hostility was ultimately directed against the FKTU-KEF-Kim government tripartite arrangement.⁶⁰ In early 1994, the CNLU targeted the dismantling of the FKTU-KEF Wage Consultation. In 1995, the FKTU-KEF Wage Consultation foundered in the face of the CNLU's resistance and the strong opposition from FKTU's member unions. In particular, a group of CNLU and democratic labour bloc members, who would go on to establish the KCTU, began to gain greater support from various local and industrial unions and began to expand its influence over the labour movement. The leadership of the FKTU, in turn, held a closed debate on the social pact issue, but they decided not to gather the opinions of member unions (*Hankyoreh* 7 March 1995; *Kyunghyang Shinmun* 13 March 1995). The government acquiesced to the FKTU leadership's assertive stance on the decision-making process within the FKTU, because the Kim government began to be

⁶⁰ For details of CNLU and KCTU, see footnote 46 in Chapter 4.

concerned that the FKTU's weakening influence over labour would lead to the more radical KCTU further increasing its influence over labour, with subsequent repercussions for both the state and business.

This implies that a dissymmetry of political power existed between business and labour at that time. Although labour could act effectively to resist government-imposed wage controls that does not mean that labour had strong political power in the institutional implementation of the entire employment system. Key political rights, such as political activity by unions and third-party intervention, were not granted until a decade later, and labour was not formally and openly consulted on labour policy until then (Haagh & Cook 2005: 189). The rivalry and antagonism that existed between the KCTU and the FKTU was one of the reasons that labour failed to establish itself as a significant actor in the political arena.

To labour, therefore, the state's mediation was necessary because labour was not able to mobilise political resources due to segmented unions or to obtain support from major political parties, while business utilised the political superiority that had been embedded in the state-business relationship through the past developmental era.

Finally, in 1995, the Wage Consultation broke down due to KEF's refusal to accept the formation of the Korean Confederation of Trade Unions (KCTU) (Ministry of Labour 1996: 57-58). In 1996, annual wage increases (5.1-8.1%) were set by the government because the labour-business consultation on wage bargaining failed to agree on a standing rate. By that time, the labour-business consultation process was beginning to show severe signs of strain, despite the government's efforts to restore faith in the process through initiatives, such as the 'Labour-Business-Government Indaba' (23 March 1995; 20 July 1995; 24 April 1996). Moreover, the likelihood of achieving consensus between labour and business was diminished by the on-going conflict that existed between the two national unions (FKTU and KCTU) and the struggles in the motor industry, the metal industry and the public sector (Ministry of Labour 1997a: 41).

The government finally gave up the idea of a standing rate for wage increases in 1997. According to the Ministry of Labour (2006a: 134), the government recognised that its policy of inducing wage stabilisation through the labour-business consultation process and its announcement of a standing rate was ineffective in bridging the wage gap and

reforming the wage system. Moreover, although it had partly contributed to ensuring wage stabilisation, wages had been tending towards stabilisation since 1990 (there was 11.9% real wage growth in 1997).

To summarise, the FKTU-KEF Wage Consultation processes of 1993 and 1994 provided important lessons for labour, business and the state regarding further developments in social consensus approaches to labour relations. Nevertheless, as an exercise in producing a consensus on labour relations, those wage consultation processes must be viewed as a failure. In particular, the 'social consensus' reached by the FKTU-KEF consultations refers not to a consensus approach to labour relations *per se*, but to the strategic (or ideological) means by which the state and business attempted to restrict wage increases and the means by which labour attempted to gain wage increases. Another problem for this wage consultation process was that it excluded the democratic labour blocs; consequently, the consultations lacked legitimacy and reinforced factionalism within the labour movement.

5.1.2 The Labour Relations Reforming Commission (LRRC)

In this changing situation, the government reinvented itself as a mediator in the employment system. In April 1996, Kim Young-sam announced the 'Idea for New Labour Relations' (*Hankook Business Newspaper* 25 April 1996), which was to be accompanied by a reform-minded set of new institutions, a new approach to the employment system and the formation of a presidential committee for labour policy. However, despite the official rhetoric from the Kim Young-sam government, there was no political consensus on the specific direction that these labour practices should take. Even within the ruling party, criticism of the 'Idea for New Labour Relations' was prevalent, with critics dismissing it as little more than idealism and bearing no relation to the realities of labour practice. For instance, while critics regarded the lifting of the bans on third-party intervention, multiple unions and political activity by unions (the three prohibitions) as unacceptable, they viewed the implementation of flexible working hours and the temporary employment agency system as positive measures for enhancing industries' competitiveness in the international market. In contrast, the leading opposition party approved of the 'Idea for New Labour Relations', but it took a different stance on the issues of dismissal, temporary

employment agencies and flexible working hours, and it was opposed to fundamental changes to the existing system (*Maeil Business Newspaper* 4 May 1996).

With this fragmented situation existing in the main political arena, and even within the state entities (the Blue House, government and ruling party), the government sought new ways to press forward with the implementation of institutional reforms, such as amending the labour laws. To accomplish this, the Labour Relations Reforming Commission was launched after the announcement of the government's declaration of the 'Idea for New Labour Relations'.

Origin of the LRRC

From the 'Idea for New Labour Relations', and its fifth principle in particular, it is clear that the Kim government recognised that institutional reform of the labour laws was inevitable. Thus, the Labour Relations Reforming Commission (LRRC) was established on 9 May 1996 with the purpose of conducting a discourse on how to amend the labour laws.

The process that led to the amendment of Korea's labour laws should not be seen simply as a state-led affair; rather it was a complex process that included dialogue among business, labour and the state about the Korean employment system and international pressure to reform labour relations in Korea (*Hankyoreh* 2 April 1996). For instance, the prime movers within the government, Park Se-il (a senior presidential secretary) and Jin Nyum (head of the Ministry of Labour) brought up the issue of labour law amendment as a way of improving standards of living and as a response to globalisation. In particular, they emphasised the importance of labour law reform in order to meet the conditions for admittance to international organisations, pointing to the ILO's pressure for labour practice reform and the conditions for joining the OECD (*Maeil Business Newspaper* 16 April 1996).⁶¹ From interviews with officials from the Ministry of Labour, it becomes clear that the LRRC was founded as a means of convincing the OECD that Korea was taking the

⁶¹ Within the academic literature, there is little discussion about why Kim Young-sam so strongly wished to join the OECD, although a commonly held view is that he wished to make a notable achievement during his reign and that joining the OECD would accomplish that; thus, making Korea one of the advanced countries would reflect positively on his leadership. Most researchers agree that Korea's entry into the OECD was premature, given the country's economic and social conditions at that time, and that this led to Korea being stricken by the Asian financial crisis one year later.

necessary steps to meet the OECD's conditions for admittance, rather than for building a social consensus system.⁶²

The LRRC was established for the purpose of convincing the OECD to grant membership to Korea. At the time, I was participating in OECD meetings and attempting to persuade the representatives from other countries to approve Korea's admission to the OECD. Before my meeting, there had been discussion within the OECD for many years about Korea joining, but Korean representatives had failed to prove that Korea met the institutional standards for OECD membership. Discussion on Korean membership had, thus, been at an impasse for years. When I first attended OECD meetings and met other representatives, they informed me that they felt that previous Korean representatives had lied and that they could not believe the Korean government's promises. I, therefore, contacted the Korean government and requested that they do something to make the representatives of other OECD members believe that Korea was intent upon making the reforms necessary for membership. I received a fax from the Korean government informing me that the LRRC had been established to amend Korea's labour laws so as to improve labour standards in Korea. The OECD representatives were disbelieving at first, questioning whether it was 'another lie'. This is the behind-the-scenes story of Korea's entry to the OECD and the establishment of the LRRC, a story not reported by the mass media and one that nobody in Korea knows (interviewee P6).⁶³

The concerns of and conflicts within the LRRC

The LRRC's primary concerns were the gaining of approval for multiple unions within the same company and the establishment of multiple trade unions at the national level, aims that had received considerable attention from business and labour from an early stage. In regard to the first objective, establishing multiple unions within the same company, the aim

⁶² A long-serving government officer of the Ministry of Labour, who participated in the LMGTC, and who played a key role in establishing and developing the Employment Insurance system.

⁶³ The claim that the origin of the LRRC lay in to the president's desire to join the OECD is founded on the accounts given by various participants in this research, including government officials, business leaders, labour leaders and researchers from various disciplines. Among them, one interviewee who worked for the LMGTC and other governmental organisations argues that the early joining of OECD (in 1996) is the reason for all other affairs, such as:

Korea's entry to the OECD was a direct result of President Kim's will and the conditions required for Korean membership, which were the reform of labour relations and the opening of the financial market. These two reforms were poorly implemented by the government, and as a result, we were hit by the financial crisis a year later. As we (the government) had dissolved the entire monitoring system for financial flows, no one knew the extent to which Korea would become infected by the South Asian financial crisis in early 1997. Before that, we had thorough control over the foreign exchange market. In short, I believe that joining the OECD was the immediate cause of Korea's financial crisis 1997. The dismantlement of the centrally controlled financial system began at that time (interviewee P3).

was to permit democratic unions (or branches of the KCTU) to be established in individual workplaces, even if a union was already in place, without any legal permission. The second aim referred to establishing multiple top-level trade unions at the national level, which meant that the KCTU would be officially recognised as a union and could take its place alongside the FKTU as a national-level union. To the KCTU, therefore, the second objective was much more urgent.

Business organisations declared that managerial innovation and discussion would be necessary if labour relations were to escape from the traditional logic of labour repression and move towards a more co-operative labour-business relationship. While the FKTU made no official announcement about how it viewed the stance held by business organisations, the KCTU expressed its concern that, since it had not been invited to join the LRRC in its early stages, meaningful discussion on changing labour relations would not be possible without its involvement. Here, the Blue House demonstrated its strong commitment to changing the pattern of Korean labour relations. ParkSe-il, the senior presidential secretary for social welfare, announced the LRRC would discuss both lifting of the bans on multiple unions, third-party intervention and political activity by unions, and bringing the rights of unions into line with those in advanced countries (*Maeil Business Newspaper* 25 April 1996).

During the process of gathering opinions within the LRRC system, persistent conflicts existed both between and within the business sector, the labour movement and government. These conflicts occurred even within the Blue House. For instance, Park Se-il argued that multiple national-level trade unions should be allowed and that the KCTU should be officially recognised. In doing so, he maintained that arguments by pro-economic growth theorists were contrary to the real labour practices at that time and he noted Kim Youngsam's desire for greater negotiation between labour and business. On the other, Lee Sukchae, a senior presidential secretary for economics, insisted that multiple unions within the same company and multiple national-level trade unions would be detrimental to the economy. He argued that a layoff system, a temporary employment agency system, a flexible working-hours system, a 'no-work-no-pay' discipline, a ban on the payment of union officials by companies, worker replacement and restrictions on the types of workplaces in which labour disputes could take place should be swiftly implemented in order to improve Korea's economic competitiveness (*Hankyoreh* 4 November 1996).

Furthermore, there were clear differences of opinion within the business sector and the labour movement. The KEF considered the legalisation of multiple unions within the same company acceptable if the payment of union officials was not the responsibility of the company, whereas the FKI clung to its position of opposing multiple (trade) unions and third-party intervention. This is because that most of KEF membership companies had already strong and large-size unions within their workplaces, which were under control of the KCTU, so that, to employers of KEF, the legalisation of the multiple unions within the same company could serve to weaken the power of sole union in their workplace, by allowing other unions forming within the same company but no financial supports to them. For the FKI, which were directly influenced by the *chaebols*, however, the *status quo* is the best policy option. In regard to disputes within the labour movement, while the KCTU accepted the employers' demand for labour market flexibility, via the introduction of a flexible working-hours system in return for the recognition of multiple national-level trade unions, the FKTU refused to accept any institutional reform aimed at changing recent labour-business relations because it was the only legal trade union (*Hankook Business Newspaper* 6 Nov. 1996). However, according to an interview with an FKTU executive officer, the FKTU's position was complicated by intra-union conflict as factions emerged within the FKTU on the issue of whether the union should support the moves to permit multiple national-level trade unions (interviewee P9⁶⁴).

From among the various stances of these actors, it is possible to map out two policy preference networks: the first preference was for a more liberal bloc comprised of the KCTU, the KEF and Park Se-il, which held a shared view on the acceptance of multiple (national-level trade) unions and which argued for more labour-inclusive reforms; the second preference was for a more conservative bloc, which wanted to keep the *status quo* and which prioritised more flexible labour market reforms. That bloc included the FKTU, the FKI and Lee Suk-chaе. Although these two policy preference blocs did not officially align themselves, as such, during negotiations within the LRRC, it is clear that struggles occurred within the Blue House (between the two presidential secretaries), between the FKTU and the KCTU, and between the FKI and the KEF.

⁶⁴ An executive member of the FKTU who participated in the LRRC and LMGTC and who worked for the Blue House as a presidential aide in the Roh Moo-hyun government.

5.2 1996 labour laws and its re-amendment in 1997

Although the LRRC reached an agreement, albeit a partial agreement, on the amendments to the labour laws, the political circles did not all look favourably upon the content of the agreement. Furthermore, labour and business representatives made it clear that they opposed submitting the bill to the National Assembly for one reason or another (*Maeil Business Newspaper* 16 November 1996). However, the government pushed forward with the LRRC's recommendations and announced its proposals for amendments to the labour laws on 3 December 1996 (see Table 5.1).

Table 5.1: The Actions of the Labour Relations Reforming Commission (LRRC)

Date	Activity
24 April	Kim Young-sam announces the 'Idea of New Labour Relations'
14 May	Opening of an exclusive window for amendment of the labour laws'
15	Three subcommittees established in the LRRC
18 May - 11 June	Plenary session (2nd - 5th)
27 May - 5 June	Public hearings in Seoul, Gwangju, and Busan
14-20 June	Workshop (1st-4th)
15 July	Interim report to the Blue House*
16-31	Open forum on amendment of the labour laws
6 Aug	General discussion on amendment of the labour laws
13	6th Plenary session and formation of the special subcommittee
19 Sep	7th Plenary session and the special subcommittee's draft proposal
1 Oct	KCTU's declaration of non-cooperation with the LRRC
25	First draft agreement of the LRRC passed
7 Nov	14th Plenary session and confirmation of the outline of the amendments
10	Government-ruling party session sets the deadline for amendment for the end of the year
23	Meeting of Vice-Ministers of affiliated government departments Prime Minister reports government's proposal of amendment to President Kim
29	
3 Dec	Government's proposal confirmed
26	Passed in the National Assembly

Source: *Kyunghyang Shinmun* 4 December 1996; *Maeil Business Newspaper* 27 December 1996

On the one hand, the core points of this proposal were the lifting of the bans on third-party intervention, multiple union representation within the same company and political activity by unions (three prohibitions, *samkeum*); on the other hand, they also included the introduction of a new dismissal system for employees based on 'urgent business reasons' (which made firing employees easier), a flexible working-hours system and restrictions on

the temporary employment agency system (three systems, *samje*) (Labour Relations Reform Commission 1998: 267-269).⁶⁵

Interestingly, the fundamental proposals contained in the February 1998 Labour-Management-Government Tripartite Commission agreement are strikingly similar to the previous government's 1996 proposal for amendment of the labour laws.⁶⁶ Indeed, the principle of social consensus that underpinned the agreement had already been established two years before with the founding of the LRRC and, in fact, it had its origins in the postponed attempt to amend Korean labour law that had occurred a decade earlier (the 1988 amendment of the labour laws and Roh's veto).⁶⁷ What, then, led to the effort to revive this principle? The answer lies in the difficulties that were encountered in developing a new approach to the employment system due to the political dynamics that occurred among the actors: labour, business, the ruling party, the opposition and the Blue House.

5.2.1 The 1996 amendment of the labour laws

The passing of the revised bill

Both the ruling party and the opposition expressed their concerns about the government's proposed amendments and those concerns were shared by both the labour movement and the business sector. Labour made strong protests demanding the rejection of the proposal, while the KEF stated that it would continue to rigidly employ the 'no-work-no-pay' principle and it would take workers to court if they went on strike.

This impasse, which was derived from the labour movement's threats to call a general strike and the opposition parties' rejection of further discussion on the bill, led the government and the ruling party to rush through a revised bill without the opposition's

⁶⁵ The temporary agency system refers to an employment system in which an employment agency farms out its workers to other companies on a temporary basis (dispatched work). These companies have the right to control and monitor agency workers, but the workers' wages are paid by the employment agency. The agency workers' working hours and holiday allowances comply with those of the company to which they are sent. Although this practice is restricted under certain articles of Korean labour law, it is prevalent in the secretarial, driver, cleaning and security businesses.

⁶⁶ See Chapter 6.

⁶⁷ See Section 4.2.1 in Chapter 4.

agreement. At six a.m. on 26 December 1996, the ruling party, *Shin Han Kook Dang* (New Korean Party), opened a plenary session of the National Assembly and presented and passed 11 bills, including the labour law amendment bill, within seven minutes without the presence of any opposition party legislators.

However, the government was forced to withdraw those 1996 amendments due to the general strike that was called immediately after the laws were passed. The KCTU took the lead in that general strike with the wholehearted support of the FKTU. The KCTU, which had expected to be made legal through the 1996 amendments to the labour laws, was shocked and outraged that its legalisation was to be delayed until 2000.

The postponement of official recognition of the KCTU ignited the call for action against the revised labour laws. In addition, the articles in the revised laws making it easier to lay-off frightened office workers, who were facing increasing job insecurity (*Kyunghyang Shinmun* 29 December 1996; *Dong-A Ilbo* 28 December 1996). The KCTU—with 150,000 members in 88 factories owned by major companies (such as Hyundai Motors, Hyundai Heavy Industry and Kia Motors) - called a general strike on 26 December, the first in Korean history. On that same day, the FKTU announced that it would join the strike.

Who pushed forward?

The question remains, why did the revised bill run contrary to the earlier government proposal and the LRRC draft and why did it delay approval of the establishment of multiple unions? Little indication of the reasons for this can be found in the literature and there is little in the way of other documentary evidence. Therefore, this research draws upon the accounts of various interviewees who had direct experience of the events at the time. Their accounts all point to the change being driven by the business sector's lobbying of the Blue House, but there are small differences between their accounts. For example, an FKTU executive asserts that the government's revised bill was the result of FKI's strong influence on bureaucrats, but he equally emphasised the role played by the president.

Park Se-il, senior presidential secretary of social welfare, designed the overall planning of the reforms, but Lee Suk-chae, senior presidential secretary for economic growth, in arguing against the proposal as it stood won the game. Lee's policy preference reflected the views of

the FKI.⁶⁸ Another aspect to consider is the president's role. Without his order, nothing can proceed further. I believe that the case of the revised labour laws bill fits in with Korea's tradition of reform processes (interviewee P9).

Another interviewee who worked for the LRRC and LMGTC supports the above argument.

Yes, the revised bill, which had completely changed from the LRRC's draft, was the result of the *chaebols'* influence—like Samsung, Hyundai [...]—before the bill was submitted to the National Assembly (interviewee P5).

However, a newspaper article at the time expressed doubts that the government had rushed through the process of passing the revised bill without the opposition's agreement due to lobbying by business. That article quoted from an interview with a KEF official who claimed that, except for changes on a few issues, the modified contents of the revised bill could not be understood as a result of lobbying by business interests and that, instead, the 1996 amendment of the labour laws should be seen as the ruling party's political decision (*Maeil Nodong Sinmun* 21 February 1997). In order to examine this claim in more detail, and to double-check the accuracy of the original press article, the researcher sought out this official during the field research for this study. That official's statement is below:

On 25 December 1996, leaders of business and KEF executives visited Kim Dae-jung, the opposition party leader. We asked for his and the opposition party's support for the revised labour law bill, especially on the issue of permitting mass redundancies for improving industrial competitiveness. Well, this is not known to the public, but I believe the time has come to reveal the true story. Indeed, I would like to make this public someday. Kim Dae-jung said that he needed some time to examine this issue more carefully and then he would try to persuade labour. This was Kim Dae-jung's first positive response to business leaders, and we were greatly encouraged by this. However, our visit to Kim Dae-jung was reported in *Dong-A Ilbo* (a national newspaper) on 25 December 1996 with an accompanying photograph. Now, the ruling party ... seemed to consider that now business representatives had contacted and visited the opposition party that we were making a deal with the opposition. But we, the business leaders, saw little point in treating the opposition party any

⁶⁸ Another participant in this research is of the opinion that Kim Hyun-chul, a rising political star and a son of President Kim Young-sam, had a strong friendship with Lee Suk-chae. Thus, Kim Young-sam decided in Lee Suk-chae's favour. However, the researcher is unconvinced by this argument and regards it as little more than a conspiracy theory because Lee Suk-chae was dismissed from office in February 1997 after being held responsible for the 1996 amendment of the labour laws, while Park Se-il continued in office until the end of the Kim Young-sam government. If Kim Young-sam had decided in Lee's favour because he was his son's friend, then why was he immediately discharged after the 1997 re-amendment of labour laws?

differently to the ruling party if the bill were to be passed. We felt that if we met and persuaded the opposition party to agree to the passing of the bill, then this would be helpful to the government anyway. That was our approach. But the government seemed to interpret this more politically. Therefore, the government made a political decision to pass the revised bill as soon as possible within that year, with the aim of blocking further business petitions to the opposition party. They, therefore, rushed the revised bill through the National Assembly without consulting their political opponents (interviewee P1).

In this statement, it should be noted that the interviewee uses the term ‘government’ in reference to the ruling party and the Blue House, which both appeared to be shocked by the fact that business sought to gain political support from the opposition party, especially from Kim Dae-jung, a long-time opposition leader and the strongest candidate for the presidency. In fact, in light of the upcoming presidential election, the opposition party and Kim Dae-jung did not conclusively decide in favour of business or labour, although the official party line appeared to be in favour of accepting multiple unions, third-party intervention and the establishing of public officials (*Kukje Shinmun* 13 November 1996).

Nevertheless, the meeting between business leaders and Kim Dae-jung should be seen as particularly significant because Kim Dae-jung had been isolated from the major business leaders and their financial support during the reign of the authoritarian-military regimes. As this research consistently argues and demonstrates, a strong bond had existed between business and the state throughout the period of developmental-authoritarian regimes, but little contact had occurred between business and opposition parties or liberal blocs. This meeting implies that the dismantling of the mutual connection between business and the old-state (or authoritarian-conservative blocs) had begun. To put it differently, the businesses and *chaebols*, which had been privileged with selective industrial policy under the developmental context, felt the need to create a close relationship with the opposition parties or liberal blocs (e.g. Kim Dae-jung) because they recognised that these liberal blocs could seize power in the next presidential election. As competitive electoral and pluralistic-interest politics became the only game in town (Chang & Evans 2005: 109-120), the practice in which business gave (political and financial) support to authoritarian-conservative blocs started to break down, and business sought a way to survive in shifting political conditions.

The general strike and the re-amendment of labour laws

After the passing of the revised bill, the opposition parties, *Kuk Min Hoe Ui* (the National Conference for New Politics)⁶⁹ and *Ja Min Ryun* (the United Liberal Democrats),⁷⁰ called for the annulment of the 1996 legislation and filed a complaint with the Constitutional Court (*Kyunghyang Shinmun* 27 December 1996; *Hankyoreh* 17 January 1997).

The general strike grew at the beginning of 1997 as students, intellectuals and civil rights organisations joined the protests after Kim Young-sam's start-of-the-year press conference⁷¹ (*Kyunghyang Shinmun* 8 January 1997; *Dong-A Ilbo* 14 January 1997). The number of participants in the general strike reached almost 400,000 per day. Finally, Kim invited KCTU union leaders to dinner at the Blue House to canvass their opinions, but this in fact signalled informal presidential approval for the existence of the KCTU. In turn, Kim met with the leaders of the opposition parties and, finally, the ruling party and the two opposition parties reached agreement on the re-amendments of the 1996 labour laws and passed the revised laws in the National Assembly on 10 March.

Thus, the period of labour relations reform that had begun with Kim's 'Idea for New Labour Relations' on 24 April 1996 came to an end with the agreement between the ruling and the opposition parties and the passing of the revised laws. This period was marked by the failure of business and labour to reach an agreement through the LRRC, the rushing

⁶⁹ Kim Dae-jung (who was president from 1998 to 2003) established *Sae Jung Chi Kuk Min Hoe Ui* (or *Kuk Min Hoe Ui*) with former members of *Pyunghwa Minju Dang* (the Peaceful Democratic Party) and dissidents (*chaeya*) who had supported him during the 1987 presidential election. With the formation of this political party, Kim re-entered the political arena after having announced his retirement from politics immediately after his failure in the 1992 presidential election, and the party became the main opposition party in the National Assembly. In 2000, this party was renamed *Sae Chun Nyun Minju Dang* (or *Min Ju Dang*, the New Millennium Democrat Party), and its leader, Kim Dae-jung, was elected president in 1997.

⁷⁰ At the end of 1994, democrats within the *Minju Jayu Dang* (or *Min Ja Dang*, the Democratic Liberal Party), the ruling party from 1990 to 1998, pressed for the retirement of Kim Jong-pil (a party leader and former member of the political elite during the Park era). Kim Jong-pil then left the party along with republicans from *Min Ja Dang* and formed the *Ja Min Ryun*. In the 1997 presidential election campaign, *Ja Min Ryun* and *Kuk Min Hoe Ui* forged a single candidacy agreement (also known as the DJP single candidacy), with Kim Dae-jung as the presidential candidate. After winning the presidential election, they formed a coalition government. In the 2000 general election, however, the *Ja Min Ryun* failed to win more than 20 seats in the National Assembly, the figure required to form a parliamentary negotiation body, and Kim Jong-pil announced his retirement in 2004. In 2006, this party was integrated into the *Han Na Ra Dang* (Grand National Party).

⁷¹ Kim's press conference was highly anticipated by the people since Korean society was confronting numerous issues at that time, including the shock of the 1996 labour laws amendment and the general strike. However, the press conference did little to address the people's concerns, and they rejected Kim's declaration as perfidious (*Maeil Business Newspaper* 8 January 1997; *Dong-A Ilbo* 8 January 1997).

through of a revised bill without the presence of opposition party legislators in the National Assembly, a general strike and popular protest, the withdrawal of the 1996 labour laws and, ultimately, the agreement between the ruling and the opposition parties on the re-legislation of Korea's labour laws. Three groups of actors within the labour-business-state network (the KCTU and the FKTU, the FKI and KEF, and the president and the ruling party) and the leaders of the opposition party and the civil groups either clashed with one another, contested one another's positions or combined their efforts, depending on their respective interests in regard to the amendment of the labour laws. The 1997 amendment of the labour laws, therefore, should be understood as a consequence the struggles and negotiations between the various actors.

5.2.2 Implication of 1997 re-amendment of the labour laws

At the heart of these labour law amendments, which introduced considerable changes to Korea's employment system, were provisions for mass redundancies, flexible working hours, the hiring of replacement workers during strikes, the prohibition of remuneration of full-time union officials by employers, and the lifting of bans on multiple unions, political activities by unions and third-party intervention (see Appendix 1). The ruling party went beyond the proposals contained in the government's revised bill and passed a clause that would permit the establishment of multiple enterprise unions in the workplace after five years (beginning in 2002) and clearly defined the cases that could be considered 'urgent managerial reasons' for dismissing workers, such as persistent managerial problems, restructuring to improve productivity, technological innovation or changing the type of enterprise.

From the fundamental change in the 1997 labour laws, it can be seen that the main changes to the employment system resulted in two institutional outcomes: while increased freedoms and a number of advances were secured for the labour movement and workers, labour's position, and particularly its right to industrial action, was weakened.

The withdrawal of the three prohibitions (*samkeum*) strengthened the union movement and labour's collective rights. However, labour was weakened by the prohibition of remuneration of full-time union officials by employers, the formalisation of the 'no-work-

no-pay' doctrine, the permission to hire replacement workers during labour disputes, and the new restrictions on labour disputes. To put it more concretely, while the right to engage in union activity was extended, the right to strike was curtailed by prohibiting disputes other than those that stemmed solely from purely economic motivations. Thus, although it became easier to organise union activity beyond the enterprise level, taking industrial action became more difficult.

After multiple unions were permitted, the rivalry between the two legal national unions increased. The legalisation of the KCTU was a double-edged sword; the legitimacy that the KCTU had gained as a result of the 1987 Great Workers' Struggle meant that it could take the initiative and launch a new phase of labour relations in Korea, but simultaneously, the Korean labour movement entered a period of division as labour split into two or more competing factions.

Ultimately, Labour market flexibility was reinforced by mass redundancies, implementation of a flexible working-hours system and a temporary employment agency system, which increased employment flexibility and the flexible use of the labour force, respectively. This change was driven by business, which had been seeking to end employment rigidity ever since the previous developmental era. The mass redundancies, justified as necessary to improve market competitiveness and to reform Korea's industrial structure, were the stepping stones to replacing the 'job for life' (life-time employment) and seniority-based wage system with a performance-based wage system. Finally, both the mass redundancies and the flexible working hours contributed to increasing the flexibility of the labour market and job insecurity.

The most significant feature of labour market reform lies in allowing employers to use temporary employment agencies and part-time workers, and the state responded to those demands by offering institutional support. For instance, the Ministry of Labour drew up a policy on part-time labour and introduced its 'Guidance on Part-time Workers' Protection', which stipulated that part-time workers (those working no more than 30.8 hours per week) must receive severance pay and the minimum wage, but this freed employers from the responsibility of providing paid holidays, monthly holidays or annual holidays (*Maeil Business Newspaper* 10 January 1992).

However, the effect of the 1997 labour laws on Korean employment system could not be activated in reality, because the Asian financial crisis hit the Korean society at the end of that year and the new 1998 labour laws were implemented in early 1998 (see the following chapters).

5.3 Dismantling the old-employment system

Under the Kim government, both the business sector's pressure to reinvigorate the economy and reinforce competitiveness and labour's demands to enhance basic labour rights to conform to OECD standards had spurred the state to amend the labour laws. The state's autonomy, however, was not sufficiently strong for it to be able to implement the terms of the revised labour laws due to the increased strength of the labour movement since 1987 and business' influence on both labour and politics. In recognition of its reduced autonomy, the series of meetings by the 'Labour-Business-Government Indaba' from 1993 (*Dong-A Ilbo* 28 October 1993), which led to 'the FKTU-KEF Wage Consultation' and the establishment of 'the Labour Relations Reform Commission' in 1996, represented the state's attempt to develop an alternative strategy towards institutional reform. Furthermore, the experience of the failures to reach agreement on the revision of the labour laws in late 1996 compounded the state's recognition that the established unilateral decision-making process on labour policy was no longer tenable (Jang 2010: 218). Reflecting the changing nature of power relations between the state and labour, the ban on the political activities of labour unions was lifted in 1996.

The following section examines the changing mode of the Korean developmental state and its impact on the institutional change in the employment system.

5.3.1 The retreat of the developmental state

The state's insulation from social interests is identified as one of the key features of the developmental state. However, social movements in Korea had matured since the 1960s, albeit slowly and on a limited scale at first. The movement in the 1970s to establish democratic unions broadened the range of social movements to include workers, and that

movement gradually gained ground in spite of the labour suppression strategy of the state and business. The 1987 June Uprising of university students and dissidents (*chaeya*) was the stepping-stone to the Great Workers' Struggle. These events are widely recognised as the impetus behind Korea's democratisation and provided both the intelligentsia and workers with the opportunity to express their political demands for participation in the redistribution of economic wealth. From 1987, the democratic labour movement began to exercise increasing leverage over labour unions, with the result that workers secured rapid and considerable increases in wages. However, these wage gains led to the weakening of Korea's industrial competitiveness in international markets. While the Korean developmental state retained its export-led industrial strategy for economic growth, the wage gains had resulted in the disappearance of Korea's comparative low-wage-advantage. Furthermore, with increased democratic competition and the restraining influence of the business sector and social groups, the state could no longer enjoy the same degree of autonomy that it once had. In early 1997, the general strike and protracted confrontation between the ruling party and opposition parties about the labour reform bill symbolised the Korean developmental state's collapse, or transformation.

However, it is also evident that the state's traditional strategy of repressing labour had not disappeared. Even after the formation of a national-level alliance of unions (the KCTU) in 1995, the state never gave up its labour-exclusion strategy, pushing through revised labour laws without debate at the end of 1996. However, the state's methods for controlling labour had clearly moved on from the past, when the state had intervened directly and aggressively in disputes at individual workplaces, even on internal matters such as wages and workers welfare. By the 1990s, the role of controlling labour had partly passed into the hands of business, which presented itself as an active actor in the control of labour. Nevertheless, due to labour's increased organisational power, neither business nor the state was able to succeed entirely in suppressing labour's demands.

5.3.2 Business' new strategies on unions

The remarkable development of labour power, the increase in real wages and the economic downturn forced businesses to map out a managerial production plan that included

consideration of labour relations. They contrived a variety of strategies for labour control, thus escaping the monolithic strategy of mere suppression of labour that had been utilised in the past, and they designed business rationalisation strategies for raising productivity, mirroring the 'New Management Strategy' discourse of the Kim government. The essence of this discourse was raising efficiency through rationalisation, which involved reorganisation of the entire management and production structures, including rationalisation of production processes and the wage system, labour mobility within companies and changes to corporate culture.

The changes to the wage system were particularly significant. On the one hand, employers endeavoured to increase industrial output in line with wages, recognising that high wages could instil in workers the will to work and could encourage them to increase productivity and improve the quality of goods produced. Since the existing seniority-based wage system was a hindrance to boosting productivity, the new performance-based wage system, which had at its core the notion of increasing wage differentials between workers, aimed to reflect the performance of individual workers and the enterprise itself; therefore, it spurred on a flexible wage system. On the other hand, the performance-based wage system served to strengthened the employers' control over workers through the evaluation system used to test the workers' abilities, skills, and performance, which, although regularly used by employers in the past, now took on a new significance as it increased the power of employers to control increased in the workers' wages.

Furthermore, this wage system served to intensify competition among workers and, thus, weaken their solidarity. Consequently, business unionism and the segmentation of workers in the labour market (inside regular workers and outside atypical workers) was reinforced in accordance with the employers' new management strategy against unions. For instance, business adopted a two-pronged strategy of inclusion of cooperative unions and exclusion of uncooperative unions, spreading its argument about the need for labour to take responsibility and eulogising cooperative labour relations through a workers' education programme and propaganda about the economic crisis. From the accounts of interviewees for this research, this strategy is clear.

The new management strategy, as it was known generally, began in 1993. Consciousness raising education programmes for workers has been prevalent from that year. The governments prior to the Kim Young-sam administration and business were determined that

the unions should perish. But with the Kim Young-sam government coming to power and the new management strategy, business recognised that the unions could not be forced to disappear and so changed its strategies so that unions were controlled within the system. Thus, the KCTU was legalised under the Kim government. The legalisation of democratic unions derived from an idea that democratic union blocs would not disappear, and if they existed, they should be in compliant and corporative relations with the state and business. [...] Thus, the new management strategy arose, and lots of workers and unions were completely fooled by business. For instance, the labour union at the Hyundai Heavy Industry was taken in by this strategy and became a company-dominated union. A candidate who was in league with the employers won the union leadership election with the company directly intervening in the voting. Instances such as these were officially denied, but nine out of ten people know that this was the case. Workers who do the company's bidding dominate the union. Such practices increased dramatically from the time of the Kim Young-sam government (interviewee P4).

The new management strategy employed various kinds of company-sponsored clubs, such as bowling, hiking, etc. as a means of creating new labour relations. Membership in these clubs was granted to management and mid-ranking workers. Management staff then forged relationships with the other club members, the majority of whom were union members or production workers. By establishing a sense of company culture within the clubs, the employers sweetened workers and even their families. In contrast to the past, business had adopted a conciliatory approach to labour relations, but the weeding out of more radical activists still remained. Unlike in the past, business won over workers with financial incentives, and then the unions were corrupted (interviewee P12⁷²).

Through the use of such measures, a new concept of corporate culture, influenced by Japanese management strategy, was used as a device to exert hegemonic control over labour. This had its origin in the idea that a company culture could function as a bond to unite workers through the shared experience of their specific company's organisational characteristics and values, as exemplified by the 'Hope '90s Family Training' of Dae-Woo Shipbuilding and the 'One mind, One Family Campaign' of Hyundai Motors. Both cases show that these programmes had the purpose of establishing cooperative labour relations with the specific goals of 'rebuilding mature values and workers' spirit, sharing awareness about the reality of the company and its prospects, and reinforcing a sense of unity and community spirit' (Park 1992: 313). According to a Korea Labour Institute survey, 90% of

⁷² A former executive member of KCTU.

100 big businesses in Korea ran this sort of company culture campaign and had a unit in charge of it (S-H Kim 1992: 139). In fact, this new conception of corporate culture and the dissemination of company values proved to be robust enough to resolve the long-standing antagonism between workers and business that arose from the great disputes of the late 1980s (Yu 1996: 336).

More importantly, the fact that Korea's labour unions were founded on enterprise unionism was one of the reasons that most Korean workers came to view themselves as employees of a company rather than developing class consciousness as workers. According to T-S Song's (2006) study on the labour relations of this time, one labour movement activist describes the situation as: 'Making workers egoistic and indifferent to colleagues and collective action by courtesy of a monetary lure was the employers' new technique of controlling workers' (32).

Under enterprise unionism, collective bargaining took place within individual workplaces, and the atomised nature of enterprise unionism meant that unions were unable to effectively challenge the employers. Moreover, since most union members associated union campaigns with the issue of wage increases, a long-term plan to oppose the changes to labour conditions was not regarded as a pressing concern. In this context, enterprise unionism was unfavourable to labour and its development as a major political actor, demonstrating that institutional restrictions have an impact on actors and influence or determine their goals, their capacity, their interests and even their behaviour. The article banning third-party intervention coupled with enterprise unionism severely limited the opportunity for joint action by unions and other opponents of government policy, with the result that the power of the labour movement was considerably reduced. More importantly, the Supreme Court's broader interpretation of what constituted managerial prerogative made it far more difficult for unions to deal with the matters of new technologies and (un)employment.

After Kim Young-sam took power in 1993, labour's hardships grew, with the major unions in big businesses operating independently while remaining loosely involved with the declining CNLU. Although these major unions formed a new national body, the National Congress of Union Leaders (NCUL), that organisation had an inherent weakness in that it was run as a consultative body rather than as an institutional organisation. This was due to

the fact that the big business' unions rejected establishing and participating in what would have been an illegal organisation for fear that they would be punished by the state. In fact, it is clear that the characteristics of the big business' unions changed during this period, with more cooperative unions emerging at Hyundai Motors, Dae-Woo Motors and Se-Il Heavy Industry, and many existing unions adopting a more cooperative stance at these and other large enterprises.

5.4 Concluding remarks: Lessons from the pre-1997 era

Did the financial crisis have an effect?

The reason that the 1997 financial crisis has been generally regarded as the primary cause of the changes in the Korean employment system is that it accelerated the state and business' implementation of a new approach to economic growth. That had an impact on the destiny of Korea's unions and labour and the employment system. This study does not deny that the 1997 crisis had a major influence on the employment system in Korea (see the following chapters); indeed, this study recognises the crisis as a trigger for the radical transformation of Korea's employment system. Nevertheless, globalisation had already contributed to various changes in the employment system prior to 1997. For instance, labour flexibility (easier hiring and firing, flexible working hours and the temporary employment agency system), changes to the wage system (the establishment of a performance-based wage system) and the introduction of employment insurance were implemented before the 1997 financial crisis (see Chapter 8). In other words, institutional change in terms of labour and employment policies, which sought to secure economic growth in the face of pressure from the global economy, occurred long before the 1997 crisis. Moreover, such institutional changes were not derive solely from changes to the labour policy; they also occurred as a result of the inter-connection between labour policy, social policy and industrial policy, which was conceptualised earlier in this thesis as institutional complementarity.

Thus, this study's examination of the changes to Korea's employment system in the period of critical juncture (1997-1999) focuses on the dynamics between the political actors dealing with the employment system reforms. As such, this study focuses on who, why and

how these political actors (who assumed that the globalisation effect was inevitable but nothing new) responded to pressure from the international economy, what institutional arrangements arose as a consequence, and the impact that these arrangements had on the Korean employment system. This section not only summarises the previous sections presented in this chapter, it also proposes the key questions for the following chapters.

Institutional changes

This chapter highlights a state practice that came to the fore at the beginning of the Kim Young-sam government: the promotion of autonomous labour relations (i.e. corporatism). This initiative was repeatedly the focus of state propaganda and involved the simultaneous reduction of the state's role in, and the strengthening of business' control over, labour relations. This meant that the state would come to focus much more on establishing, running and administering Korea's institutional (legal and administrative) framework of corporatism and it would break away from the path of direct and physical intervention in labour relations.

For instance, both formal institutions (such as the labour relations acts banning third-party intervention and political activity by unions) and ideological control through the use of political propaganda (such as debates on labour's responsibility for economic growth and on sharing the pain of the economic crisis, and Kim's rhetoric of *Segyewha* (globalisation)) were frequently used to control labour, and even the middle class. Another characteristic of this change was that the state and business selectively adopted a 'carrot-and-stick' strategy towards the labour movement. Unions that operated within the boundaries defined by the state were given the state's support, whereas strong measures, including the use of military force, were taken against unions that challenged those boundaries. While this 'double-sidedness' of labour policy in Korea was nothing new, from the early 1990s the 'carrot' was employed in a way that was similar to the way in which the 'stick' was employed. It can be seen, therefore, that the state's new role of nurturing healthy labour relations worked in conjunction with its traditional role of ensuring labour exclusion. This points to the state's recognition that its earlier monolithic strategy of simply suppressing labour had become inefficient and was no longer effective.

For example, the state's administrative and financial support for the FKTU and the introduction of welfare policies for workers were indicative of the state's efforts to co-opt workers through material inducements, while the administrative and physical repression against outsider unions, such as the CNLU and the National Congress of Union Leaders, and the use of the Emergency Adjustment Act against militant labour movements (such as those that called joint strikes at Hyundai's affiliates in 1993) demonstrated the state's strategy towards labour groups that it considered to be non-cooperative.⁷³ This new 'carrot-and-stick approach' met with conspicuous and consistent success.

To summarise, the change in the state's position with regard to labour relations can be understood as its response to two factors: the deregulation of the labour market and the decline of the traditional developmental state. The changes in labour relations and labour market policies that took place in the early 1990s were primarily driven by business interests, which shared a sense of impending economic crisis with the state, and which aimed to boost economic growth in the face of greater pressures from the international market. Moreover, the decline of the Korean developmental state was the direct result of the state's attempt to overcome the inefficiency of state-led labour control through the use of 'constraints'. Since the selective use of 'inducements' was increasingly seen as the best way to guarantee a labour force that could improve the market competitiveness of individual companies, the state came to recognise that business could deal more effectively with labour issues than it could.

The nature of collective bargaining, the union system and the character of the labour organisation are other important aspects of the institutional arrangement that affected the ability of labour to organise effectively. As seen above, the method of collective bargaining via enterprise unionism severely restricted the capacity of national-level unions to establish national-level agreements. Consequently, the individual enterprise-level unions were, unsurprisingly, unable to thwart the implementation of labour flexibilisation programme, such as those involving mass layoffs, flexible working hours, etc.

How labour defined its interests and which strategy it chose are notable structural factors to consider. For example, many of the important structural features of the labour movement were derived from the divisions between the FKTU and the KCTU, which failed to gain

⁷³ The amount of state support for the FKTU reached USD 6 million in 1993, a 45% increase over the USD 4 million given in 1992 (H.-S. Yu 1996: 332).

sufficient political power to negotiate with the state and business on equal terms and, instead, openly competed against each other. The rivalry between the FKTU and the KCTU served to constrain their own strategic options and led to business gaining the upper hand in labour relations and the employment system—the institutional arrangements that served labour to be segmented into two trade unions and organised regular workers and atypical workers, and by firm-based, militant- business unionism will be presented in detail in Section 7.4 in Chapter 7.

In the following chapters, this study will examine the LMGTC, a tripartite commission established by the state immediately after the 1997 crisis in an attempt to resolve the conflicts between the state, business and labour that arose from the financial crisis and its impact on the change in the Korean developmental state. The nature, function and structural features of the LMGTC are at the centre of the analysis, which will examine the following issues: whether this commission was merely a consultative organisation or a decision-making body with legal powers; whether the agenda of the LMGTC was limited to labour relations and employment or whether it was open to a corporatist agenda, including setting macro-economic policy; and whether the structural framework of the LMGTC allowed labour to reflect its interests adequately. More significantly, the key question is whether the introduction of the institutional measures of the LMGTC could be measured as the institutional opening for re-moulding the post-developmental state model, in which the relationship and interplay between state, business and labour could be newly forged. In order to investigate the character of institutional change, one must examine the theoretical coherence and conceptualisation of path-dependency or gradual (dialectical) change that occurred in the transformation of the Korean developmental state.

Chapter 6

The Emperor's New Clothes: Building a Tripartite System in the Korean Employment System⁷⁴

6.0 Introduction

The demand for greater flexibility in the Korean labour market was not a new phenomenon; in fact, the business community had been calling for such measures since the early 1990s.⁷⁵ Both the business community's interest in labour flexibility and labour's interest in labour practice liberalisation (democratisation) were part of the institutional discourse of the Labour Relations Reforming Commission (LRRC), established in 1996, and the Labour-Management-Government Tripartite Commission (LMGTC), established in 1998. While the business community pressed for the introduction of a new dismissal system (making it easier to fire employees), a flexible working-hours system and a temporary agency system (three systems, *samje*), labour representatives urged the lifting of the bans on third-party intervention in labour disputes, multiple union representation and political activity by unions (three prohibitions, *samkeum*).

The business community's demands for the reform of working practices were clearly incompatible with labour's demands, and the state ultimately employed tripartism to resolve this situation, forming a tripartite committee composed of representatives of the state, business and labour. The formation of this body is a critical event in the history of the Korean employment system because it indicates that the state no longer had the will or the capacity to solely manage the employment system, particularly since the empowerment of labour in the wake of the 1987 Great Workers' Struggle meant that the state could no longer employ the same authoritarian-developmental means of isolating labour from politics and management as it had in the past.

What, then, happened in Korea? Did Korea's new institutional challenge of a tripartite approach to the employment system succeed after the LMGTC was formed in 1998? Employing the critical juncture framework, this chapter assumes that the formation of the

⁷⁴ The title of this chapter is taken from Louise Haagh's article, 'The Emperor's New Clothes: Labor Reform and Social Democratization in Chile' (Haagh 2002b), in which she illustrates the path-dependent process of the Chilean labour market reform and its long-term historical trajectory.

⁷⁵ See Chapters 4 and 5.

LMGTC tripartite system was the seed to producing a new ruling process model in Korea, which combined the effect of diverse political and socio-economic conditions that permitted room for the existing institutions to manoeuvre (e.g. the 1997 financial crisis, labour empowerment after the 1997 general strike and the 1997 presidential election). Thus, this chapter aims to examine whether the Korean authoritarian-developmental state model, which had been sustained by the state-business coalition, gave way entirely to a new institutional approach, the tripartite system, for Korea's employment system. As seen earlier in this thesis, this is because that employment system is designed and shaped by the endemic and distinct role and function of political configuration and its impact on the policy-making process; additionally, the change in the employment system indicates the institutional result of political dynamics (competition, negotiation, compromise) between actors under a particular political configuration, in which each actor has the will to change and reform the institutional arrangements.⁷⁶

6.1 Concepts: incremental change thesis

From the new-institutionalist approach used in this research, it is clear that the *displacement* of an existing institution, the LRRC, by a new institution, the LMGTC, immediately after Kim Dae-jung's presidential election victory in December 1997, so as to mobilise political resources and support for his strong reform plan, marks the beginning of the remoulding of the decision-making process and the development of a new Korean state model. On one hand, one could question whether this institutional transition has remained stable, whether it has been on a self-reinforcing trajectory, or whether it has contributed to dressing up the state in the latest attire (that is to say, the coordinated market economy or liberal market economy), as depicted in the Varieties of Capitalism literature (Hall & Soskice 2001; Hanké, Rhodes & Thatcher 2007). On the other hand one could also question whether the Korean state has continued as a form of developmental state, a post-developmental state, or a hybrid state, as described in the developmental state literature (Amsden 1989; Evans 1995; Haggard 1990; Johnson 1982; Jones & Sakong 1980; Leftwich 1995; Wade 1990; Weiss 1998; Woo-Cumings 1999). What is clear from earlier research conducted in a variety of academic disciplines is that the Korean state introduced

⁷⁶ The institutional impact on the employment system through this new form of policy-making process (i.e. changes of labour market, labour relations and labour protection) will be presented in the following chapters (Chapter 7 and 8).

a new institutional arrangement for its policy decision-making process (especially regarding the amendment of the Korean labour laws) and other processes. Nevertheless, when considered from a longer-term historical viewpoint, it is not clear whether this institutional implementation (the establishment of the LMGTC) was *contingent* and *exogenously* motivated or necessarily *incremental* and *endogenously* motivated at the moment of *critical juncture* (Collier & Collier 1991; Crouch & Farrell 2004; Culpepper 2005; Mahoney 2000; Pierson 2000; and see Section 2.3.2 in Chapter 2). In short, two questions arise from the implementation of the LMGTC, which is regarded as the first comprehensive tripartite system for the employment system in the history of Korea: (1) How did the LMGTC originate, and has it been reinforced or has it decayed? And (2) Depending on the answer to the first question, how can the Korean state be characterised after the 1998 transformation?

The actor-based approach

In investigating institutional change, the aim should be to examine the *content* of institutional change (the actors' various conflicting interests and preferences) rather than merely its *form* (policy outputs), as seen in Chapter 2 (Section 2.3.2). This task requires an exploration of the changing relationship between the institutions and the mediators of social action, such as 'rule-making, rule-taking, and rule-breaking, spelling out what it means to follow a rule or not, and how this reflects on the rule itself' (Streeck 2009: 121). Using this interpretation of the incremental change thesis, this chapter assumes that the actors have the following characteristics: the actors are not passive entities simply influenced by institutional circumstances; the main actors are labour, the state and business; and each of these three actors, while distinct from each other, should not be regarded as a single actor. First, since the actors are not passive, the primary objective of this research is to determine and analyse the actors' political choices. For instance, why did the state establish the LMGTC, and why did business and labour participate in it? Second, although the main actor in the employment system is the labour movement (particularly in regard to labour relations), merely focusing on the labour movement or the unions ignores the interconnection between the state, business and labour. The process that led to the re-amendment of the 1997 Labour Standards Act clearly demonstrates the dynamics of the

interaction between labour, the state and business.⁷⁷ Third, while it is critically important to assume that the three actors are separate, it is equally important to note that each is composed of a number of different elements. For instance, labour consists of the unions (the two national unions, industrial unions, regional unions and enterprise unions), the relationships between union leaders and members, and the relationships between political parties and the ideological figures within labour. Similarly, the state consists of the political elites in the Blue House, the ruling party and opposition parties, the elite bureaucrats (primarily economic technocrats) and other governmental officials. Thus, analysing the inner-dynamics within this aggregation of elements is necessary if the actors, their roles and their strategies are to be examined properly. For example, in the case of labour, the key issues are the relationship between the KCTU and FKTU (whether cooperative, competitive or selectively cooperative) and the extent to which the national unions predominated over the enterprise unions. In the case of the state, different perceptions or institutional aims may have existed between the elite bureaucrats in the central government, the president and the people close to the president. This situation might also be found within business, where different aims and perceptions were likely to arise depending on the industry and the union that operated within that industry.

The following sections examine the changing role and function of the state after the 1997 crisis. Here, the key questions are whether or not the employment system reforms that were made point to the decline or the re-establishment of the Korean developmental state, which type of model of governance was employed to deal with the demands of business and labour (a developmental state model, a post-developmental state or something entirely different) and how and why the political elites and bureaucrats pursued specific policies. To this end, the LMGTC will be used as the organisation through which the state's performance is analysed because it mediated the conflicts between business and labour and implemented the institutional arrangements.

6.2 Displacement of the corporatist approach

The first institutional attempt to bring about labour market flexibility and labour practice liberalisation began with the establishment of the LRRC in early 1996. As explored in the

⁷⁷ See Section 5.2.1 in Chapter 5.

previous chapter, however, this period is marked by the failure of the state's corporatist approach, since at that stage the practice of collective bargaining between business and labour was embryonic. As Haggard and Kaufman (1994: 5-16) argue, the lack of an institutionalised consultation process among social partners led to conflict among the partners.

What, then, does the introduction of an institutional measure for resolving the economic crisis and boosting economic growth in the face of increasing pressures from the international market tell us about the developmental state's transformation into *a different state model*? As set out below, this research contends that the creation of the LMGTC (and its replacement of the LRRC) was driven by the complex situation resulting from the challenging circumstances brought about by the economic crisis, the election of a new political leadership that was under intense IMF pressure, but which also had its support, and the interaction that occurred between social partners (business and labour) during the economic crisis (but, the preferences and practices of the social partners had been moulded and represented through the past institutional experiences (e.g. the LRRC)). Therefore, this section aims to investigate the factors of the institutional change policy-making process that had an impact on the employment system (the tripartite system), by examining the combined effect of the exogenous and endogenous elements of institutional change. This provides an implication for the transition of the employment system in line with the Korean developmental state's transformation.

6.2.1 The path-breaking shock of the 1997 Asian financial crisis

The establishment of the LMGTC in January 1998 and the compact it reached one month later were significant because they marked the first time in Korean history that any form of social consensus had been reached and this led to policy-makers revising Korea's labour laws and expanding its policy on workers' protection. The social compact that the LMGTC unveiled in February 1998 contained 98 measures, including a revision of the Labour Standards Act. It also recommended that the government introduce and expand social policy programmes that would protect the livelihoods of those expected to lose their jobs. What, then, brought about the establishment of the LMGTC, the agreement that was forged

between the social partners of the LMGTC, and the institutional transformation of Korea's employment system that followed from this consensus?

It is generally accepted that the core issues for the LMGTC, such as greater labour market flexibility, privatisation of public firms, the opening up of Korea's financial market to the international market and the restructuring of corporate governance, were reforms that the IMF demanded as part of its financial rescue package in the wake of the 1997 economic crisis. Furthermore, the fact that the LMGTC's discussions on issues, such as revision of the Act on the Protection, Etc. of Temporary Agency Workers (2001-2004), the reduction of working hours (1999-2004) and the introduction of a retirement pension system (March-December 2004) stalled after Korea's economy began to stabilise, appears to support the argument that it was the 1997 economic crisis that directly brought about wholesale changes to Korea's institutional apparatus and the introduction of a raft of institutional reforms.

Interviews with government officials who participated in the LMGTC confirm that it was the crisis that ultimately brought the social partners to the table (interviewee P5; interviewee P10). A statement by an FKTU executive who participated in the LMGTC negotiations in January 1998 clearly demonstrates the role that the state, under intense pressure from the IMF, played in bringing the various social actors together.

There was lots of pressure from the Kim Dae-jung government, even though we still had enough time to negotiate with the organised business group and government officials. We were told that government officials, who were lobbying in New York, were pressing us to reach an agreement, stressing that if we failed to negotiate or reach an agreement, the IMF would not provide the loan requested. Even former FKTU members within the ruling party pressurised us to reach an agreement, and due to the lack of information on the negotiations between the government and the IMF, we could not help but believe their claims that the funds would be withheld if we didn't reach an agreement quickly. We were pressed for time so... for instance, when we came to look into the issue of the temporary agency system, we did not have enough time to review this issue properly. No alternatives to the government proposal were presented or discussed, and the KCTU still steadfastly refused to accept the government proposal on the temporary agency system. Lacking the time to review this proposal carefully, we simply passed it in the hope that the government would accept all our demands (interviewee P9).

Some of the bureaucrats who were interviewed supported this economic explanation for the creation of the LMGTC and described the 1997-1999 period as being an ‘economic colonisation’ by the IMF (interviewee P3; interviewee P6). Indeed, according to the Ministry of Labour records (Ministry of Labour 2006c: 68), the IMF demanded greater flexibilisation of Korea’s labour market and the granting of greater powers to employers to dismiss employees. The IMF also evaluated and supervised the Korean government’s crisis management measures, took up residence in a government office building and pushed for the loosening of the regulations governing the dismissal of employees.

However, in its focus on the way in which the LMGTC dealt with the crisis, this account does not provide an adequate explanation for the origins, evolution and structure of the LMGTC. In other words, it provides no real explanation of how the crisis contributed to form the diverse (sometimes contradicting) interests and preferences of the social partners within the LMGTC. Since all institutions inherently contain tensions and pressures among the rule-makers and rule-takers who interpret the institutional form and are willing to change it, the focus of examining the role of crisis in establishing the tripartite system in Korea should lie in investigating the shifting and interacting interests and preferences of the social partners who are under the pressure of international organisations.

In addition, contrary to the argument that globalisation undermines the nation-state’s autonomy and leads to retrenchment of the state (Mishra 1999: 94-100; Ohmae 1995: 59; Strange 1996: 66; Teeple 1995: 55-74; 2000: 188-190), it is noteworthy that the Korean developmental state started to ‘bring the state back in’ to various social institutions (Haagh 2004: 10, 157-169). This occurred because the legacies of the state-led industrialisation in Korea had established a different context for social dialogue than was the case in other countries; these legacies originated from the developmental alliance between the state and *chaebols* and the exclusion of labour (Han *et al.* 2010: 291). For instance, during the period in which the social pact was unveiled through the LMGTC, the state played a critical role in setting up the main agenda and the method used for negotiation between the social partners. As seen in the Netherlands’ experience of the dynamics of corporatist politics, particularly during periods of reform and fiscal austerity (Hemerijck & Vail 2006: 61-88), it is confirmed that the state regains a degree of autonomy vis-à-vis social partners in important policy areas because corporatism (and the tripartite system) is a dynamic and evolving process of dialogue and political exchange between the state and the social

partners rather than a fixed institutional structure producing stable and predictable political patterns and policy trajectories. In this vein, this research emphasises that the Korean state was brought back into the arena of institutional change, at least at first, while it is convincing that the crisis played a triggering role in setting up a new institutional implementation of the tripartite system.

6.2.2 Diverse interests combine for a new institution

In January 1998, one year after the 1997 amendment of Korea's labour laws, the LMGTC was established at the suggestion of President-elect Kim Dae-jung. The election of Kim Dae-jung and the setting up of the LMGTC marked the start of a power transition from the traditional authoritarian-conservative bloc, which had governed Korea since 1948, to a liberal-democratic bloc. As Mahoney and Thelen argue (2010: 16), the actor who introduced the new institution was a political 'loser' under the old system. Even before his inauguration, Kim Dae-jung, who had been an opposition leader since 1961, pushed ahead with plans to establish the LMGTC, which was to replace (rather than supplement or compete with) an older set of institutions: in a narrow sense, the LRRC, and in a broader sense, the labour-excluded authoritarian policy-making process. In fact, President-elect Kim Dae-jung visited the KCTU and the FKTU in an attempt to persuade them to agree to mass layoffs and he also visited the FKI and the KEF to appeal for support for and agreement within the LMGTC (*Kyunghyang Shinmun* 27 December 1997; *Maeil Business Newspaper* 24 December 1997).

It might seem tempting, therefore, to regard Kim Dae-jung as having played a pivotal role in transforming the Korean developmental state into a new mode of governance. However, when Kim Dae-jung's role and performance are compared to those of the presidents of the previous authoritarian governments, it is clear that he did not behave fundamentally differently from any of his predecessors. Certainly, Kim Dae-jung was prepared to intervene aggressively in and exert control over the LMGTC to force its hand. For example, he ordered an extra session of the National Assembly to convene on 4 January 1998 to resolve the LMGTC's disagreements on the issue of layoffs in insolvent financial institutions (Ministry of Labour 2006c: 68).

Another way in which to examine Kim Dae-jung's role is to consider whether his ideological orientation influenced the reform or the content of the LMGTC agreement. That is to say, in the face of the national economic crisis, did Kim Dae-jung's so-called left-centre government steer the direction of institutional change? If this were the case, the ideological foundation for and the direction of Kim Dae-jung's institutional transformation and reform project would have been in line with the political ideas and ideological orientation contained in his book *Mass (-participatory) Economics* (1986). In that work, he set out his political-economic blueprint, which opposed the predominance of *chaebols* over the Korean economy, criticised the neo-liberal economic order and condemned the authoritarian policy-making process. However, in contrast to the arguments contained in that book, the Kim Dae-jung government and his reforms accelerated the adoption of neo-liberal economic policy in Korea, including increased flexibilisation in the labour market, the opening of Korea's financial market, the establishment of a shareholder economy, etc. Therefore, rather than regarding Kim Dae-jung as being the catalyst for institutional change, his role as a long-time opposition party leader against the authoritarian labour-excluded policy-making process and the sense of comradeship that existed between Kim Dae-jung and the labour and liberal blocs should, instead, be regarded as helping to expedite the reform process (the formation of the LMGTC and its initial compact). Indeed, the fieldwork undertaken for this thesis reveals that some of the elite bureaucrats from the Ministry of Labour and the Ministry of Strategy and Finance and government officers from the LMGTC speculate that if Kim Dae-jung had failed to win the presidential election and a candidate from the former ruling party (a conservative, neoliberal-friendly right wing party) had won instead, the direction of the reform would have been the same as that taken by Kim Dae-jung (interviewee P2;⁷⁸ interviewee P3; interviewee P5; interviewee P6; interviewee P13).⁷⁹ To summarise, the argument that the formation of the LMGTC and the agreements that it reached are directly attributable to Kim Dae-jung's political leadership and ideology is not convincing. Certainly, it is not a more convincing argument than one that contends that the formation of the LMGTC, in the face of IMF pressure and influence, marked an attempt to overcome the economic crisis.

⁷⁸ A former researcher from the Korea Labour Institute (KLI) who participated in the LRRC and LMGTC and who worked for the Ministry of Labour as a representative of the public sector and professionals for 30 years.

⁷⁹ The Ministry of Strategy and Finance is a successor of the Economic Planning Board (EPB), which played a critical role as a pilot agency in the period of economic development (1970s-1980s); it was dismantled by the Kim Young-sam government.

A closer examination of the political circumstances surrounding the formation of the LMGTC will serve to make this point clearer. The Korean tripartite system and the establishment of the LMGTC were dissimilar to the Western experience of corporatism, where the social actors consisted of organised labour, organised capital and social democratic governments (Afonso & Papadopoulos 2013; Vatta 1999). While the FKTU was willing to participate in a tripartite body so as to represent the collective interests of labour, its main competitor within the organised labour movement, the KCTU, strongly opposed any labour market flexibilisation measures. Ironically, the KEF, which would derive benefit from labour market flexibilisation, also opposed the Kim Dae-jung government's reforms, as the KEF aimed to implement institutional measures for the structural reform of the *chaebols*. Moreover, the political circumstances prevailing at the time were not entirely friendly to the Kim government. Although he had won the presidential election, the opposition party held the majority of the National Assembly seats. To defuse this potentially difficult political situation, Kim Dae-jung chose to invite all parties—the FKTU and KCTU, the FKI and KEF, and representatives from the government, the ruling party and the opposition party—to join the LMGTC as a presidential advisory body.

The investigation into why business and labour came to accept Kim Dae-jung's proposal should, therefore, focus on each actor's calculation of its interests and the gains that it expected to make from political exchanges within the LMGTC at the critical moment of national crisis. As seen in the previous chapter, the LMGTC was not the first attempt to establish consensus by setting up a corporate body. Consensus had already been attempted with the LRRC, and each of the actors had already made their positions clear on the main issues of greater flexibilisation in the labour market, legalisation of the KCTU and permitting political activities by unions.

Business saw the LMGTC as an opportunity to renegotiate the terms of the 1997 labour laws amendment, which had granted them the power to implement mass layoffs beginning in 1999, and bring forward the mass redundancies permitted by this amendment. In addition, business saw the LMGTC as a chance to repair its damaged reputation with the public—it had received widespread public condemnation for its role in bringing about the financial crisis—by being seen as entering into the negotiations. Thus, business had limited room for manoeuvre at that time and it opted to pursue a conciliatory approach towards

negotiations, especially as it faced the state's plan to reform the *chaebols*. For instance, the KEF adopted a passive stance towards the state's strong drive for reform, including the formation of the LMGTC, especially when compared to the rebellious KCTU. Two KEF representatives that were interviewed (interviewee P1; interviewee P11⁸⁰) supported the view that Kim Dae-jung and his transition team had played the primary role in bringing about KEF's position.

Labour also had little room for manoeuvre as it could do little to prevent employers from gaining the power to implement immediate mass layoffs because the 1997 Labour Standard Act already permitted these to take place beginning in 1999. Therefore, the reason that labour organisations agreed to participate in the LMGTC appears to stem from their assumption that participating would increase their political power against business; they aimed to push for the structural reform of *chaebols* and the dismantling of the existing authoritarian-coercive labour relations through trading an agreement on a more flexible labour market in exchange for democratic (liberal) industrial relations. However, events would conspire to prevent KCTU's participation in the LMGTC. Although the KCTU was generally hostile to state-led reforms, at that time there were three different factions within the organisation. The leadership of the KCTU was held by a moderate faction, the *Jung-ang pa* (central party), which believed that it could successfully negotiate the reform of the *chaebols* and industrial relations through collective bargaining within the LMGTC. The KCTU leaders felt that negotiation within the LMGTC framework provided an excellent opportunity to confront business on these issues, reach a compromise and gain public support. However, their ambitions were frustrated by the state and other factions within the KCTU at the very moment that the KCTU was deciding upon whether to join the LMGTC. A more detailed description of events is provided in the following statement by a former executive member of the KCTU:

In fact, we did not formally agree to the LMGTC's proposals. Our understanding was that the LMGTC was merely a *modus vivendi* and all official decisions on formalising LMGTC agreements were to be put before the board of representatives of the KCTU. However, the state claimed that the KCTU had formally agreed to the LMGTC's proposals because we had agreed to the proposals in principle, and it was made public that we had reached consensus on this issue. Of course, the KCTU leadership's decision to provisionally accept the LMGTC

⁸⁰ A former executive member of the KCTU.

proposals was overturned by the board of representatives. After that, although we had not formally agreed to the LMGTC proposals, they became known as the LMGTC agreements... Meanwhile, within the KCTU, there were strong complaints made to the leadership that they (the leadership from *Jung-ang pa*) had formally accepted the proposed mass layoffs. The logic behind the complaints was that even though mass layoffs were inevitable in two years (under the terms of the 1997 amendment to the labour laws) regardless of the KCTU's actions, the KCTU was abandoning the principles of the labour movement. Yes, the layoffs would be enacted in two years; however, this was driven by the government and the National Assembly and had not been agreed to by the KCTU. The argument was that once the KCTU had agreed to the layoffs, we could not fight the government on this issue any more (interviewee P12).

The interviewee did not reveal whether this was due to a mutual misunderstanding between the state and the KCTU leaders or whether it was the result of the government deliberately misrepresenting the KCTU's intentions; however, the fact that the interviewee shed no light on this issue is irrelevant to the point at hand. Here, the point is that there was a specific set of contingencies present at the beginning of the institutional transformation: at the very moment that agreement on setting up the LMGTC was being sought, the KCTU was led by a moderate faction and the state had super-autonomy in the unexpected political vacuum that existed, due to the presidential transition and the national crisis.

As the incremental change thesis argues, institutional change and policy output are shaped not so much by the way in which a specific society *functions*, but by the combination of contingencies that exist at the critical juncture, which leads to specific institutional arrangements being selected from among other alternatives (Mahoney 2000: 519-520; 527-538). It is also worth noting that a contingency is considered to be precisely that—that is, an unforeseen event—when it lies outside the predictive capacity of a theory. However, when viewed from a long-term perspective, the combination of these minor ‘accidents’ serves to fundamentally change institutions (and their reproduction mechanisms). For example, according to Mahoney and Thelen (2010), Streeck and Thelen (2005) and Thelen (2003; 2004), ‘institutional innovation’ can be undertaken by a political coalition with ‘disparate, even contradictory, concerns’ (Thelen 2004: 33), and although the institution will necessarily reflect its asymmetric power relations because it is designed to represent the interests of the politically strongest bloc, it will nevertheless also reflect the complex and aggregated set of interests derived from existing institutions and the various interpretations and wills of the actors. Applying this thesis to the case of the LMGTC and

the social partners involved in its formation, it is clear that *the coalition of actors had highly diverse reasons for participating in the new institution* (Streeck & Thelen 2005: 26), which included the state's desire to drive the reform process forward so as to receive IMF backing, the desire of business to achieve greater flexibility in the labour market and to mitigate the effect of the government's *chaebol* reform plans, and labour's desire to obtain industrial relations reform and liberal labour practices.

To summarise, while the influence of the 1997 economic crisis is not in doubt, a more plausible explanation for the institutional changes that took place in Korea at that time is that the Kim Dae-jung government pushed forward with reform programmes due to international pressure and an unprecedented political coalition between the majority opposition party and the presidency. In addition, the following factors also contributed to producing a situation in which the establishment of a social consensus and the institution to debate and implement it was likely to occur: the state and labour sharing similar views on social policy and the need to reform corporate governance (especially the *chaebols*) and labour's interest in securing the lifting of the ban on establishing multiple unions, political activity by unions and third-party intervention in labour disputes.

For example, the introduction of Article 31 of the Labour Standards Act in the 1998 amendment of Korea's labour laws, which permitted businesses to carry out mass layoffs, was the result of IMF pressure on the Kim government in return for a three-year stand-by credit of US\$21 billion (Seo & Lee 2001). However, the principle of social consensus that underpinned the Act's introduction had already been established two years previously with the establishment of the LRRC, and the origins of Article 31 lay in the LRRC's unsuccessful attempts to revise the Labour Standards Act in 1996. Indeed, the fundamental proposals contained in the February 1998 LMGTC agreement are strikingly similar to the previous government's 1996 proposal for amendment of the labour laws. Moreover, it can be seen that the 1998 article on collective layoffs did not differ significantly from the 1991 Supreme Court ruling that stipulated that it was reasonable for companies to make redundancies in cases where changes to a company's organisation were necessary to restore competitiveness, restructure the company or introduce the latest technology (Supreme Court, Ruling No.91Da8647), extending the 1989 provision that permitted mass redundancies only in cases where without them the business operation would be

jeopardised (Supreme Court, Ruling No. 87DaKa2132).⁸¹ This 1991 ruling effectively provided legitimacy to companies that wished to restructure their workforces on the basis of a managerial risk assessment. In short, the lesson that emerges from the introduction of Article 31 of the Labour Standards Act (even though it might initially appear to have been the direct result of IMF pressure) is that the institutional transformation of Korea's labour market and labour relations was not a one-sided affair; rather, it resulted from a combination of the shifting role of the state, the conditions imposed by the IMF and the interests of the coalition.

In conclusion, the rapid and sudden breakdown of the institution (LRRC) and its replacement with new organisation (LMGTC) obviously involves the displacement of the institution. While the contingent-exogenous shock of the 1997 financial crisis has been generally regarded as the primary cause of the state's new approach to its policy-making process—that is, its transition into a tripartite system—this could be regarded as an example of critical juncture in that the balance of interests in the decision-making process underwent change. However, it is still doubtful that an exogenous shock is sufficient enough to precipitate institutional change directly. Rather, a more credible view is that an exogenous shock opens the window for an empowered actor or an interest coalition to push for institutional change, which, given the legacy of the developmental state in Korea, was always likely to be led by the state, and it is only when social actors have journeyed through an experimental period in which they try to figure out the implications of alternative institutional arrangements (Culpepper 2005: 182) that institutions break down or are replaced by new ones, even though the actors' expectations may differ widely.

6.3 Institutional transformation: rules, preferences, and conflicts

According to the historical institutionalist approach, the newly created LMGTC should have been subject to the 'lock-in' effects or 'increasing return' properties of institutional change (Krasner 1984; Pierson 2000; Pierson & Skocpol 2002). However, the tripartite system, as expressed through the practice of the LMGTC, can be regarded as having failed, as it had little practical impact on the employment system in Korea after the worst of the

⁸¹ Article 27 of the 1987 Labour Standards Act outlawed the dismissal, layoff, suspension or transfer of a worker or a reduction in his/her wage without justifiable reason. In light of past Supreme Court rulings, the justifiable reason was restricted to instances of acute managerial need, such as bankruptcy, temporary closure or the shutting down of the company.

economic crisis was over. It is certainly the case that after the most severe aspects of the crisis had been overcome in 1999,⁸² the LMGTC, an institutional measure that sought to tackle the economic crisis by resolving labour relations issues and that aimed to help transform the Korean developmental state into another state model, ceased to function as intended and additional institutional rules needed to be added. The evolution of the LMGTC, therefore, appears to be inconsistent with the path-dependency thesis as it relates to a short-term period, which contends that an institution established in response to a set of contingent factors at a historically critical moment will tend towards institutional stability due to the institution's self-reinforcing process of positive feedback until another exogenous shock occurs. Rather, based on the path-dependency thesis, in Korea the traditional roles and relationships between the social actors and the policy-making process have taken a long-term perspective.

Hence, this section focuses on the institutional change of the tripartite system after the unveiling of the 1998 social pact by examining the actors' interests and preferences and the practices they employed to cope with changing circumstances. The following sections discuss how the LMGTC tripartite system developed or decayed with the institutional evolution, and how this involved the diverse interests and preferences of political actors, and the transformation of the developmental state.

6.3.1 Layered, but weakening institutions

In examining the institutional evolution of the LMGTC, it appears that new and supporting rules were layered onto the LMGTC's tripartite system so as to reinforce it and enhance its influence on the policy-making process. After his inauguration as president, Kim Dae-jung issued a presidential decree in March 1998, the Regulation on the Tripartite Commission, which established the LMGTC as a permanent corporatist entity (the second phase of the LMGTC). A little over one year later, in May 1999, the Act on Establishment and Operation of the Tripartite Commission (Legislation No. 5,990) was passed by the National Assembly, granting the LMGTC legal status (the third phase). Finally, the

⁸² The expectation of an early escape from the economic crisis became prevalent among the public and media around the middle of 1999 (*Maeil Business Newspaper*, 1 March 1999), and in 2000 when Stanley Fischer, the First Deputy Managing Director of the IMF, officially announced that Korea had regained control over its economic crisis management from the IMF (*Kyunghyang Shinmun*, 25 August 2000).

LMGTC was renamed the Economic and Social Development commission (ESDC), a change motivated by the amendment of the related Act on Establishment and Operation of the Economic and Social Development Commission in January 2007 (fourth phase). While the purposes and objectives of these institutional amendments did not differ greatly, and certainly did not drive the institution in a fundamentally different direction, the very fact that the amendments were made shows that the LMGTC was being revised in line with the changing circumstances after Korea had begun to recover from the 1997 economic crisis.

As for the actual operation of the LMGTC after its initial accord in February 1998, labour refused to participate in the LMGTC at the beginning of the second phase. Labour demanded in-depth negotiation on the issues of public sector and financial sector structural reform and on the eradication of unfair labour practices. The KCTU in particular played a prominent role in pushing for a general strike and demanded clarification on the pending mass layoffs and temporary employment agency system, employment security and dissolution of the *chaebols*. Thus, in June 1998, the second phase of the LMGTC opened without KCTU's participation. This situation continued until the end of July, when the head of the LMGTC promised that he would more seriously address labour's demands on the issue of structural reform (ESDC 2008: 55). However, the Kim Dae-jung government then made the decision to revert to a more traditional (in terms of the history of Korean developmental state action) unilateral strategy for structural reform of financial institutions and *chaebols* (Choi & Lee 2008: 70-71). As a result, beginning in February 1999, the KCTU again withdrew from the LMGTC. To the KCTU, the structural reform of industrial relations—including the public sector, the financial sector and the *chaebols*—was affected entirely by means of the mass layoffs by employers. The KEF also withdrew from the LMGTC, citing as its reasons its exclusion from the negotiations on the issues of the payment of full-time union officials by employers, the voting system within the LMGTC and the greater institutional formalisation of the LMGTC (*Maeil Business Newspaper* 16 April 1999; *Hankyoreh* 17 April 1999). The third phase was marked by a shift towards normalcy with the return of the FKTU to the LMGTC (but with the KCTU remaining outside it) and the National Assembly's legislation that granted the institution formal legal status. Although the LMGTC (minus the KCTU) reached two major agreements during this phase (July 1999-August 2007)—putting back into place the legalisation of multiple unions within the same enterprise from 2002 to 2007 and delaying the prohibition of the

payment of full-time union officials by employers from 2001 to 2007—the LMGTC did not make any proposals for significant amendment of the existing labour laws or the introduction of new laws. Furthermore, after the inauguration of President Roh Moo-hyun, only one major agreement was reached, the Social Pact for Job Creation in February 2004, despite Roh Moo-hyun's desire to reactivate and boost the effectiveness of the LMGTC. The fourth phase (from August 2007 to the present) began with revamping both the institution's name and the institutional foundation of the LMGTC. To date, however, the ESDC (the LMGTC's successor) has reached no major accord.

If the Korean experience of the LMGTC is compared to the Western experience of corporatism recounted in the literature (Hibbs 1978; Jessop 1979; Korpi & Shalev 1979; Meier 1984), it appears that the stalemate encountered in Korea was a direct result of the underdevelopment of the labour movement and the labour (- centred) party. For instance, Pempel has argued that Korea was expected to follow Japan's characteristic pattern of industrial relations, which he describes as 'corporatism without labour'. He anticipated that South Korea, like Japan, would strengthen cooperation between the government and employers' associations and restrict labour organisations to gains at the firm-level, gains that would be conditional upon productivity increases (Pempel 1999b: 44-46). From this perspective, the tradition of enterprise unionism in Korea, as in Japan, has been regarded as a fundamental institutional obstacle to the development of corporatism (or the tripartite system) because labour has focused on its role as a stakeholder at the individual firm level rather than on participation in national-level policy-making and political mobilisation. Moreover, a recent investigation by Han et al. (2010) into the LMGTC's failure to make any significant progress on labour relations after 1999 has shed light on previously overlooked factors that have contributed to the failure of the tripartite approach in Korea. The authors suggest two reasons for the stalemate: first, the failure to construct a peak union with authority over individual enterprises in the sectoral bargaining unit, which undermined the effort to establish a stable social dialogue framework for discussion on enterprise-level industrial relations; and, second, the union's acceptance of labour market flexibility and pay discipline in exchange for enhanced participation in institutional designs for macroeconomic stability. They conclude that this situation ultimately arose from the embedded influence of state-led economic development (Han *et al.* 2010: 289; 302).

While corporatist arguments provide a functional explanation of institutional change by highlighting the prerequisites for tripartism (a powerful and centralised labour organisation, a social democratic party, etc.) and the key role of the state, they frequently ignore the political dynamics of social partners (especially those of organised business) in terms of their own interpretations of and willingness to change existing institutions and future policy sets. This research addresses this gap by arguing that formal institutional change (the reinforcement or decline of institutions) is caused by the endogenous factors within the institutions—the diverse, and even contradictory, tensions, pressures and interests that exist between rule-makers and rule-takers—with the complementary effect of the exogenous factors that might help to preserve or frustrate the existing institution. These endogenous factors are the actors’ interpretations of (compliance or defiance) and their attitudes towards (willingness to change) the institution. Therefore, the key to understanding the LMGTC institutional innovation lies in examining the differences in the actors’ interpretations (interests and preferences) of and attitudes (practice) towards the existing institution and the changing circumstances in Korea at that time.

Indeed, as seen above, the three LMGTC-related institutional amendments cannot be regarded as meaningful moves since they did not bring about significant institutional change; instead, they may be thought of as adding layers to the institution by the ‘grafting of new elements (more restrictive rules, but not so significant) with an objective preference for continuity or reinforcement’ (Thelen 2004: 35). Therefore, it appears that while the LMGTC remained formally the same, its impact changed as a result of the transformation in external conditions (escape from the crisis phase), to which the social partners responded in such a way that their interpretations and interactions could combine in new ways. This is an institutional *conversion* (Mahoney &Thelen 2010: 21), and the key to analysing the institutional change is found in the gap between the actors who actively exploit the inherent ambiguities of the institution.

6.3.2 Combining preferences between actors

This research does not emphasise the specifics of the negotiated settlements (the social pact or amendment proposals) that the state, business and labour came to within the LMGTC. Rather, since institutional change within the LMGTC is reflected in its changing impact and the modification or redesign of its institutional goals and functions, this research places emphasis on the substantive issues dealt with by the LMGTC and on the way in which the negotiations progressed (or ceased to progress).

From this perspective, it is natural to assume that the agenda of the LMGTC changed in response to changes in the socio-economic environment as the interests of the social partners started to change after Korea began to emerge from the economic crisis in 1999. For the purposes of the analysis, then, the history of the LMGTC can be roughly divided into two periods: during the crisis (the first and second phases) and after the crisis (the third and fourth phases).

Table 6.1: Negotiated issues within the LMGTC by phases

Negotiated issues	1st phase (1998.1 - 1998.2)	2nd phase (1998.6 - 1999.8)	3rd phase (1999.9- 2007.4)	4th phase (2007.4- present)
Structural reform of firms	V			
Privatisation			V	
Valorisation	V			
Employment and unemployment	V		V	
Social protection	V		V	
Workers' protection			V	V
EI	V		V	V
Working hours			V	
Wages and labour relations	V		V	
Multiple unions and paid officials			V	
Basic rights for unions	V	V		
Labour market flexibilisation	V			
Macroeconomic measures	V			
Crisis measures	V	V		
Granting of legal status to the LMGTC		V	V	

*Source: ESDC (2008).

As seen in Table 6.1, there were major macro-level issues under negotiation during the IMF's period of control, such as the structural reform of firms, valorisation, macroeconomic reform, democratisation of labour relations (basic rights for unions) and labour market flexibilisation. After Korea began to recover from the crisis, however,

negotiation switched more to micro-level issues (at least compared to the former period) such as privatisation of the public sector, atypical workers' protection, working hours, and establishing multiple unions within the same company and ending full-time union officials' payment by employers. Most interestingly, no more issues unfavourable to business—such as '(1) enhancing 'transparency' in management of *chaebols* and large-scale individual firms by introducing mandatory consolidated financial statement for *chaebols*, (2) enhancing the financial structure for *chaebols* by banning the cross-debt guarantee between subsidiaries within *chaebols*, (3) strengthening responsibility management and (4) enhancing competitiveness by avoiding competitive investment in overheated industries and concentrating the major industry of each *chaebol*' (Chang & Chae 2004: 433)—were negotiated, and they have not been discussed since. Thus, it is possible to argue that business, after having survived structural reform, low productivity and the public's suspicion about its performance, intended to turn its attack to supporting privatisation of the public sector, and, more importantly, to opposing the plan to reform labour relations, especially the reform that would permit the establishment of multiple unions within the same company, and to pushing for the outlawing of the payment of full-time union officials.

Business

The opportunistic attitude of business towards the LMGTC can be seen in the statement of a former politician and government officer who participated in the LMGTC's second and third phases:

The LMGTC became enervated from 1999, when labour began to front it, the government went on to the defensive, and business tried to tie down negotiations. Whenever labour or civic groups proposed any idea, business attempted to peg it back by opposing it. The issue of the reduction of working hours is a case in point. We had already reached the agreement for that in principle in early 2000, however, we spent almost four years with settling on a draft proposal due to stalemate on specific issues such as the actual hours to be worked and in which way we could reduce working times.⁸³ Throughout this process, business went on the defensive, delayed discussion of the issue (without any proposal), and ultimately tried to retain the 'status quo'. They did not want change. They did not want to show up at the LMGTC and actually wanted the LMGTC to cease to exist (interviewee P10).

⁸³ As seen in Appendix 1, this was legalised in September 2003 with the amendment of the Labour Standard Act.

Even though business privately did not want to attend the LMGTC, which they expected to be broken up, they were not sufficiently strong to stand against Kim Dae-jung and his government for a variety of reasons, most of which were due to the legacy of embedded relations from the developmental state, the new environment of the national crisis and the change in the nature of presidential power. For example, during negotiations in February 1998, the KEF was not concerned about negotiating the introduction of mass layoffs at that time, because the amendment to the 1997 labour laws (see the Appendix 1) permitted the KEF to conduct those layoffs beginning in 1999. In fact, the KEF was concerned that any agreement on mass layoffs under the LMGTC framework could make it more difficult in practice for employers to dismiss workers. According to KEF's evaluation, the existing legislation and previous court decisions provided greater (business-favourable) room to interpret and enforce dismissals in individual firms; ironically, the KEF felt that after the LMGTC struck an agreement on mass layoffs, this led to a more rigid interpretation of the acceptable grounds for mass redundancies. Nevertheless, the KEF had no option but to allow this issue to form part of the LMGTC social pact that was agreed upon in February 1998, partly because the state pushed very strongly for it, but also because labour strongly opposed it. Therefore, the KEF compromised on this issue in an attempt win over the nation and the IMF (interviewee P11; Jun 2007: 40).

In conclusion, the strong veto possibilities that exist, in which actors have access to institutional or extra-institutional means of blocking change, were not available to business and labour during the formation and evolution of the LMGTC. After the 1998 social pact and the conclusion of the structural reform of firms (*chaebols*), business' attitudes towards the LMGTC again became more opportunistic. It did not actively seek to preserve or try to change the LMGTC, because opposing the institutional status quo is costly. Another viewpoint from a long-time government servant and participant in the LRRC and LMGTC is worth noting:

... [after the IMF bail-out] the main concern of business was the labour laws, especially the issues of multiple unions and payment of full-time union officials. Business leaders paid close attention to how the government would act on those issues. It is widely acknowledged that business did not raise any questions on labour-related issues other than these. Thus, any

movement on the issues of multiple unions and full-time union officials has been postponed for 13 years (interviewee P5).⁸⁴

Simply put, business exploited whatever possibilities existed within the prevailing system to achieve its ends, while labour's moves were more complex. However, like business, labour was also a weak veto player in the LMGTC.

Labour

For the KCTU, the critical issues that ultimately compromised the social pact in February 1998 were the frustration of its expectations that it would gain the right to organise the teachers' union and unions above the firm level (which it hoped would lead to legislation on and the fostering of an industrial union system), to establish multiple unions within the same company and to gain legal recognition as a labour organisation (ESDC 2008: 140-143; interviewee P4; interviewee P11). This point is quite controversial in light of the argument that the LMGTC's agreement was an exchange of equivalents—labour market flexibility for workers' security (flexibility-security payoffs)—as in the Western experience. For example, it is an exaggeration to claim that representatives of labour in Korea initially opposed the proposed changes to the labour market and labour relations but eventually consented to flexibilisation in exchange for the protection of core workers (Peng 2012: 233; Chang & Chae 2004: 432). As seen in Table 6.1, a compromise on labour market flexibilisation formed part of the first LMGTC agreement in 1998, and only a few further flexibilisation measures were discussed after that, whereas negotiation on social protection issues continued throughout the third and fourth phases of the LMGTC. Furthermore, with the exception of a consensus during the third phase, discussion of labour relations reform (labour relations democratisation) remained at a standstill during phases one, two and four, which delayed the enactment of rules for permitting the establishment of multiple unions within the same company and outlawing the payment of full-time union officials by employers by five years. According to the government's records (ESDC 2008: 54; 220), in exchange for returning to the LMGTC in its second phase labour's conditions included comprehensive discussion about checking the employers' abuse of mass layoffs, a reduction in working hours, the elimination of unfair labour practices, the granting of legal

⁸⁴ As seen in Appendix 1, this was legalised in January 2010, with the amendment of the Trade Union and Labour Relations Adjustment Act.

status to the LMGTC and, most importantly, the legalisation of collective bargaining at the industrial level and the establishment of a commission on public sector reform.

This implies that the KCTU's overriding concern was the social democratic reform of Korean society (labour relations and industrial relations) and the governing process of the employment system, a concern that was embedded in the role that the union had played in bringing about Korean democratisation, its acute sense of justice and its pride at having been a principal player in the transition to democracy.⁸⁵ This phenomenon is strongly connected to the theoretical argument that legislative reform of the labour code embodies two conflicting demands: the desire to restore a sense of social justice (social democracy in a broad sense and workers protection in a narrow sense) and the affirmation of the process of marketisation, supported by a powerful group (primarily business) (Haagh 2002b: 87). As was found to be the case in the study of labour reform in Chile (Haagh 2002b: 96-97), the development (liberalisation) of labour relations and political democracy were the central issues to both Korean national unions. In particular, the KCTU's support for social democratic measures that enhanced labour's power in labour relations and industrial relations above all other goals was a constant. Even when further labour market flexibilisation issues emerged in the mid-2000s, such as the protection of atypical workers and temporary agency employees, the KCTU was less concerned with these issues than with strengthening the industrial-level collective bargaining and establishing a labour-centred political party. Indeed, this was the KCTU's ultimate aim when it provisionally agreed to participate in the LMGTC in 1998. According to an interview with a member of the Metal Workers Union, a KCTU affiliate, despite the factions that existed within the KCTU, common agreement was reached on participating in the LMGTC and fighting for labour's political empowerment via the mainstream political process (that is, through the LMGTC) (interviewee P22). This implies that labour assumed that the LMGTC provided a stepping stone to building a labour party and making inroads into the National Assembly, thus discarding its previous strategy of concentrating on developing an illegal vanguard movement.

However, KCTU's ambitions were not to be fulfilled. Contrary to its expectations, the political reality was not conducive to its objectives, and its leadership failed to mobilise

⁸⁵ Interviewee P5, a long-serving government officer, emphasised the KCTU's role in contributing to bringing about Korean democracy and the liberalisation of industrial relations during this period and its 'acute sense of justice'.

political support from KCTU members and from the public. After the first LMGTC agreement in February 1998, and before the beginning of the second phase of the LMGTC, the KCTU repeatedly refused to participate in the LMGTC if its demands for renegotiation of the mass layoffs and other labour market flexibilisation measures were not met. Lee Gab-yong, the leader of the KCTU, announced that ‘while the KCTU had participated in the first phase of the LMGTC to resolve the national crisis, the imposition of the mass layoff system and the temporary employment agency system had led to workers suffering excessively’ (*Mail Lodong Shinmun* 23 April 1998) and that the KCTU would not return to the LMGTC unless there was a reconsideration of these policies. Behind this official position, however, there were serious debates within the KCTU on whether or not the KCTU should participate in the LMGTC. Two of the factions within the KCTU, the central party and the national party, argued for participation, while its other faction, the workplace party, opposed participation. Since then, the conflicts and enmity between these factions have continued and have prevented the KCTU from becoming a more politically influential entity. For example, on each of the three occasions that the board of representatives of the KCTU met after the 1998 agreement to discuss a return to the LMGTC, physical confrontations occurred, and the serious violence in 2005 (*Hankyoreh* 3 February 2005) served to further deprive the KCTU of political and public support. Even President Roh Moo-hyun criticised the union’s egoism (*Kyunghyan Shinmun* 26 February 2005).

In short, labour was no more successful than business in effecting formal institutional change in the LMGTC and it was unable to remodel the LMGTC to meet labour-favourable ends. Although labour was successful in negotiating the formal introduction of a five-day working week (a policy officially approved in 2003), it simultaneously conceded greater flexibility over working shift patterns to employers. In addition, decisions on establishing multiple unions within the same company and prohibiting the payment of full-time union officials by employers were twice delayed, first in 2001 and again in 2006. Consequently, labour failed to pave the way for a transition from the firm-based union system to the industrial union system and, thus, labour’s political empowerment. This was mainly due to the combination over time of the characteristics of the decentralised union system, the state-led implementation of institutions and the conflicts within labour.

In sum, labour was insufficiently organised to challenge the LMGTC’s governing process and was incapable of devising and operating its own strategy to utilise the LMGTC for its

ends. However, it would be a mistake to blame labour for losing control over political mobilisation and its role within the LMGTC. Rather, it appears more plausible to conclude that labour had little choice but to concentrate on fighting the institutional arrangements that had been secured by the first LMGTC agreement, which were labour market flexibilisation and employer-favourable labour relations and industrial relations. While it might be tempting to conclude that labour appeared to have been too focused on the social democratic reform of Korean society to challenge the institutional framework of the LMGTC effectively, this line of reasoning ultimately leads to the conclusion that the government had failed to fulfil its primary functions as defined by the developmental state thesis: being at the centre of the governing process, balancing and mediating the various interests of social groups, being insulated from powerful social groups and (re-)arranging selective socio-economic resources for development of the country. As resolution of the conflicting demands of social democratic reform and labour flexibilisation through labour law reform is beyond the remit of labour and instead lies within the developmental state's area of responsibility, it must be concluded that this aspect of developmental state practice had ceased to operate effectively.

6.3.3 An ambiguous, incohesive and less autonomous state

As Mahoney and Thelen demonstrate (2010: 21-22), although government capacity appears to be important in the process of institutional change even when the institution is relatively stable, its impact changes when there is institutional ambiguity and the actors' diverse interpretations and outputs collide and combine, as a lack of veto possibilities can create room for strategic openings both for business and labour.

As outlined earlier in this chapter, the institutional sets for the LMGTC were ambiguous enough to lead to the addition of supplementary rules that aimed at enhancing its performance and granting it legal status. While the LMGTC's role and goals during its first phase were relatively clear—the legalisation of mass layoffs and the KCTU, structural reform of the public sector and *chaebols*, etc.—its second phase roles and goals, which were launched in order to carry through on the 1998 agreement, were more ambiguous. As reported in the media, labour and government held divergent opinions about the LMGTC. A senior researcher in the FKTU described it as 'an organisation for discussing present

issues with the goal of facilitating negotiation and delivering implementation’, whereas an executive of the Ministry of Labour deemed it ‘a consultative body of government’. The politicians within the LMGTC depicted it as ‘an organisation for stabilising the political situation against labour’s strikes’ (*Munhwa Il-bo* 9 September 1998). More importantly, there was lack of coherent understanding and partnership between the Blue House and the government. As seen in the case of the LRRC,⁸⁶ the bloc of Park Se-il (a senior presidential secretary) and Jin Nyum (the head of the Ministry of Labour) had shared policy preferences on the reform issues and worked to drive the business-labour negotiations forward within the LRRC. However, unlike the LRRC, the LMGTC had no (built-in) cohesive force supporting it from within the state, as its first phase had been forced through by Kim Dae-jung’s strong drive and the acute sense of national crisis that existed at that critical moment. Two interesting statements about this situation are given below:

We (government officers chiefly from the Ministry of Labour) viewed it (the LMGTC) as a temporary body because it did not reflect our actual conditions (the conditions underpinning the tripartism and corporatism) and did not have even an official legal basis (interviewee P6).

(After the first agreement in the first phase of the LMGTC,) those who came to head the LMGTC were incompetent and had no influence over the government, politics, or labour relations... Although the LMGTC was a potential resource for the Ministry of Labour, it was not willing to exploit it. The government displayed a lack of understanding about tripartite systems of governance, and needless to say, the role and goals of the LMGTC (interviewee P9).

Thus, the state’s institutional initiative in establishing the LMGTC was replaced by a receptive-passive role. For example, the number of government officers involved in the negotiation of labour issues within the LMGTC gradually decreased (Jun 2007: 41), reflecting the reduction in government influence over and within the LMGTC, over time. Furthermore, after the LMGTC’s agreement in February 1998 had rescued the Korean economy, the government began to retreat from using the LMGTC as an institutional means of governing its policy process, with the consequence that both the role and the impact of the LMGTC declined significantly. In particular, conflicts about the institutional outputs of the LMGTC existed among various governmental bodies. For instance,

⁸⁶ See Chapter 5.

agreement on the formation of a special committee within the LMGTC for negotiating the reduction of working hours was reached in May 2000, and expectations were raised that legislation on this issue would quickly follow. However, the Ministry of Finance and Economy and the Ministry of Commerce, Industry and Energy actively worked to prevent agreement and legislation on this issue (ESDC 2008: 404). Similarly, the Ministry of Justice delayed the introduction of legislation permitting the establishment of super-firm level unions (ESDC 2008: 175). The governmental bodies' intentional neglect of both the LMGTC and its decisions was prevalent throughout all of the LMGTC phases, even when individual issues were negotiated and formalised, such as the expansion of eligibility for employment insurance (ESDC 2008: 396-397; 399; 404; interviewee P5; interviewee P8⁸⁷; interviewee P6).

It might appear that the elite bureaucrats made an active choice on the basis of their preference and that their actions brought about the transition of the Korean developmental state (Chang & Evans 2005: 119). Like the 'Chicago Boys' in Latin America, it is true that most elite bureaucrats in Korea were (and are) educated at universities in the United States and had neo-liberal policy preferences, so it is also reasonable to suspect that their ideological orientation contributed to the change in socio-economic policy sets. However, the role that could be played by (economic) bureaucrats was restricted at the moment of crisis by Kim Dae-jung's strong leadership, the huge public support he experienced (both nationally and internationally) and the fact that the national crisis had no precedents. In fact, the impact of the elite bureaucrats' neo-liberal ideology has been significant only since the late 2000s, and it is influential with the current Lee Myung-bak government, whose policy preferences are clearly business-friendly. Finally, it should be remembered that, here, the relevant issue to the examination of the developmental state is the formal transformation of the state's practice for development, rather than the substance of the policy inputs.

Thus, a more credible explanation for this rupture within the state entities lies in the democratisation of Korean politics. As competitive electoral and pluralistic-interest politics became the only game in town (Chang & Evans 2005: 109-120), the practice of state-led coordination—most significantly, the cohesiveness between the ruling party, the government and the Blue House (*dang-jeong-cheong*)—started breaking down. While the

⁸⁷ An executive official from the Ministry of Labour in charge of employment and unemployment issues.

Kim Dae-jung government had a solid cohesiveness within these state entities, this was mostly due to Kim Dae-jung's charismatic (political) leadership and his ability to garner the respect and support of (and his respect for) the elite bureaucrats (especially the Ministry of Labour) (interviewee P2; interviewee P5; interviewee P6). Moreover, his ability to mobilise political support for reform meant that he received backing from both the ruling party and the opposition party (interviewee P5). By contrast, Roh Moo-hyun, Kim's successor, won the presidential election by a very narrow margin; he received weak political support even from the ruling party and he did not have full confidence in the bureaucracy. Consequently, he had frequent trouble with the elite bureaucrats (interviewee P2; interviewee P6). This especially occurred at the beginning of the Roh Moo-hyun government when his political ideas on labour issues were recognised as being part of a social democratic agenda, and he appointed researchers with a leftist policy orientation or activists from private organisations as the heads of important bureaus (interviewee P5). From then on, elite bureaucrats and government officials became increasingly independent of the Blue House. As a result, the cohesiveness of government, as the most critical property of governmental capacity (not only of the Korea developmental state, but of other developmental states as well), began to be desecrated.

According to Evans (1995: 249), in developmental state theorising, the state's capacity is moulded by key aspects of the network of ties between social groups, classes and state apparatuses. The developmental state maintains a link with the social sector while preserving its autonomy from plural interests, but it simultaneously fosters a collaborative relationship between the state and business. To make this possible, the internal cohesiveness of the state—that is, the extent and strength of the bonds and solidarity among members with shared ideas and values within the organisation (Allison & Zelikow 1999: 153; Oh 1999: 308)—is the most fundamental feature of the state's capacity (Chibber 2002: 961).⁸⁸ By examining the formation of the LMGTC and its operation, however, it can be seen that this requisite characteristic of the developmental state has weakened and, consequently, so has the state's capacity. The institutional ambiguity of the LMGTC points to the fragmentation within the state's understanding of the LMGTC and tripartism, and the disintegration of the strong bonds of cohesiveness within the state entities.

⁸⁸ For more on the developmental state thesis and its application to the Korean developmental state, see Chapter 2.

Moreover, business has begun to penetrate governmental bodies, with the result that the state's autonomy has been undermined. Although it could be argued that there were various reasons for the state's changed role in the employment system and, in terms of the developmental state's transition, this research emphasises the changing relationship between the state and business and, in particular, the breakdown in the delicate balance of power that had existed between them for decades under the developmental-authoritarian regimes. Ironically, it was precisely the economic growth that Korea had experienced under the guidance of the developmental state that led to business accumulating the capital strength to gain control over the policy realm. As seen in the studies on the change of developmental alliance between the state and business after the Kim Young-sam government (Kang 2002; Lee 2000; Moon & Mo 2000; Yang 2006a; and see Chapter 5), business' superiority over the state, which it acquired by accumulating capital strength, turned into the power to lead the reforms of economic and industrial system that enhanced market liberalisation and deregulated the institutional restriction on conglomerates. For instance, institutional measures for reinforcing the labour flexibility and suppressing labour (unions) were implemented by business through the 1990s, and business organisations appeared to play a role in institutional reform (e.g. the 1996 amendment of labour laws).

This pattern of business-friendly reforms of the employment system, with the collusive links between the state and business, has been reinforced through the Roh government. In turn, the cracks in the mutual trust and cohesiveness that had existed between the state entities brought about the collusion of the elite bureaucrats. In contrast to the developmental state thesis, which argues that the bureaucracy is insulated from the private sector power group and from short-term political pressures (Cheng, Haggard & Kang 1998: 87; Evans 1995, 51–53; Ha 2003: 50-51; Kooh 2009: 149; also Johnson 1982: 20; Wade 1990: 225), bureaucrats began to develop personal links with the private sector (interviewee P9). The media called this new phenomenon the 'Republic of Samsung' (*Chosun Il-bo* 2 August 2005; *Hankyoreh* 4 August 2005). Drawing on a report from a civic group (PSPD 2005) and President Roh Moo-hyun's statement that 'power had already transferred to the market, and the fundamental resource for our society's development lies in the market' (*Hankyoreh* 17 May 2005), the argument was that notable Samsung personnel held key posts in the Korean state and that the agenda discussed in the National Assembly was under the control of Samsung, which had effectively seized control

over business, politics, the bureaucracy and much of the media. Simultaneously, elite bureaucrats made efforts to develop a personal network with Samsung to enhance their lives after their retirement (PSPD 2005: 7),⁸⁹ and this trend was reinforced significantly during the Roh Moo-hyun government, a government recognised as leftist (PSPD 2005: 20-21). While Poulantzas' criticism of Miliband's personnel network approach to analysing the capitalist state and its relations with capital might raise questions as to the actual significance of the bureaucrats' politicisation, and their much closer affinity with private sector interests,⁹⁰ it is difficult to completely reject the conclusion that bureaucrats have played a significant role in protecting the *chaebols*' interests (Song 2007: 66), and that this tendency has increased during the present Lee Myung-bak government, which has a business-friendly policy platform.⁹¹ The collusion of the elite bureaucracy and its closer ties with private sector interests has resulted in the dilution of state autonomy.

To sum up this section, the strength of state autonomy declined after the state escaped from the worst of the economic crisis in 2000, due to the segmentation of state entities and to the increasing influence exerted by business in the institutional implementation of the employment system in line with the development of Korean democratisation and the pressing impact of globalisation. While there is little doubt that the traditional configuration of power between the state and business (and labour) broke down, it is not convincing that the traditional developmental state has undergone a wholesale transformation into a pro-business state in which business played a dominant role in institutional implementation. Instead, this study emphasises that the state's role, function and responsibilities has changed in the post-developmental era (after 1998), and this directly affects the character of the employment system (see the following chapters), while

⁸⁹ According to the reports from the civic group and media, it was prevalent that elite-bureaucrats were hired as a board member or high ranking executive of *chaebols* (especially the Samsung group), after their retirement. The *chaebols* were able to mobilise and access the quality information by employing retired elite bureaucrats.

⁹⁰ A feature of the debates between Miliband and Poulantzas in 1969 was Poulantzas' criticism of Miliband. He argued that the character of the capitalist state should (could only) be analysed by examining the state's structure, and not by adopting Miliband's personnel alliance analysis (Miliband 1969; Poulantzas 1969: 73).

⁹¹ It is also important to note (although this research could not definitively prove that this is the case) that there has been a resurgence in the influence of economic bureaucrats under the present government, and particularly of those who were former members of the Economic Planning Board (EPB)—the chief policy agency within the Korean developmental state—and they had lost their positions under Kim Young-sam in 1994. Although Kim Dae-jung separated the EPB into the Ministry of Planning and Budget and the Ministry of Finance and Economy in 1998, so as to rein in the economic bureaucrats' dominance over the entire policy arena, their power, which was embedded during the authoritarian-developmental periods, has continued to the present (interviewee P2).

the state maintained the traditional relationship with business and labour (although its autonomous capacity appeared weakened). Thus, even though the state adopted the new institutional measures of the tripartite system (although many observers have noted that the Korean developmental state escaped from the past experience of governing the employment system), the traditional pattern of state-led policy implementation with a state-business alliance and labour exclusion—that is, the old clothes of the Emperor—still remains.

6.4 Concluding remarks

This chapter has shown that the institutional implementation and evolution of the LMGTC tripartite system, which can be seen as the beginning of the Korean developmental state transition, can be explored by identifying both the combined effect of internal and external factors in the institutional change mechanism and the actors' dynamics that resulted from their diverse interests. Whereas existing literatures conclude that Korea's traditional unilateral policy implementation pattern appears to fracture after the establishment of the LMGTC (Beeson & Robison 2000; HS Lee 1998; Moon & Rhyu 2000; Pirie 2005b; 2008), by closely examining the processes through which the LMGTC was established and operated, what this chapter has demonstrated are the following:

First, it is important to note that the establishment of the LMGTC tripartite system resulted from not only the exogenous shock of the economic crisis, but also from the active choices made by social actors with diverse and sometimes contradictory interests. Second, the impact of the LMGTC changed over time due to the fact that the goals of the actors shifted in response to the changing environment, that is, the changing phases of the national crisis.

Following this understanding of incremental institutional change, the changes in the LMGTC's policy-making process provide the following lessons for understanding the transformation of the Korean developmental state. First, ironically, the state's internal autonomy was initially restored due to IMF support, but this was enjoyed only during the national crisis phase (1998-1999); second, after Korea had escaped the worst of the crisis, business was no longer restricted by the state, its strategy and calculations towards the existing institution (the LMGTC) changed over time, and it began chasing its own policy objective and trying to restore the political power it had previously held over the social

actors; third, the institutional arrangements led to labour losing its political influence over and support from union members and the public; fourth, the state, and bureaucrats in particular, were less insulated from the private sector, especially the business sector; fifth, the shifting goals of business and labour, the state's segmentation and increasing collusion between bureaucrats and business led to the LMGTC becoming increasingly insignificant as an institutional apparatus for negotiating the employment system. This resulted in the social partners—labour and business—returning to their tradition of confrontational relations, a pattern deeply embedded in Korea's traditional system of a government-led strategy for economic and social development.

Nevertheless, while this chapter does not conclude the matter about the form into which the Korean employment system eventually transitioned, it does emphasise the dismantling of the traditional relationship between the state and business and the cohesiveness within the state entities, which affect the change in the ruling process in the employment system. Thus, the following chapters examine the changing feature of the Korean employment system and its impact on the changing role of the developmental state. The policy outputs and policy outcomes from the LMGTC will be examined in terms of the dualisation in the labour market and in labour practice (in Chapter 7) and in terms of the developmental welfare state of the social protection system (in Chapter 8).

Chapter 7

Dualisation in Korean Labour Markets: Connecting Institutions on Labour flexibility

7.0 Introduction

At the heart of the current theoretical innovation within comparative labour market literature lies the analysis of distinct institutional configurations of labour and social policies that generate a particular systemic logic of labour flexibility and inequality in the labour market (Esping-Andersen 2000; Emmenegger *et al.* 2012; Gough, Holland & Teicher 2006; Haagh 2006; Haagh & Cook 2005; Molina & Rhodes 2007; Palier & Thelen 2010; Standing 2011; Streeck & Thelen 2005). While this is associated with the pattern of labour decentralisation since the 1990s,⁹² it is also notable that current labour practice has derived from the emergence of institutional responses to the so-called security-flexibility trade-off, as explored by Haagh and Cook (2005: 172) in the case of Brazil and South Korea. Nevertheless, certain institutional adoption or borrowing practices can result in different outcomes in distinct institutional configurations. For instance, the Nordic countries accepted greater flexibility in the labour market in return for a high level of social protection (Haagh 2004: 154), while Continental Europe and East Asia introduced greater flexibility in the labour market and less protection for workers. The consequence is that there has been a deepening of dualism in the labour market and increases in inequality by employment status and firm size (Barbieri & Scherer 2009; Haagh 2004; Palier & Thelen 2010).

In paying careful attention to the dynamics of institutional adjustment, the discourse on the labour market in the literature is underpinned by the theoretical premise that the institutional nature of the labour market is defined by a range of formal and informal institutions that embody certain rights and obligations (see Section 2.3 in Chapter 2).

In this vein, the institutional reform that took place in Korea after the 1997 Asian financial crisis provides important lessons on how labour market institutions shape—and are shaped

⁹² A pattern of decline in the rates of trade union density has been evinced since 1980. In 1988, trade union density was 18.6% in Korea and 26.19% in OECD countries. In 2010, the corresponding figures were 9.7% in Korea and 17.5% in OECD countries (data extracted from OECD.Stat on 14 Aug 2012 16:03 UTC [GMT]). See Appendix 2.

by—collective action in politics and at work. This chapter focuses on the institutional sets that were introduced by the 1998 social pact for the labour market and labour practice. Both the crisis itself and the state's programmes to resolve the crisis under the terms of the IMF bailout generated an institutional basis for Korea's economic transformation towards a more flexible labour market in which mass lay-offs, the temporary agency system (the use of non-standard, temporary, or fixed-term contracts) and the flexible working hours system could be implemented.

This research, however, assumes that labour market practice took an unexpected path: the large (core) firms' labour market became characterised by greater rigidity (closed/impervious), whereas greater flexibility (mobile/permeable) became standard on the margins. The key questions for this chapter, therefore, lie in identifying (1) the policy output from the 1998 social pact, (2) how each institution worked in relation to other institutions (complementarily or contradictorily), and (3) how the outcome of institutional implementation conformed to or differed from the original intention of policy-makers.

Furthermore, it should be noted that the macroscopic changes on industrial relations contributed to the change in the employment system. For instance, Kim Dae-jung government's reform project of *chaebols* led the big manufacturing companies to bring about the restructuring of the workforce and supply chain so as to reduce labour costs (e.g. modular production system, multi-layer subcontracting practices and automation). Although these technical innovations on labour process were not new, as seen in the case of 'New Management Strategy' in the Kim Young-sam government (see Chapter 5), this study assumes that the extent of structural reform in Korean industry and its impact on the employment system was more significant after the 1998 reforms.

In short, the changes in labour relations and market after the LMGTC's formation will be analysed in order to further illustrate the transformation of Korea's employment system. The issues of what changed, whether the changes in labour relations and market were a result of the decreasing (or increasing) capacity of unions, the inner dynamics within labour and the new practices that emerged under new institutional conditions will be at the centre of the analysis. Sub-issues related to the changes in labour relations and market will also be examined, including the changes to the union system, wage system, company (in-house) welfare systems and types of contract offered to workers. The results of these

changes will also be examined. The question that will be addressed through this analysis is the effect of the changes in labour relations and market on the employment system.

7.1 Concepts: dualisation thesis

The comparative political economists exploring the rationale for the recent rises in dualism in the labour market and inequality in labour practice in advanced industrialised countries can be divided into two groups. First, those subscribing to the political partisanship approach stress the role of social democratic governments as a key factor in labour relations (Alvarez, Garret & Lange 1991; Garret & Lange 1989; Kim & Fording 2002; Korpi 1983; Kwon 2010; Kwon & Pontusson 2010; Kwon & Shin 2007; Pontusson, Rueda & Way 2002). For scholars following this approach and in contrast to the assumption that social democratic parties represent the interest of labour in general (Iversen & Soskice 2009), social democratic parties have strong incentives to consider ‘insiders’—mostly regular workers employed by large companies—their core constituency. As a result, the interests of insiders, who care more about their own employment protection than labour market policies that secure the jobs of outsiders, are excessively represented in the political process (Rueda 2007: 212).

The second approach argues that political cooperation between the state, business and labour in the form of a social partnership has affected the extent to which dualism in labour markets and inequality in labour practice have emerged (Hemerijck & Vail 2006; Rhodes 2001; Martin & Thelen 2007). In the Netherlands and Denmark where there are strong institutional legacies of social partnership, political cooperation between social partners sought to reduce the levels of protection for insiders so as to increase flexibility while enhancing social protections for outsiders in terms of increased security. This was done via a broadening of the ‘flexicurity’ in labour reform packages to include new roles and responsibilities for the social partners, and it involved large numbers of firms in retraining initiatives (Martin & Thelen 2007: 28).

The Korean case, however, does not conform to these explanations and the trajectory of dualism in the labour market and inequality in labour practice experienced in Korea cannot be adequately explained as the result of either social democratic governments’ efforts or social partnership. On the one hand, while dualism in the labour market and inequality in

labour practice increased under the administration of two centre-left governments (1998–2007), the expansion of social protection schemes such as Employment Insurance (EI) also took place during same period. However, this research could determine that, apart from its original goals, the EI partly played a role in exacerbating the income inequality.⁹³ On the other hand, the social partnership established by the LMGTC lost its ability to mobilise all of Korea’s major social partners, as one of the two national-level trade unions, the KCTU, left the LMGTC in late 1998 and has not returned.⁹⁴

Before considering an alternative framework to explain labour market dualism and labour practice inequality in Korea, a conceptualisation of the dualisation, dualism and divide, and the way in which these have mixed should be presented. This research differentiates conceptually: dualisation refers to the differential treatment of insiders and outsiders (process); dualism takes the institutional form, and can be deepened or widened by the dualisation at the output level; and social divides are very likely to be led by the process of dualisation at the outcome level (Emmenegger *et al.* 2012:10–11). To put it differently, rather than existing at the outcome level (where the empirical result appears), dualisation lies at the policy output level, where political dynamics tend towards institutional forms that have certain policy objectives and intentions. The importance of this perspective is that the institutional outcomes (i.e. social divides) ‘need not reflect the goals of any particular group; they may be the unintended outcome of conflict among groups or the result of “ambiguous compromises” among actors who can coordinate on institutional means even if they differ on substantive goals (Mahoney & Thelen 2010: 8).’ This, in turn, underpins the importance of institutional complementarity, as seen in Chapter 2 (Section 2.3) and Chapter 3 (Section 3.1).

In academia, a broad and general theorising that aims to reveal the structural complexity of the modern capitalist state through the varieties of capitalism framework has recently emerged within comparative political economy (Hall & Soskice 2001). Rather than general theorising on the complementarity among institutional sets or systems, however, this research develops a micro-framework of institutional complementarity. Using Haagh’s definition of the employment system as the network among institutions or the institutional setting within and between firms and in labour policy (Haagh 2004: 155), real labour

⁹³ See Chapter 8.

⁹⁴ See Chapter 6.

practice is seen to be shaped by each individual labour policy. In addition, as Chang (2007: 5–29) emphasises, an institution has multiple functions and interacts with other institutions. Institutions may not function well if they are incompatible with other institutions (Chang 2007: 6). From this perspective, the emerging and deepening patterns of labour market dualism and inequality in Korea can be seen to have been shaped by the 1998 reform of the labour laws, the outcome of which runs contrary to the original purpose of the institution(s).

In sum, this chapter assumes that the dualism of labour market division and increasing inequality in Korea was deepened and widened by the 1998 amendments to the labour laws and their subsequent revision, which had the explicit policy aims of greater flexibilisation (mostly in the core sectors) and of reducing inequality at the margins, but they were biased at the output level. In the following sections, the change that occurred in the labour market and labour practice will be analysed in line with the dualisation thesis and compared to those of past. The key questions, then, are which institutions (or their complementarities) played a role in bringing about dualism in the Korean labour market, and how was this interpreted and enforced between the business and labour? To answer these questions, a case study of Hyundai Motors, which is regarded as a representative of the multinational corporations leading the Korean economy, and its labour union, which has been at the core of the Korean labour movement since 1987, will be used.

7.2 Unexpected outcome from institutional transformation

The cross-class trend of labour market dualisation and dualism appears not only in deindustrialised Western countries but also in the East Asian developmental state. According to Peng (2012: 227), as in Germany and France, the pattern of industrial relations, which is based on interactions between the state, business, and labour in Korea and Japan, has opted to maintain their national competitiveness by saving large firms by either reducing the size of the core workforce and raising worker productivity or increasing the hiring of atypical workers. The consequence is a contraction and consolidation of the core and the expansion of the peripheral labour market. Although her analysis is largely persuasive in terms of dualism of insiders and outsiders, there is a misunderstanding that the triumvirate of the state, business and labour *intentionally* selected this dualisation process with a shared belief that this was the best way to protect core workers and maintain

national competitiveness (Peng 2012: 245). Rather, the dualism should be identified as an *ex post facto* of empirical phenomenon, separate from original intentions of the social pact for labour laws amendment in 1998, although the real practice might be displayed as such. Real in practice it might be, but it should not be seen as being intrinsically connected to the original intention of creating a social pact for labour law amendments in 1998. To explore this matter further, this section begins with an examination of Korean employment practice and its transformation.

First, as regards dualism in the labour market in Korea, while the rate of unemployment in 2010 was fairly low (3.7%) compared to the OECD average (8.3%), the indices for the rates of temporary workers (23.0%) in dependent employment and self-employed workers (28.8%) in a civilian employment are much higher than those of the OECD as a whole (11.9% and 16.0%, respectively).⁹⁵ This implies that the majority of Korean employees are non-regular or self-employed workers rather than regular workers in the labour market. In particular, as seen in the Chart 7.1, the share of temporary employment among total dependent employment is extremely high compared to other advanced countries and the OECD as a whole: 25.73% in 2004 and 23.76% in 2011 compared with an average of 11.39% (2004) and 11.99% (2011) throughout the OECD.

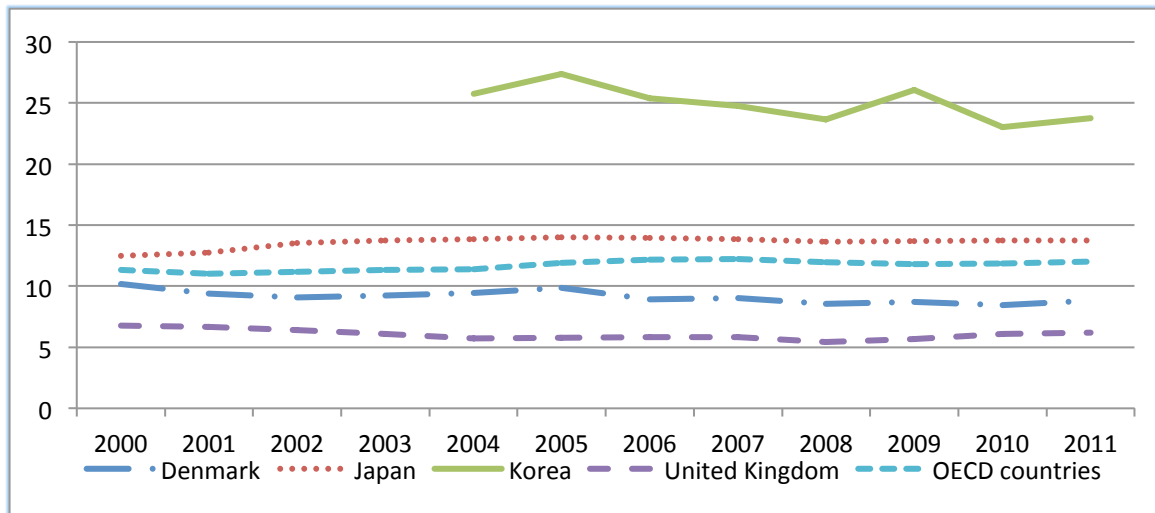
As can be seen in Chart 7.1, which uses long-term data from the Korean Statistics Information Service, this labour market situation has become more marked since 1998. Although the number of regular workers had recovered to pre-1997 levels by 2003—7,499 thousand (58.1%) in 1995 and 7,269 thousands (50.5%) in 2003—the number of non-regular workers (temporary workers and on-call workers) increased to about 50% of the total paid (non-self-employed) workforce.⁹⁶ Consequently, as of 2007, the number of non-regular workers reached about 7.3 million. Although there has been a rising trend in the number of regular workers since 2008, this does not mean that there has been a significant decrease in the size of the non-regular workforce. Instead, the numbers of temporary workers and on-call workers has remained stable at around seven million since 2003, while the number of regular workers, which recovered to the pre-1997 level in that year, has increased gradually since then. In short, the data from the OECD and the Korean Statistics Information Service suggest that the employment divide between regular workers and non-

⁹⁵ Source: OECD Stat: Data accessed on 15/08/ 2012 15:01 UTC (GMT).

⁹⁶ Korean Statistical Information Service (<http://kosis.kr>): Data accessed on 14/08/2012, 20:59 UTC (GMT).

regular workers have become permanent, regardless of the 1998 amendments to the labour laws.

Chart 7.1: Incidence of temporary employment – Dependent employment (%)



*Source: OECD Stat: Data accessed on 15/ 08/ 2012, 14:12 UTC (GMT).

Moreover, if the data on the number of workers by firm size is examined, it is clear that the core (insiders) labour market has reduced in size since 1997. For instance, while the total percentage of workers employed in large companies (those employing 1,000 or more) decreased from 12.4% in 1993 to 5.7% in 2006, the percentage employed in SMEs (firms employing fewer than 299 people) increased from 79.1% to 87.7% in the same period (Choi & Lee 2008: 88–95).

Another issue to consider here is the average length of job tenure by size of firm; the aggregated data for job tenure does indicate that labour mobility is differentiated by firm size. As shown in Table 7.1, while the job tenures of regular workers since 1997 have averaged 5.6 years overall, those in large firms employing over 500 people have increased sharply from 7.4 years in 1997 to 9.2 years in 2007, twice that of firms employing fewer than 30 persons. More significantly, the differentiation in job tenure appears to vary dramatically by employment type. From 2004 to 2011, the average job duration of regular workers has been three times that of non-regular workers (from 70 months in 2004 to 79 months in 2011 for regular workers and from 24 months in 2004 to 27 months in 2011 for non-regular workers).

Table 7.1: Average duration of job longevity by firm size (regular workers)

(unit: years old, years)

	Average age	Job tenure	Corporate size					
			5~9	10~29	30~99	100~299	300~499	500 and over
1993	34.3	4.6	-	3.1	3.8	4.8	5.5	6.4
1994	34.8	4.8	-	3.5	4.0	5.2	5.8	6.6
1995	35.1	5.2	-	4.1	4.3	5.4	6.0	6.8
1996	35.2	5.3	-	4.0	4.8	5.3	6.4	6.9
1997	35.8	5.6	-	4.4	5.0	5.6	6.9	7.4
1998	36.2	6.1	-	4.8	5.3	6.1	7.0	8.1
1999	35.9 (36.0)	5.7 (5.9)	4.0	4.6	5.1	6.1	7.0	8.3
2000	36.2 (36.3)	5.6 (5.9)	4.0	4.5	5.1	6.1	7.8	8.5
2001	36.5 (36.6)	5.9 (6.2)	4.2	4.7	5.4	6.6	7.5	8.8
2002	36.5 (36.7)	5.6 (6.0)	3.5	4.3	4.8	6.2	7.2	9.5
2003	37.1 (37.2)	5.8 (6.1)	3.9	4.5	5.3	6.4	7.8	9.3
2004	37.5 (37.6)	5.9 (6.2)	4.1	4.8	5.3	6.6	7.3	9.1
2005	37.7 (37.6)	5.8 (6.1)	3.9	4.6	5.4	6.6	7.7	8.8
2006	37.5 (37.5)	5.8 (6.2)	4.1	4.5	5.4	6.8	7.8	9.1
2007	37.8 (37.7)	5.9 (6.2)	4.3	4.5	5.4	6.7	7.9	9.2

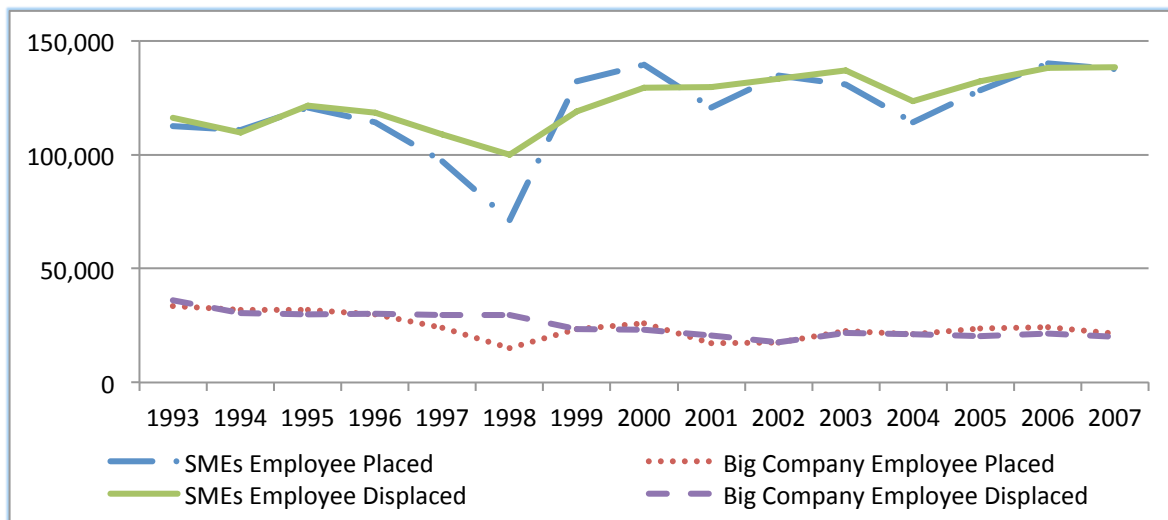
*Source: Ministry of Labour (<http://laborstat.molab.go.kr/>): Data accessed on 15/ 08/2012, 15:42 UTC (GMT).

*Note: 1) data for 1993-1998 were estimated from firms employing more than 10 workers, and those after 1999 were estimated from firms employing more than 5 workers.

2) Figures in parentheses refer to the rates estimated from firms employing more than 10 workers.

This trend is more clearly shown in the differences between the average monthly incidence of placed and displaced employees for large and smaller firms (Chart 7.2). For the period 1993–2007, there has been a steady downward trend in the numbers of employees placed in large companies, with a significant drop recorded for 1998. Meanwhile, there has been a fluctuating but general upward trend for employees placed in SMEs (small and medium-sized enterprises). For displacements, contrary to general expectations, the number of employees displaced in large firms decreased overall during the period 1993–2007 and has remained steady at around 20,000 persons since 1999. In other words, in spite of the 1998 social pact and the introduction of changes to the Labour Standard Law permitting mass layoffs, the labour market in large firms has been more impervious (rigid) than the labour market in SMEs.

Chart 7.2: Average monthly incidence of employees placed and displaced by firm size (persons)



*Source: Ministry of Labour (<http://laborstat.molab.go.kr/>): Data accessed on 15/08/ 2012, 15:42 UTC (GMT).

*Note: 1) Big company refers to firms employing 300 and over persons
2) SMEs refers to firms employing 10-299 persons

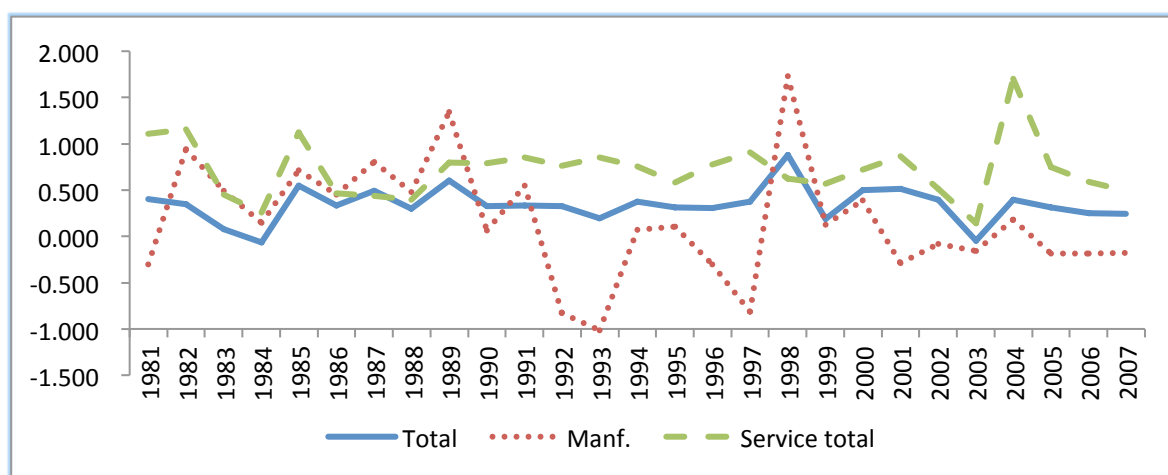
More surprisingly, the average monthly incidences of fired and retired workers in large firms have remained steady at around 18,000 persons since 1999. In contrast to big firms, there has been a dramatic increase in these incidences for SMEs in the same period, from 85,000 in 1993 to 130,000 in 2007.⁹⁷ This suggests that the labour market in large firms has remained impervious (rigid), while that in SMEs has become much more permeable (flexible), especially since the 1998 social pact by the LMGTC and the amendments to the labour laws.

This trend of rigidity in large firms and flexibility in smaller firms can be represented by examining the changing trend of labour elasticity. By examining the GDP elasticity of employment, a dramatic change in the labour market becomes apparent. A basic definition of employment elasticity is ‘the percentage change in the number of employed persons in an economy or region associated with a percentage change in economic output, measured by gross domestic product’ (Kapsos 2005: 2). Thus, this represents the extent to which an increase in employment accompanies an increase in GDP. In general terms, employment is identified as elastic when the rate is over one, while employment is inelastic when the rate

⁹⁷ Source: Ministry of Labour (<http://laborstat.molab.go.kr/>): Data accessed on 15/08/2012, 15:42 UTC (GMT).

is under one.⁹⁸ From the chart in footnote 98, the rates of elasticity of total employment show fluctuation around the 0.3 point. Compared to the rates for other regions (except Japan), Korea's rates of employment elasticity have remained more consistent, suggesting that the labour market in Korea is more flexible than that of Western Europe (especially Denmark) but more strict than that of North America. Here, it is noteworthy that there was drastic up-and-down movement in the rate of employment elasticity in manufacturing industries, which decreased rapidly after 1989 (two years after the Great Workers' Struggle of 1987) but suddenly peaked in 1998, as seen in Chart 7.3. However, the trend immediately downturned, with points falling to under 0, which indicates considerable inelasticity in the labour market.

Chart 7.3: GDP elasticity of employment by industry



*Source: Department of Statistics, Bank of Korea (<http://ecos.bok.or.kr>) (See Appendix 3).
 *Note: GDP elasticity of employment = rate of employment/rate of GDP.

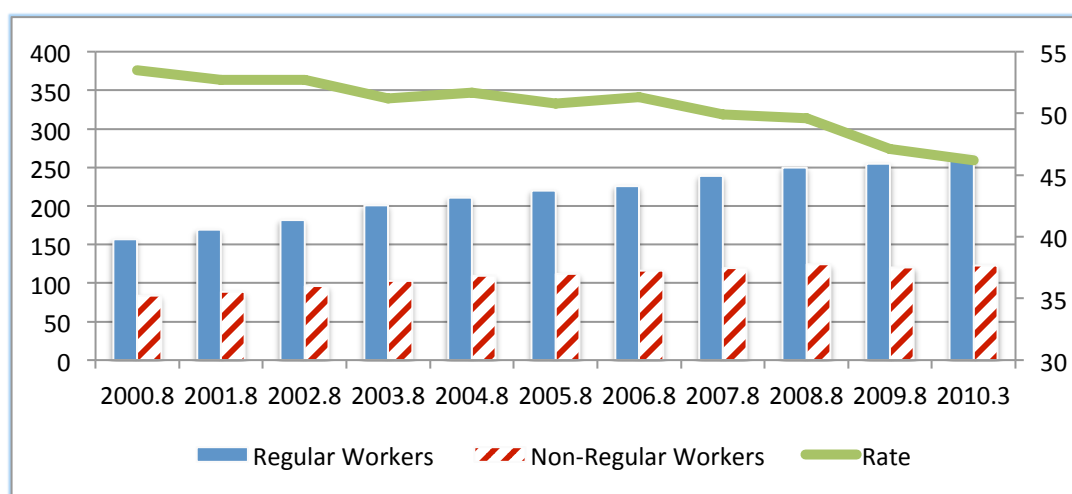
⁹⁸ For more conceptualisations, see Chapter 4 (footnote 57). A new methodological approach to GDP elasticity of employment has been used in recent research by the ILO, and an index of countries' employment elasticities has been produced (see Kapsos 2005). The employment elasticities for selected regions and countries according to Kapsos's new model are given below. As can be seen, in the case of Korea, there is not a large difference in employment elasticity over the periods covered by the research.

	1991–1995	1995–1999	1999–2003
Western Europe	-0.09	0.36	0.42
North America	0.67	0.44	0.23
Denmark	-0.02	0.42	-0.04
Japan	0.34	0.20	-0.24
Korea	0.30	0.17	0.38
UK	0.12	0.43	0.37

*Source: Kapsos (2005: 11, 31–35).

By contrast, the elasticity in service industries was consistently a little higher than total elasticity during the whole period, with a fluctuation in the 2003–2005 period. This differentiation can be explained by solid rigidity major manufacturing companies enjoyed in 1990s and the large numbers of dismissals in 1998. More importantly, the labour market in manufacturing industries returned to rigidity and solidity after 1998, despite the 1998 labour laws amendment making it easier fire and hire at workplaces. By contrast, service industries, which were generally run by small to medium sized businesses, maintained a level of around 0.7 throughout the 1990s, without any significant resonance with the 1998 labour laws amendment. Rather, there was a bounce 2003 and 2004. This phenomenon implies that the labour market of manufacturing industries, which were generally run by large firms, became more rigid, but that of service industries (which were mainly SMEs) remained flexible. In fact, the dualism and divide of the labour market can be confirmed by the fact that the rates of GDP elasticity in manufacturing industries has been significantly lower than those in industry as a whole since 1992, except during the 1997 Asian crisis, and is be stable.

Chart 7.4: Average monthly wage by employment status (10 thousand won, %)



*Source: Korean Contingent Workers' Centre (<http://workingvoice.net/x/>); Korean Statistical Information Service

*Note: Rate = non-regular workers' wage/ regular workers' wage X 100

Second, as regards inequality in labour practices, wage discrimination has worsened over the last decade. Even after the economy recovered from the economic crisis, positions lost by regular workers were filled by non-regular workers in the name of fostering labour market flexibility. The wage of non-regular workers was about half that of regular workers

(Han *et al.* 2007: 21). As shown in Chart 7.4, the average monthly wage of non-regular workers in 2000 stood at around 800 thousand won (USD 710), which was 53.5% of that of regular workers. The income gap between regular and non-regular workers widened over the next decade, with non-regular workers' average monthly wage in 2010 standing at 1,430 thousand won (USD 1,268), 46.2% of the wage of regular workers. Additionally, regular workers' premium rate for overtime and overnight work reached 350% of standard rates, over twice that of non-regular workers (150%) (J.-S. Park 2005: 65). This has also deepened the income inequality between regular workers and non-regular workers.

Table 7.2: Composition of low-wage workers (2009, %)

Total	Employment Status		Sex		Contract type		Social protection		
	Regular	Non-regular	Male	Female	Full-time	Part-time	NPI	HCI	EI
26.2	17.3	42.7	16.7	39.1	23.4	55.3	63.3	8.6	67.7
Firm size									
1~4	5~9	10~29	30~99	100~299	>300				
52.1	35.4	25.1	16	10.6	5.5				

*Source: Eun *et al.* (2011, 118)

*Note: NPI: National Pension Insurance

HCI: Health Care Insurance

EI: Employment Insurance

The relative percentage of regular and non-regular workers covered by social insurance schemes provides further evidence of the income inequality between regular workers and non-regular workers. In 2010, 98% of regular workers and 33% of non-regular workers were covered by national pension insurance, 98.6% of regular workers and 37.2% of non-regular workers by health care insurance, and 82.2% of regular workers and 35.6% of non-regular workers by EI (Han 2011: 7). Furthermore, it should be added that 26.2% of workers in Korea in 2009 were defined as low-wage workers,⁹⁹ the highest percentage among OECD countries (Table 7.2).¹⁰⁰ The most significant wage discrimination is revealed by the percentage of low-wage workers by firm size, which shows that the smaller the firm size, the higher the percentage of low-wage workers. Of particular note is the fact

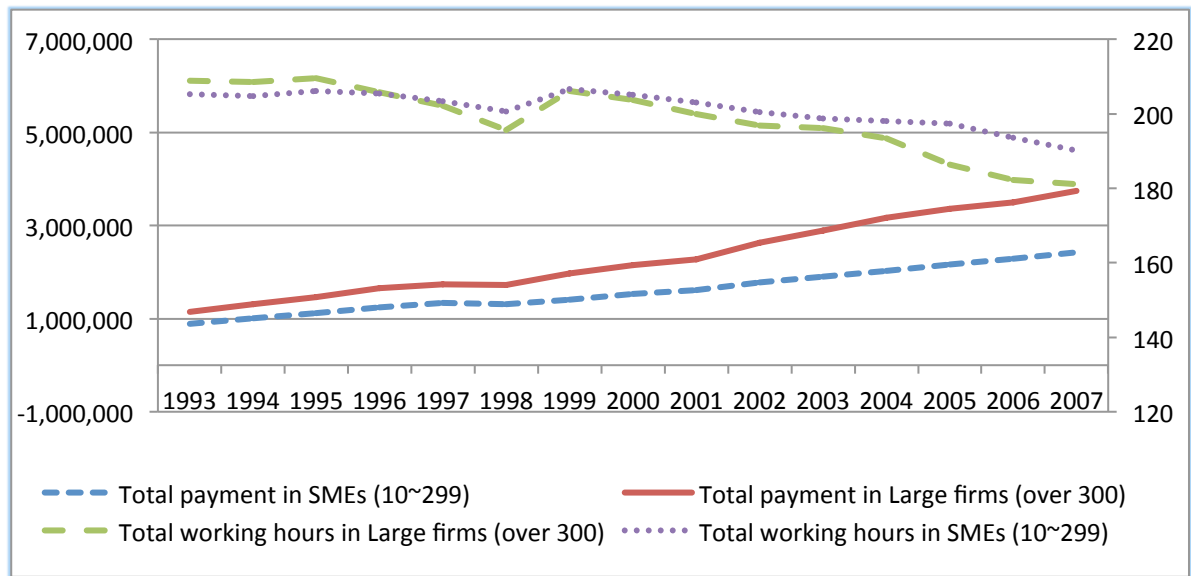
⁹⁹ Low-wage workers are defined by the Ministry of Labour annually. In 2012, workers who earn below 1,250 thousand won (USD 1,109) in a month are low-wage workers

¹⁰⁰ According to the term and methodology of EU's LoWER (Low Wage Employment Research Network) for low-wage workers, the result is not so different in that 26.7% of total wage workers are low-wage workers, and 6.8% of regular workers and 47.0% of non-regular workers were low-wage workers in 2011 (Y.-S. Kim 2011: 21).

that 42% of wage workers are employed in workplaces with 30 or fewer workers and that 52.1% of workers in firms employing 1–4 persons and 35.4% of workers in firms employing 5–9 persons are low-wage workers (Eun *et al.* 2011: 118). Moreover, according to research conducted by B. Lee (2009), low-wage workers and non-regular workers are more likely to lose their jobs than high-wage or regular workers, with 27.1% of temporary worker respondents and 53.6% of on-call worker respondents reporting that they had lost their jobs on at least one occasion. This compares to only 8.5% for regular workers. This implies that greater labour market and wage flexibility is highest among low-wage workers in the outsider labour market and much less so in the core-insider labour market.

This wage flexibilisation and inequality was accompanied by the dismantlement of a quasi-lifetime commitment and a change in the wage system from a seniority-based to performance-based system. Particularly, according to Chang and Chae (Chang & Chae 2004: 436–437), an annual salary system has been a prevalent measurement of wage adjustment, especially in large firms, accounting 94 in 1996 to 1,612 firms (32.4%) among 4,998 companies surveyed in January 2002. As Haagh and Cook argue, in the mid-1990s, employers in larger firms were seeking new ways of adjusting the workforce. After the 1997 financial crisis, they were offered an opportunity to boost labour market flexibilisation through institutional measurements, such as work-size reduction and shifting from the seniority-based wage system and lifetime employment to a performance-based wage and employment system (Haagh & Cook 2005: 189). With this change of contract type and wage system in regular workers, wage discrimination appears not only in employment status but also by the firm size in terms of regular workers, as seen in the Chart 7.5. Alongside the trend of decreasing working hours, which is more evident among large firms, the total wage per month for workers in large firms also increased at a slightly faster rate than those in SMEs. Furthermore, the wage disparity between workers in large firms and those in SMEs became more marked since the 1998 labour law amendment, even though working hours in large firms have decreased more than in SMEs. To sum up, although the wage and income inequality between large firms and SMEs and between regular workers and irregular workers existed before the 1997 economic crisis, this situation deepened and became entrenched after 1998.

Chart 7.5: Total payment and working hours per month (won, hours)



*Source: Korean Statistical Information Service (<http://kosis.kr/>):Data accessed on 14/08/2012, 18:05 UTC (GMT).

In fact, the rigidity that characterises the Korean labour market has been strongly embedded since the authoritarian-development period (1970s–1980s), especially among large firms, and this hampered the effectiveness of the 1998 amendments to the labour laws that aimed to increase flexibility in the labour market. In 1999, the Kim Dae-jung government again revised the Labour Standards Act to maximise the effect of liberalisation. The 1999 Labour Standards Act revision made the individual dismissal process easier. Nevertheless, since the financial crisis, Korean employers (especially in large firms) have not necessarily chosen to employ drastic measures for workforce adjustment, despite having the power of collective dismissal in corporate emergencies and other cases, such as M&A, takeovers and restructuring (Labour Standards Act, Article 30¹⁰¹). Although more frequently used than before, layoffs and compulsory early retirements have not been the predominant measures employed for workforce adjustment, and the more moderate options of wage adjustment, working hour adjustment and recruitment freezing have been used more often (Yun 2008: 230; interviewee P12). This is due to the embedded practice of paternalism in the labour market, which has resulted in a growing number of labour market entrants (mainly recent university graduates) being pushed into the secondary labour market of SMEs (Peng 2012: 229).

¹⁰¹ This appears in Article 24 of the Labour Standards Act due to a recent revision.

7.3 Complementarity of institutions in labour laws

Returning to the matter of why the dualism in the labour market and the inequality in labour practice in Korea emerged, conflict has become commonplace in the age of globalisation between the short-term needs of firms for flexibility and the long-term needs of individuals to renew their means of mobility (in effect to replenish their human capital) (Haagh 2001: 389). In this situation, labour standards in the workplace can be seen as an impediment to progress (Standing 1999: 428), and individual firms seek ways to bypass minimum labour standards or use an informal workforce that is outside the regulatory system in order to keep costs low (Gough *et al.* 2006: 258).

As an addition to this macro-explanation for the current trend towards labour flexibility, this study advances a micro-framework to explain labour market dualism and labour practice inequality, arguing that the conflict between institutions with regard to labour laws may produce unexpected institutional outputs as a result of the combined (but, inverted) effect of institutions.

7.3.1 Congested flexibility in the core labour market

Focusing on the LMGTC in 1998, the complementarity between Article 31 of the Labour Standards Act,¹⁰² the Act on the Protection, Etc. of Temporary Agency Workers (both established in 1998) and the Fair Transactions in Subcontracting Act (established in 1984) reversed the LMGTC's original intention to reform Korea's labour laws. That intention was to weaken employment protection for the large firms' regular workers (insiders), and prevent redundancies for workers in SMEs and non-regular workers (outsiders).

The issue of mass layoffs was the subject at the centre of the discourse between the state, business and labour within the LMGTC. The introduction of Article 31 of the Labour Standards Act was originally intended to block any increase in the use of non-regular workers. According to a former government officer who worked for the LRRC and LMGTC, the understanding shared by the social partners in the LMGTC was that mass layoffs (greater flexibility) in the core labour market would lead to lower flexibility at the margin (the outsiders' labour market), with the result that the number of non-regular workers would decrease (interviewee P5). To them, the high flexibility in the outsiders'

¹⁰² This appears in Article 24 of the Labour Standards Act due to a recent revision.

labour market derived from the strong employment protection in the core labour market. However, the institutional arrangement that was established for achieving greater flexibility in the (core) labour market led to a completely different outcome than that intended in regard to labour practice.

Contrary to the LMGTC's expectations, the implementation of mass layoffs was to prove difficult due to strong resistance by trade unions, which employed strategies including occupying workplaces and initiating labour disputes. The case of the dismissal of Hyundai Motors workers in 1998, which was enabled by the 1998 labour law amendments and is regarded as a highly significant event among the mass layoffs that took place in Korean industry, attests to the difficulties that institutional change faces in reality. Since Hyundai Motors was closely entwined in the regional economy and community, was serviced by many subcontractors in the region and was one of the main players in fostering Korea's global image, the measures taken by Hyundai for workforce adjustment from the end of 1997, including the proposed dismissal of 2,678 workers of and unpaid leave of absence for a further 900 workers, took centre stage as a national issue and led to the union calling a strike in August 1998. To resolve this, the LMGTC (the head of the Ministry of Labour, and members of the ruling party, the KEF and the KCTU) pushed for an agreement between the Hyundai management and the union, with the result that the measures that would be taken for workforce adjustment were settled relatively amicably by Hyundai Motors' management and the union (ESDC 2008: 272–273; KCTU 2001: 232–233). Layoffs were to be restricted to restaurant employees (277 workers) shared among all workplaces, and the workers who had already been served redundancy notices (2,678 workers) were given unpaid leave instead.¹⁰³

Although the unions' strong resistance against mass layoffs contributed to hindering greater flexibilisation in the public sector and at large firms (especially *chaebols*), it should be acknowledged that the Labour Standards Act itself contains provisions that raised procedural difficulties for the enactment of mass redundancies. Article 31 of Labour Standards Act states that employers must satisfy the following conditions:

(1) where an employer wishes to dismiss a worker for managerial reasons, there must be an urgent managerial necessity; (2) the employer shall make every effort to avoid dismissal;

(3) the employer shall establish and follow reasonable and fair criteria for the selection of those persons subject to dismissal; and (4) the employer shall inform at least 60 days before the intended date of dismissal and consult in good faith with the labour union regarding the methods for avoiding dismissals, the criteria for dismissal, etc. (Labour Standards Act, Article 31¹⁰⁴)

In effect, the 1998 institutional measures for greater flexibility in labour market and the conditions of 1998 Labour Standards Act were counterproductive, making it more difficult for employers to dismiss workers, and it eventually increased labour market rigidity (Choi & Lee 2008: 17), especially in large manufacturing firms (mostly *chaebols*) where unions were strong enough to hamper the dismissals process via the consultation with the employer stipulated in condition (4) of Article 31. In fact, during the interview with a vice president of the KEF, he stated:

There was discontentment among employers because we felt that it would be better if the Labour Standards Act were not made law. Nevertheless, we expected that this law would make firing much easier. In reality, however, there were lots of tricky procedures on the law, and unions' resistance was still there. (interviewee P1)

Similar views were expressed by other interviewees, including executive members of two national unions and a former politician who participated in the labour law amendment process in 1998.¹⁰⁵

7.3.2 New trend of in-house subcontracting

The strategy that employers settled upon to create a more flexible labour force was to use more non-regular workers (interviewee P1; interviewee P22). Gough *et al.* note that this is a tactic commonly used to keep costs low because informal workers fall outside the regulatory system (2006: 258). For instance, the use of in-house subcontracting and fixed-term contracts became increasingly prevalent so as to increase labour flexibility, especially by large firms.

¹⁰⁴ This appears in Article 24 of the Labour Standards Act due to a recent revision.

¹⁰⁵ Interviewee P9 (of FKTU), Interviewee P22 (of KCTU) and interviewee P10, respectively.

The term ‘in-house subcontracting’ differs from traditional subcontracting in which an independent subcontractor procures components for the final product from vendors; in-house subcontracting is a *de facto* measure of the use of non-regular workers. To be more specific, as the in-house subcontractor itself makes one-, two-, or three-year contracts with the prime contractor, employees of an in-house subcontractor are fixed-term workers with no long-term job security. Thus, it is worth noting that while few new regular workers were hired by Hyundai Motors between 1999 and 2002, in-house subcontracting resulted in a significant increase in non-regular workers at the company (interviewee P4; interviewee P9), a figure that reached a peak of 9,246 workers in 2004 (see Table 7.3).¹⁰⁶

Table 7.3: Change of workforces by using in-house subcontracting by workplaces of Hyundai Motors

Year	2000	2001	2002	2003	2004	Nov. 2005
Ulsan	4,868	5,934	6,975	7,409	7,686	7,043
Jeonju	658	622	703	824	848	740
Asan	789	825	903	1,013	1,037	1,034
Total	6,315	7,381	8,581	9,246	9,571	8,817

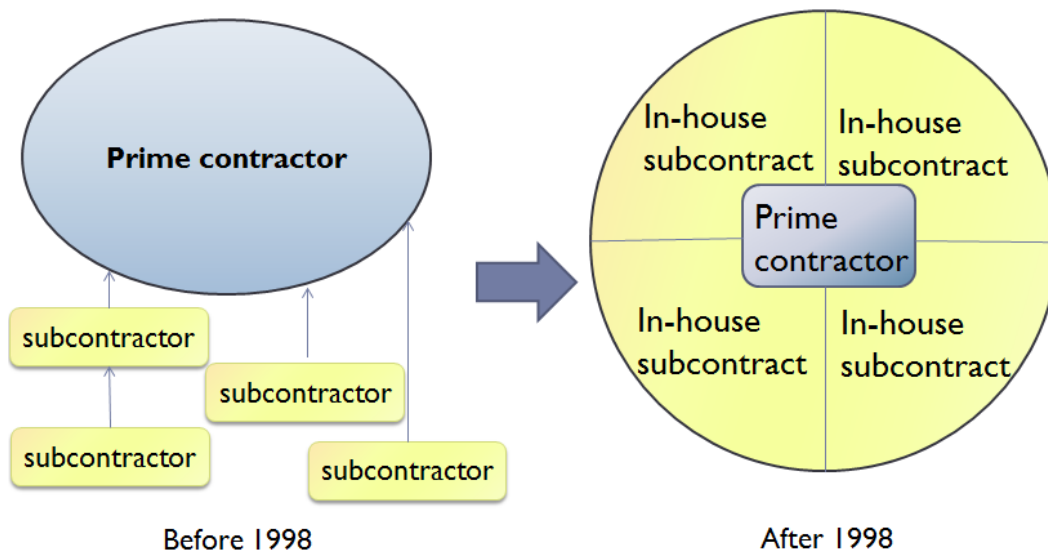
*Source: T.-J. Park (2005: 15).

The important point here is that since the in-house subcontractor that employs these workers makes contracts with the prime contractor (Hyundai Motors) for a fixed term (at best three years, but usually one year¹⁰⁷), in practice, these workers were being employed on fixed-term (three years at best) or other unstable contracts. For example, a Hyundai Mobis plant, one of the largest affiliates of the Hyundai Motors group, was composed almost entirely of non-regular workers. Of the 3,148 workers at the plant, only 76 workers were employed on regular contracts, with 2,390 workers employed on non-regular contracts via in-house subcontracting or temporary agency contracting. At Hyundai Mobis’ Asan plant, all employees, except for 16 people working for the company’s executives, were non-regular workers (389 workers) with the status of subcontracted employees (KMWU 2006: 122–124).

¹⁰⁶ In this section, the discussion will focus on the in-house subcontracting at Hyundai Motors.

¹⁰⁷ KMWU 2006: 123

Figure 7.1: Change of subcontracting system



Again, this form of workforce adjustment and increasing use of non-regular workers by in-house subcontracting occurred after the 1998 amendments to the labour laws (Figure 7.1). The management of Hyundai Motors consciously selected in-house subcontracting as a means of increasing labour flexibility and productivity, resulting in the labour market divide deepening and widening. In terms of inequality in labour practices, in-house subcontracted workers are not protected by the prime contractor's union in terms of income equality, which has led to severe wage discrimination between regular workers for the prime contractor and non-regular workers for the in-house subcontractor. For instance, the Hyundai Motors' union struck a collective agreement with management in 2000 that allowed the use of in-house subcontracting for 16.9% of the entire production process in return for a guarantee that union members would receive their regular retirement entitlements (Joo 2002: 88–90). Since then, the Hyundai Motors' union has on three occasions rejected a one company, one union proposal (*ilsa-iljojik*) that would accept non-regular workers (mostly workers for the in-house subcontractor) as union members.¹⁰⁸ These examples show that the yearly wage bargaining between Hyundai Motors' union and the employer has not applied to in-house subcontracting workers, meaning that (regular) workers at Hyundai Motors have enjoyed wage increases and job security, whereas the

¹⁰⁸ This strategy by large unions to resist any change to employment practice and industrial relations is generally regarded as 'business unionism' (Park 2009: 110; Bae *et al.* 2008: 166; see Section 7.4 in this chapter).

wages of in-house subcontractor workers has remained low. This is reflected in the similar figures for wage inequality given in Chart 7.4

As one of the biggest manufacturing firms in Korea, the aftermath of this collective bargaining at Hyundai Motors has meant that the use of in-house subcontracting has spread to other large companies. According to research by the Ministry of Labour in 2001 on firms employing over 300 people, 41.2% of firms operate in-house subcontracting (shipbuilding [61.3%], steel manufacturing [43.7%], the chemical industry [28.8%], and automobile production [16.3%]). Of the entire workforce of these firms, 24.6% (320,000 people) are in-house subcontracted workers (*Hankook Business Newspaper* 21 February 2012). A consequence of the spread of in-house subcontracting has been that the numerical flexibility in this core-insider labour market has decreased. The rates of hiring new employees, displacement, and replacement by firms employing in-house subcontractors are lower than those in firms not using in-house subcontractors (Eun *et al.* 2011: 33–34).

7.3.3 Conflicting interpretations on in-house subcontracting

The use of in-house subcontracting by large firms, while not illegal under the terms of the 1998 labour law amendments, which introduced the Act on the Protection, Etc. of Temporary Agency Workers and the Fair Transactions in Subcontracting Act (established in 1984), is still criticised as having provoked the increase in the use of non-regular workers since they secured job stability for core regular workers and weakened job security at the margin. The most important point, however, is that the policy outcome of the institutional arrangements for balancing labour flexibility and protection for non-regular workers in a divided labour market did not match the original intention and goals of the institutional innovation.

In a capitalist setting the functioning of social order is typically biased by a differential endowment of classes with resources enabling actors to calculate their interests and challenge or circumvent received interpretations of institutionalised social obligations (Streeck 2010: 13). The institutional genesis of the Act on the Protection, Etc. of Temporary Agency Workers was proposed by the Ministry of Labour with the purpose of advancing labour market reform (higher flexibility) in 1993 (Ministry of Labour 2006c: 76). However, its introduction was delayed until 1998 due to labour's strong opposition,

with the unions, arguing that it would legalise intermediary exploitation, negatively affect workers' job security and debilitate the unions' (labour) movement.¹⁰⁹ When the act was introduced on 20 February 1998 (immediately after the LMGTC had reached its landmark agreement), its purpose was to allow the use of temporary agency workers while protecting them from illegal and unfair labour practices. To this end, the law set regulations on which types of work were open to the use of temporary agency workers and which were prohibited, with jobs directly related to production in manufacturing industries prohibited for temporary agency workers (Act on the Protection, Etc. of Temporary Agency Workers, Article 5).

As for enforcement of its rules in practice, however, the use of temporary agency workers has been prevalent in every industry, including manufacturing, and it has been extremely difficult to judge whether the employer is using temporary agency workers in accordance with the act or whether they are employing an illegal labour force of temporary agency workers disguised under the subcontracting system regulated by the Fair Transactions in Subcontracting Act (established in 1984). In short, this points to an interpretational ambiguity at the heart of the institution: whether the use in-house subcontracting in real workplace practice should be seen as legitimate according to the Fair Transaction in Subcontracting Act or as illegal according to the Act on the Protection, Etc. of Temporary Agency Workers.

The unions' understanding of this kind of labour practice of in-house subcontracting is in direct conflict with that of employers. For employers, the use of labour force outsourcing such as in-house subcontracting is legitimate under the terms of the Fair Transactions in Subcontracting Act 1984. In practice, however, in-house subcontracting is largely the same as that of temporary agency contracting. According to the Act on the Protection, Etc. of Temporary Agency Workers, the use of temporary agency workers is restricted to workplaces outside manufacturing industries, and the prime contractor has authority over the work arrangements, replacement, work directions, supervision, and working hours of agency workers, which is not the case for subcontracted workers (under the Fair Transactions in Subcontracting Act, Article 18). However, in-house subcontracting is prevalent in major manufacturing industries and can be regarded as being largely

¹⁰⁹ The 1997 re-proposal by the state was backed by the IMF (*Chosunilbo*, 8 December 1997).

indistinguishable from the use of temporary agency workers because the prime contractor has control over the labour of subcontracted workers.

According to a former leader of Hyundai Motors, the work arrangements, replacement, work directions, supervision, and working hours of agency workers, which is not the case for subcontracted workers (under the Fair Transactions in Subcontracting Act), these workers are not commissioned by Hyundai Motors, but instead are directly managed by the company, every day, every hour (interviewee P4).

The Ministry of Labour reached the decision in 2004 that Hyundai Motors' in-house subcontracting, which employed 10,000 workers at that time, was an illegal use of temporary agency workers. Until recently, a series of ongoing court cases attempted to determine whether Hyundai Motor's labour practices were legal. On 23 February 2012, the Supreme Court finally announced its ruling that the in-house subcontracting at Hyundai Motors was illegal (Supreme Court, Ruling No.11Du7076). This ruling meant that in-house subcontracted workers at Hyundai Motors should be treated in the same way as regular workers according to the 2006 amendments to the Act on the Protection, Etc. of Temporary Agency Workers, which can compel a prime contractor to hire on a permanent basis non-regular workers who have worked for more than two years and have been subject to the same working standards as regular workers.

One of reasons for the use of in-house subcontracting by employers lies in the government's industrial policy in the 1960–1970 period, when in-house subcontracting was made a standard means of managing the labour force. In the 1970s, while training the insiders within the core labour market, the use of in-house subcontracting, which outsources outsiders' labour, became a standard model at the largest firms, such as Hyundai Heavy Industry and POSCO. This trend continued during the 1980s and 1990s, by which time in-house subcontracting had spread throughout manufacturing industries (Eun *et al.* 2011: 120; Lee 2007: 108).

The changing labour practice in Korean industry derives from the original intention of each institution to enhance flexibility in the insiders' labour market. However, the inverted complementarity among institutions in fact led to the combination of institutions strengthening the rigidity of the insiders' labour market and bringing about the illegal use of non-regular workers and increased flexibility in the outsiders' labour market. More

specifically, by introducing the Labour Standards Act and the Act on the Protection, Etc. of Temporary Agency Workers, policy makers (or social partners within the LMGTC) believed that the traditional rigid (closed/impervious) insiders' labour market would be dismantled, with the consequence that the labour market for non-regular workers at the margin would become more flexible (mobile/ permeable) into the core labour market through the effect of former and that they would be protected by the latter.

In reality, however, the employers' efforts to increase labour flexibility in workplaces were hampered by legalised unions and the 1998 labour law amendments, particularly the web of regulations on dismissals contained in Labour Standards Act. As a result, employers sought alternative measures for achieving labour flexibility and have been using the in-house subcontracting system over the past decade, even though it has been ruled an illegal use of temporary agency workers by the Supreme Court. This illegal use of temporary agency workers can be explained as the result of the fundamental undermining of an institution's original intentions and functions that occurs when rules are ambiguous enough to permit different (often contrasting) interpretations among actors (Mahoney & Thelen 2010: 21).

7.4 Macroscopic changes in industrial relations

Apart from focusing on institutional change at the micro-level and its biased output in labour market, it should be not be forgotten that the structural reform of the *chaebols*, which was one of Kim Dae-jung's four major reform plans, contributed to reinforcing labour market dualism. The *chaebol* system was intertwined with the authoritarian state in the developmental state era and was regarded as synonymous with the growth and development experienced in Korea from the 1960s. However, with the onset of the economic crisis, the *chaebol* system was condemned as the primary factor responsible for bringing about the national crisis. The myth of 'too big to fail', authoritarian state-*chaebol* collusion for high-speed economic growth and innumerable instances of mismanagement and overinvestment could be ignored no longer. Furthermore, since it was widely acknowledged that the crisis in the national economy had arisen not from individual firms but rather from structural factors, the demands for industrial reform centred on structural reform of the *chaebols* and the *chaebol* system (ESDC 2008: 140–142). In particular, Kim Dae-jung's experience and his ideological orientation, which had been formed by serving

as a long-time opposition party leader against the authoritarian policy-making process (and the collusive ties between the state and business), helped move reform of the *chaebol* system (discussion about measures for breaking up the *chaebols*) to one of the top issues on the LMGTC's agenda. The Kim Dae-jung government's position on the structural reform included capital liberalisation and fiscal austerity, liquidating insolvent financial companies, corporate governance reform and opening of the financial market. These reforms necessitated the dismantling of the *chaebol* system and the transition to a shareholder capitalist system; IMF pressure for such reforms was intense at the moment of national crisis in 1998.

Since the financial crisis, developments in the Korean economic system can be depicted as the collapse of the Fordist production system and the establishment of a neo-liberal policy formula promoted by globalisation. However this does not mean, as some argue (for example, Pirie 2006: 58–66), that the entire Korean economic system has necessarily followed the Anglo-American model.¹¹⁰ Rather, the importance of domestic variables on institutional arrangements (Crotty & Lee 2006: 674; Emmenegger *et al.* 2012: 10)—that is, the matters of ownership of *chaebols*, foreign capital in the financial markets, and subcontracting relations—should also be considered as having significant influence on the current Korean employment system. To put it more concretely, it is difficult to argue that there has been a full transition to a competitive free-market system since 1998 because the *chaebol*-led industrial policy is still in operation and the bureaucracy retains control over economic policy direction. Korea's economic system under advanced democracy and neo-liberalism has not changed significantly from its authoritarian past, and it has still operates as a *chaebol*-centred production system (Bae *et al.* 2008: 31). Thus, it is not surprising that with SMEs being located within the hierarchy of *chaebol* firms and their subcontractors, and labour market divide has worsened.

¹¹⁰ Following the *régulation* school (for instance, Boyer & Saillard 1995), modern capitalism can be named as the Fordist accumulation regime, in which mass production and mass consumption are enabled with stable accumulation. In terms of employment, full employment of Keynesian idea and high-wage system are ensured in exchange of high productivity. Perhaps most importantly, wage-labour relations (labour relations) are characterised by a compromise system between the capital and labour, that is usually social consensus system (corporatism) run by various collective bargaining at industry level and central level. People eliminated from this system can be cared for and supported by the welfare state. In peripheral countries such as Korea, however, the accumulation regime and the structure of employment and labour relations are different than those of central, advanced countries. Instead of Fordist mass production and mass consumption, the accumulation system relies on the exports and external factors, so that the labour is under the condition of low wages and repression by the capital and the state.

7.4.1 Reorganising supply chain

Hyundai Motors (group) is a *chaebol* that emerged from the previous Hyundai Group as a separate entity under the 1998 structural reform of the *chaebols*.¹¹¹ During the economic crisis and structural reform in 1998, the *chaebols* experienced major changes, and Hyundai Motors was no exception. The reorganisation of the automotive group involved improving the transparency of its corporate governance, introducing managerial responsibility for debt relief, and increasing foreign equity. In sum, the company was reformed largely along shareholder capitalist lines (Kang 2010: 538), but, in actuality, the *chaebol* system and shareholder capitalist system has continued to coexist. Thus, it was essential to seek new ways of gaining higher labour flexibility with short-term profits during the transition to a shareholder system (J.-S. Park 2005: 65). Hyundai Motors' approach was characterised by a strong attachment to numerical flexibility. However, the dismissal of regular workers was severely constrained by collective bargaining agreements, so the management at Hyundai Motors used alternatives—in-house subcontractors, temporary employment agencies and fixed-term workers—to reduce labour costs and increase labour flexibility.

The pursuit of greater numerical flexibility at Hyundai Motors plants was made possible only by an accompanying 'flexible automation' system that combined highly automated production equipment with a tightly integrated information and communication system. In fact, Hyundai Motors had experimented with a variety of flexible production methods in the 1990s, but only in some smaller plants. In 2000, the company switched to a full-scale modular production system (KMWU 2006: 2). This system involves a flexible automation system in which multiple parts or components are integrated and assembled by original equipment manufacturers (OEMs) and flexible control over the quality and quantity of products is maintained through communication networks. In the modular system that Hyundai Motors developed, the shipment of modules from the module supplier (sub-vendor) to the automobile assembly plant (final vendor, OEM) takes the form of a contract between the prime contractor (the final vendor, OEM) and in-house subcontractors or subcontractors (the vendor). The assembly of components into modules is completed at the

¹¹¹ For this section, the discussion will focus on the change of supply chain employing modular production system at Hyundai Motors.

module supplier's plant, and the modules are shipped from the module supplier to the OEM plant (J.-Y. Kang 2001: 3-4).¹¹²

By employing a modular production system, the OEM (final vendor or prime contractor) could expect not only to reduce its investment in facilities and achieve a slimmer organisational structure, but also to see improvement in manufacturability and quality due to simplification of the assembly line. More significantly, this system opened the door for more cost savings due to wage rate differentials between the OEM and the module supplier. At this point, the modular production system at Hyundai Motors can be described as labour-exclusive because the transition to outsourcing means that each module formerly undertaken by Hyundai Motors is outsourced either to another department (the vendor or sub-vendor) or to other local workplaces, thus reducing the number of assembly processes that Hyundai Motors undertakes and the outsourcing of sub-tasks, task sequences and shipment of products (KMWU 2006: 116–117). According to Lee (2007), Hyundai Motors founded Hyundai Mobis as a super-supplier of modules and the headquarters of the entire modular production system and built the parts procurement system on Hyundai Mobis. As the result, the minor parts assembly processes were transferred to module suppliers, such as electronic control unit manufacturers or car body frame makers. This ultimately brought about a systemic change within Hyundai Motors, which became increasingly geared towards subcontracting out the assembly processes before final assembly. As the major core components within the modular production system were provided by Hyundai Mobis (super-supplier), major parts makers that had previously been subcontracted as primary vendors were demoted to secondary vendors, and secondary vendors were demoted to tertiary vendors.

The implication here is that the change in the labour market and labour practices means that although these subcontracting vendors may still have exclusive contracts to supply higher vendors, it is likely that their contracts are smaller and worth less than they were. Since the economic crisis, the competitive bidding system has been usual in the automotive industry. In this system, a parts supplier submits a quote that includes a unit price and a

¹¹² For Hyundai Motors' development of the modular production system, see Lee and Jo (2007). Meanwhile, Hyundai Motors emulated the Toyota Production system, a lean production system in which the workers participated in management and job formation as Lee and Jo argue; however, they have never implemented this. Rather they developed their own modular production system in which cooperation with unions and functional flexibility within the workplace are blocked (KMWU 2006: 115–116).

three-year price-cut plan. The prime contractor (automobile manufacturers), by calculating their purchases for the following three years after examining each quote, awards a contract to the company with the best (cheapest) quote. At first glance, this competitive bidding system appears similar to that used in the West, but there are important differences. The unit price is not determined at the first price bid. Instead, the final price is renegotiated after the supplier is selected, and, for any parts selected by the prime contractor, the supplier must agree to negotiate on unit price. Furthermore, after a contract is agreed between the prime contractor and the vendor, the unit price is cut again. Even after the contract has been made, price cuts are made again each year, ostensibly to enhance productivity (Lee 2010: 21–26). As a result, with module suppliers (sub-vendors) dependent on the higher supplier (higher-vendors) for contracts, they are forced to seek ways of reducing unit price to be competitive during the bidding process. It is unsurprising, therefore, that sub-contracted vendors seek to reduce labour costs by employing non-regular workers.

It should be noted that all module suppliers, including Hyundai Mobis, eventually employed non-regular workers by the measure of full-fledged subcontracting (or in-house subcontracting) (KMWU 2006: 119; Lee 2007: 110–111; Lee 2010: 25) and therefore sub-vendors. This has also lowered wages. For instance, in the case of Hyundai Mobis (a sub-vendor of Hyundai Motors), the wage of workers are 70% of level of workers at Asan workplaces of Hyundai Motors, despite both being non-regular workers. More significantly, wage of workers in Pyunghwa Engineering, which is one sub-vendor (door module maker) of Hyundai Mobis, reaches 70% of that of workers in Hyundai Mobis (KMWU 2006: 123–125).

To sum up, the Kim Dae-jung government's structural reform of the *chaebols* brought about a transformation of large firms and their supply chain structure. Through this process, large firms (especially those in manufacturing industries) increasingly began to use an outsourcing system that in turn fostered a change in their production systems, resulting in a highly stratified subcontracting structure with a distinct vendor hierarchy. Suppliers located at the lowest end of the supply chain had no choice but to try to gain a competitive edge by paying low wages to workers on temporary or fixed-term contracts, leading to an increase in non-regular workers in the labour market. The increase in indirect employment due to this expansion of outsourcing, the temporary agency system, and subcontracting and

in-house subcontracting used to achieve higher labour flexibility and lower labour costs fundamentally changed the previous relatively homogeneous labour market into a highly heterogeneous one in which various types of contract existed side by side. The size of the core (insiders) market that provided stable jobs at large firms and in the public sector has decreased, while the number of unstable and low-paid jobs at the margin has increased. These labour market changes have presented a serious challenge to the unions representing full-time (regular) workers.¹¹³

7.4.2 Trapped labour unions

Recently, much has been written on unions (especially the KCTU and large-firm unions) and their impact on labour market divide and the deepening inequality in the Korean employment system (Choi & Lee 2008; Peng 2012; Song 2012; Yang 2006b). For instance, Peng argues that the increased power that labour gained through democratisation and the Great Workers' Struggle (which was dominated by the large-firm unions) contributed to widening the wage gap between employees at large firms and those at SMEs (Peng 2012: 231). More specifically, the asymmetry of labour's superiority and business' inferiority since democratisation brought about a sharp increase in nominal wages; workers enjoyed high wages and additional income from employers (bonuses and benefits such as in-house welfare provisions) in the 1990s. Even after the crisis, unions and workers at large companies sought to maintain high wages and job security, ignoring the other workers at the margin. This depiction of an asymmetry of power between labour and business is in keeping with the following statement by an employer:

The cause (of market) lies in labour unions' success in increasing workers' wages too quickly, and the aftermath of this is that other workers at the margin are now having trouble in the job market. I believe that it is because the unions focused on protecting themselves within the market and raising their own wages [so] employers have been unable to hire more workers. However, as we all know, business requires labour flexibility, as business can rise and fall depending on seasonal demand, international demand, and the use of new equipment in the workplace. As such changes in the economic environment take place, employers should have

¹¹³ This is not the only case of Korean supply chain reform; it is common in Germany (Kwon 2012: 597). German companies needed to make their production chains and working conditions more flexible. In particular, SMEs were under intense pressure to reduce their production costs. However, the difference between two cases lies on the role and capacity of unions in each country for collective action to make a new path.

greater labour flexibility to hire more or fewer workers and so enhance productivity, but in fact, the employment practice has been made rigid because labour unions can determine hiring and firing rates, and even working hours. More seriously, once workers have been hired, we employers must retain these workers, provide set working times, and pay their salaries even if they are not actually working due to lack of business, since these rules are set by labour law (the 1998 amendments). Therefore, there is only one way that we can adjust labour flexibility to remain viable as a business, and that is by hiring temporary workers (interviewee P1).

Furthermore, there is the argument that business unionism underpins the unions' role in labour market dualisation (H. R. Cho 2005; S.-J. Cho *et al.* 2004). Business (utilitarian) unionism refers to a union movement that focuses on the immediate economic interests of union members—such as wages, welfare, working conditions, etc.—rather than emphasising social and political issues like labour unions in the West or Korean unions before the 1998 structural reforms.¹¹⁴

In fact, there has been a symbiotic relationship between employers and unions over the long term that has gone far beyond a formal balance-of-power relationship. Collusion between employers and union officials has often led to the targeting of a common opponent or scapegoat in order to protect their shared interests or to reduce hostility between them. For instance, as described above, at Hyundai Motors during the period of workforce adjustment and the union's strike in 1998, only 277 female workers from the company's in-house restaurants were dismissed, and most of the workers that had been selected for redundancies were instead placed on unpaid leave and were gradually re-employed through collective bargaining. According to a statement by an executive member of the KMWU, despite a year of apparently frantic and hostile employer-union negotiation at Hyundai at that time, some of the former union leaders and executive officials of Hyundai Motors are now jointly running subcontractors for Hyundai Motors, which he maintained was a conciliatory gesture by employers after the union officials were made redundant (interviewee P22).

More significantly, these collusive labour relations appear clearly when the issues of non-regular workers are considered. As seen in the case of a collective agreement brokered

¹¹⁴ Political unionism pursues a particular political ideology or political purposes and is associated with a particular political party or trade union movement. By contrast, social unionism seeks ways to promote the interests of wage-workers as well as the wider citizenry by raising and aiming to resolve not only the union members' economic interests but other social and political issues.

between employers and unions in 2000, which guaranteed a fixed-rate of 16.9% of in-house subcontracting in large firms, the unions regarded non-regular workers as a buffer or relief valve against their own dismissal and as a base for keeping their own wages high. This is because the increasing use of non-regular workers would help employers meet their needs of labour flexibility and lower labour costs at no expense to union members. Furthermore, the long-established working practices, the high premium rates for overtime working, union officials' receipt of payment by employers, union officials' empowerment, and the illegal election of union leaders through the intervention of employers can be seen as products of collusion between employers and unions under the firm-based unionism system.

However, the existence of a causal relationship between business unionism or collusion and the labour market dualisation is debatable. Such a reading of union practices appears to be based on scepticism rather than empirical evidence because changes to labour practices (or unions' behaviour and strategic choices) take place due to both the interaction between the state, business, and labour and the institutional complementarity (both at macro- and micro- levels) induced by institutional transition. These interactions include the move from the seniority-based system to a performance-based wage system, the change to an annual contract system from the lifetime employment practice and firm-based unionism. Thus, it is misleading to conclude that business unionism and collusion derive from the unions' voluntary compliance, abandonment of their fundamental positions or self-interest. Rather, it should be identified as a reflection of current institutional arrangements, as this research argues.

The political strikes in the past, including those that derived from conflict between the state and labour on institutional amendments, were based on the ideological orientation of social transformation. Thus, strikes were led by public sector unions (such as those representing railway workers and employees in the telecommunications industry). Additionally, the Hyundai Motors' union played a role in establishing labour standards (wage increases, standard working hours, contract types, etc.) that, in turn, were passed on to other workplaces and industries and contributed to the development of the labour movement (including the KCTU and the industrial union system) in the 1980s and 1990s (Lee *et al.* 2005: 13–27). Recently, however, the combination of various labour market institutions and changes to industrial relations has restricted unions to bargaining on wage issues alone.

In fact, business unionism was reinforced by the collapse of the ‘psychological contract’ (such as the ending of the lifetime employment practice) and unions’ experience of the workforce adjustment in 1998. In turn, the transformation of the supply structure in pursuit of simplifying the production process and the use of more non-regular workers by employing a subcontracting system or modular production system has meant that business unionism has been embedded. In short, no emergency exists for workers in the core labour market under these institutional restrictions.

In addition, the fragmentation of the labour movement due to firm-based unionism and two competing national unions (the KCTU and FKTU) should be noted as a factor in weakening labour’s collective bargaining position. In particular, firm-based unionism, which, in the main, represents only regular workers at large firms, directly results in the isolation of non-regular workers. Under firm-based unionism, non-regular workers are necessarily regarded as outsiders, as they do not qualify for union membership. This was shown by the union at Hyundai Motors on no less than three occasions rejecting the employment of non-regular workers at in-house subcontractors (see section 7.3.2). In this respect, firm-based unionism represents only regular workers and inherently excludes many atypical workers, such as non-regular workers, subcontractor employees, temporary agency workers, and the unemployed, with the result that the interests of regular workers are over-represented by such unions.

Furthermore, the macro-structural reforms that targeted the *chaebols* in order to reshape the Korean economic system into a neo-liberal form contributed not only to the restructuring of the supply chain structure in Korean industry, but also to making employers value and introduce considerable flexibility at workplaces. At this point, however, it is also notable that the labour flexibility at work did not suddenly result from this combined set of industrial reforms but had been an everlasting policy preference of Korean employers especially since 1980 (see Chapter 4 and Chapter 5). It is more persuasive therefore that large firms survived *chaebol* reform during the period of 1998–1999 by re-organising their affiliates and restructuring their workforce and supply chain. They could be more vulnerable by financial fluctuation (i.e. national and international recession), on the one hand, but could gain more labour flexibility at work, on the other.

7.5 Concluding remarks

Dualisation and dualism in the labour market has become increasingly common in the West and in Korea. However, there can be significant differences in labour market dualisation processes at the policy outcome level, even though there may be an apparent convergence between labour market dualism and inequality at the outcome level. This diversity comes more from the domestic variables arising from the political dynamics of institutional change rather than from the unilateral pressure of globalisation because institutions shape and are shaped by political actors.

In the process of establishing particular institutions, particular actors seek to instil their (diverse and sometimes contrasting) interests in the institution. This ultimately means that once the institution has been formalised through commitment and compliance by diverse (but particular) actors, the institution inherently contains ambiguity over its interpretational and enforcement rules. Thus, once the institution has been implemented, that is not the end of the matter. The conflicts and struggle over the interpretation of the institution's rules, its enactment and revision will continue. As a result, the implementation of changes to the institutional sets on the labour market cause political struggle between business and labour (and sometimes the state). Therefore, the gap between the origin and enactment of employment system institutions might produce contrasting results due to the institutional complementarity and the political struggle over the interpretation and enactment of institutions.

As seen above, Korean labour market dualisation appeared by this character of institutions: combined but inverted effect of institutions and a systemic change that aimed at industrial reform. The institutional measures that were introduced in an attempt to increase labour flexibility in fact produced the opposite effect, leading to a more rigid labour market and division of labour market and workers. On the one hand, the Labour Standards Acts hampered employers from firing and hiring workers easily, and the Act on the Protection, Etc. of Temporary Agency Workers increased the number of non-regular workers at the micro level. On the other hand, the structural reform of the *chaebols* (in terms of industrial relations) led to the transformation of the supply chain in industrial relations, with the consequence that subcontracting and the employment of non-regular workers increased, and firm-based unionism alongside the reorganised production system excluded non-regular (atypical) workers in the labour market. However, it is inconclusive whether

business unionism has been embedded by such complex institutional arrangements or whether the institutional and systemic environments ultimately dragged the unions into representing only the regular workers in large firms' core labour market. Regardless of the answer, it is clear that apportioning sole blame to the unions for this state of affairs would be wrong.

The practice of labour's collective bargaining and the way of its political participation has been moulded and embedded through the institutional arrangements over time. The amendments to Korean labour laws aimed to suppress the advancement of labour mobilisation and the union movement, while making unionisation and collective bargaining at the enterprise level easier. The so-called 'three prohibitions' (*Samkeum*) in the labour law largely constrained unionisation in corporate channels and prohibited the labour's political participation in political channel. That is, the ban of multiple unions intended to prevent further unionisation, and the prohibition of 'third-party intervention' kept the independent unions within the isolated enterprise level while suppressing their horizontal and vertical network and solidarity. Under the two provisions, the national centre of democratic unions (the KCTU) was long denied by the state and business. Meanwhile, the ban on union's political activities effectively suppressed labour's political mobilisation and engagement into institutional politics. In the long run, while unions could mobilise at least on the enterprise level, the prohibition of unions' political activities became a more severe hindrance for the future consolidation of Korean labour movement. In sum, the labour law after the democratic transition functioned as a weapon to suppress organised labour and the labour movement to move to a kind of political path, while keeping it within the realm of industrial relations and market confrontation.

Furthermore, labour's exclusion from the political realm was not just caused by a formal framework surrounding labour in the post-authoritarian regime, but by an informal institution of political configuration, i.e. a unique political coalition crossing institutional politics and the social movement field. Historically, labour has forged relationships with mainstream politics or political system in two ways, commonly characterised as the British (or US) versus the European model. In most English-speaking countries, such as the UK, the US and Australia, labour unions developed a strong connection with liberal parties and supported them for its class interest representation. In these countries, unions became legitimate pressure groups oriented towards pragmatic and immediate economic goals.

However, in the European model, the labour movements became autonomous of liberalism and engaged in their own class politics by making labour-centred parties and linking them to unions; they finally transformed formal democracy into social democracy (Lee 2013: 621). In Korea, neither way was an option for labour even after the democratic transition. Due to the political exclusion of the newly organised unions (the KCTU), labour was unable to attempt to establish a labour-centred political party for a long time after the transition, and this situation was not so different in the post-1998 labour law periods.

In sum, the union movement in Korea had no option but to continue along the ‘embedded path’ of militant-business unionism due to its lack of citizenship in the institutional sets on labour relations and the new political democracy. Although the 1998 labour laws loosened institutional restrictions on the union’s political rights, the path of labour-business’ confrontational relations, and labour exclusion in the policy-making process (e.g. the LMGTC) has remained. The wage struggle therefore resulted in concentrating the economic gains of workers in the large firms more than it equalised the impact on labour as a whole. One main reason is that the wage increase of workers was not based on an institutional consensus through a collective bargaining structure, but on implicit acceptance by the employers of the relatively strong disruptive power of workers or unions, which were strongest in *chaebols*’ unions. The different degree of economic accommodation reflects the difference in the ‘power of business in the market (D.C. Kim 2001)’ rather than the labour’s institutionalised power. As a result, the uneven accommodation of the unions’ demands, which depended on the respective market position of capital, became the source of a new kind of inequality and labour market dualism. Ironically, in this vein, the more the workers engaged in the wage struggle, the wider the gap were within workers. It was an unintended consequence of militant unionism and business unionism.

In response to neoliberal pressure for labour market flexibility, individual unions would prioritise job security over flexibility, since losing a job means losing everything in Korean labour market practices. Therefore, they are likely to fiercely oppose easing regulation on employment and to try their best to protect jobs through collective bargaining. Therefore, a chasm appeared between the insider and outsider labour markets, organised and unorganised workers. It is likely that unorganised workers in the ever-growing external labour markets bear the burden of labour market flexibility.

Chapter 8

A Pathway to Social Protection: Reproducing Dualism in the Labour Market and a New Role for the State

8.0 Introduction

The purpose of this chapter is twofold. First, the effect of social policy on the Korean employment system will be examined. The questions that will be explored are (1) how the worker protection programmes were connected with other emerging (or existing) and changing institutions, such as the amended labour laws for greater flexibility in the labour market and the firm-based welfare system, and (2) the degree to which the social policy that was implemented (and expanded) immediately after the 1997 economic crisis contributed to reproducing the cycle of dualism and inequality in the labour market that had emerged prior to 1997.

Second, the political dynamics of the institutional implementation of social protection will be illustrated. Here, two questions are explored. (1) Who formulated and evaluated the social policy (particularly worker protection) and how? (This question aims to address whether the state was still the leading force in institutional implementation.) (2) In the course of the Korean developmental state model's transformation, were there any veto possibilities in the policy-making process? To answer these questions, this chapter takes the theoretical position that institutional complementarity can lead to outcomes that conflict with the policy makers' original intentions for an institution. This is due to the institutional outcome is a consequence of the political conflicts that emerge from the gap between actors' preferences and practice on an institution and its enforcement and which reflect the inherent ambiguity and pressures within the institution.

In much of the social policy and welfare system literature, a conceptual distinction is made between social security systems. Three systems are generally identified as a social insurance system, a social assistance system, and a social welfare system. Identifying which system is applied to a particular employment system requires investigation into the nature of that employment system. Simply put, a social insurance system that is resourced by insurance premiums or taxes paid by insured persons is generally not for the purpose of

income redistribution and universal protection due to its closed eligibility and beneficiary criteria. However, social assistance and social welfare systems funded by public finances are direct income redistribution (universal protection) plans.

Evaluating the real effect of social security is an empirical issue (He & Sato 2011: 2). If the unemployment rate is fairly low and the restriction on eligibility is generous, and if the benefits serve non-tax payers or tax payers with low levels of historical contributions, such as new entrants to the labour market, the social insurance system can function as a comprehensive compensation system. For instance, during Korea's period of rapid development in which the country enjoyed almost full employment, the Workers' Compensation Insurance acted as an income redistribution and comprehensive compensation system, even though there was no formal institutional set for the unemployed at that time. Thus, the real impact of social policy (or labour protection schemes) on the employment system varies depending on the changing economic conditions and the sequence of institutional complementarity of other institutional sets (e.g. labour laws). In this vein, this study adopts a theoretical foundation of institutional complementarity on the welfare and social policy implementation, which is developed by Haagh (2011a; 2011b; 2012; 2013). She presented an analytical lens of looking at the combined effects of institutions on individual persons. For instance, she insists that the combined effect of schooling, degree of employment insurance (or grant) and length of employment (stable employment) affects the quality of individual wage-workers' well-being and their sense of welfare (Haagh 2011a: 457–466).

In turn, the matter of how social policy is combined with other institutions in response to changing economic circumstances brings politics into the institutional realm. A political approach of institutional complementarity on the labour market and labour protection can be seen in a study on labour market transformation in Germany and France (Palier & Thelen 2012). The study shows that as the secondary (outsiders') labour market, consisting of the unemployed and workers exempted from contribution for social insurance funds, was growing, the state took responsibility for the protection of these non-contributors by implementing welfare reforms. However, social partners argued that the increasing number of inactive workers who did not contribute enough (or at all) to the insurance funds had to be supported by fewer active workers in the insider labour market. The increasing financial and political pressure meant that the state would have to assume more responsibility for

workers at the margin. As a result, social assistance benefits financed by taxation at the national level served atypical workers at the margin, while the contributory benefits secured through collective bargaining or firm-level deals on social insurance continued to secure regular (insider) worker protection (Palier & Thelen 2012: 203–214).

In Korea, there was a similar need for the state to play an enhanced role in the protection of workers after the onset of the 1997 economic crisis and the subsequent rise in unemployment (Haagh 2004: 153). The state expanded the social protection system based on an occupational/contributory model. This institutional measure is commonly believed to have derived from a combination of the transition in presidential power following Kim Dae-jung's election and strong recommendations on policy reform by the IMF in exchange for its rescue package. As state interventionism in social policy has traditionally been recognised as a response to and an instrument of economic restructuring (Milner 2001: 335), the implementation of protection schemes for workers, such as EI, was a state-led attempt to minimise the social and economic risk that was likely to result from increasing unemployment and the increased use of non-regular workers.

In light of the formation of the LMGTC in 1998, which implied that a new institutional approach to the policy-making process (that is, a move towards tripartism) had been adopted in Korea, the reversion to a traditional pattern in which the state assumed the primary role in the origin, implementation, enforcement, and reinforcement of institutions might appear to be paradoxical. This apparent paradox seems to raise the following possibilities: this development either signals the restoration of the state's embedded autonomy, or it indicates that the state was taking on the responsibility for tackling the economic crisis (as a last resort) in the face of political pressure from social partners. Contrary to these explanations, however, this chapter argues that the traditional developmental state transformed itself into an entirely new *welfare developmental state* with the following key characteristics: (1) the main role of this new form of developmental state moved from controlling industrial and economic policy to directing social policy, although the state's catch-up strategy remained in place, (2) a new type of technocrat (the social bureaucrat) emerged and played a key role in worker protection reform, although the economic bureaucrats still held dominant power and (3) there was a fundamental breakdown of the cohesiveness within the state (especially within the state).

8.1 Concepts: mapping social policy in the employment system

The high degree of labour market dualism and inequality in labour practice in Korea, as seen in Chapter 7, means that social policy has become one of the central pillars of the Korean employment system, since the role of social policy that aims to redistribute wealth and welfare appears to be an important factor to investigate a particular employment system. Individual workers need to renew their means of replenishing their human capital, and social policy plays a key role in establishing these individual workers' (social) rights to (re) enter the labour market easily, secure their job, improve their work skills through training and be protected by universal compensation. These factors are key to revealing the character of a specific employment system operating under the highly flexible labour market of modern capitalism. In particular, current workers' skill sets must be constantly updated in order to meet current requirements and reflect rapid technological development. Thus, if individual workers are to gain professional promotion and wage increases, and if employers are to secure high workforce standards in their workplaces, it is absolutely essential that there is provision for vocational skills development (improvement training) at the company level and support for employment stabilisation from outside the firm.

This theoretical linkage between workers' economic security (material conditions) and the extent of workers' welfare is provided by Haagh's developmental freedom thesis. Developmental freedom, which is shaped by institutional sets and is underpinned by economic security (which consists of a mixture of social insurance and egalitarian rights both inside and outside production), comprises the extent of an individual's autonomy to control their stable working life. Then, the security sets for individuals' developmental freedom is formed with these sources of economic security. These sources include care (children/ourselves), education (for life/foundation), work (occupational/standards), income (unemployment insurance/basic income), housing (public loans/basic) and health (need/prevention) (Haagh 2012: 548–550).

To put it differently, individuals' right in stability is socially defined by several forms of economic security and the ties between them. Economic security and security sets for developmental freedom are ultimately constructed by the complicated (expected or unintended, sometimes inverted) complementarities of institutions, and they shift in line with the political conflicts that emerge due to the gap between social partners' preference

and the actual enforcement (practice) of policies. Therefore, comprehensive analysis of the nature of and changes to a particular institutional set necessarily involves an investigation into the role and function of specific social policies and, more importantly, their interconnection or combination with labour, economic and industrial policies.

For instance, in Germany and France, industrial reforms that made use of mass early retirements triggered the reinforcement of the status of core workers (although they were expected to work harder and more flexibly) by changing the relationship between employers and core industries' unions (Kwon 2012: 590). The result was that workers in 'normal employment' (regular workers) continue to enjoy a wide range of protections 'based on the occupational/contributory compensation system' in both countries (Palier & Thelen 2010). Under the occupational/contributory compensation system (which tends to play a limited role in income redistribution due to its occupation-based selection on eligibility and beneficiaries), worker protection programmes such as unemployment benefits or job training schemes are likely to provide social benefits (cash or other types) only to resource contributors (i.e. insurance payers).

Again, what emerges from both the German and French cases is that, as Emmenegger and his colleagues (Emmenegger *et al.* 2012: 17) have stressed, labour market policies and social policies cannot be analysed in isolation. Alongside labour policy and economic policy (or industrial policy), social policy (more specifically the introduction of labour protection schemes) is central to the employment system. Thus, if the Korean employment system is to be analysed in a comprehensive way, the extent of the coverage of unemployment benefits, job skill training for workers and public subsidies for stable employment in individual firms must be examined alongside the social rights of workers and the way in which policy outcomes are influenced by policy-making in other policy realms.

8.2 A Korean 'Golden Triangle' of flexicurity

In the wake of the economic crisis, the Korean state found itself reinvigorated with new roles, new networks and new instruments (Song 2003: 406) to protect workers. The Kim Dae-jung government's reform of the institutional set prevented further privatisation of social insurance schemes, something that international organisations such as the World

Bank favoured. For instance, the state's reinforcement of social protection schemes, such as EI, Workers' Compensation Insurance, National Pension Insurance and the National Basic Living Security scheme (NBLS) left little place for privatisation (H.-K. Lee 2004: 293-297; Lee & Moon 2008: 18). Nam (2007) agrees with the analysis that the welfare reforms achieved quantitative expansion of welfare (although it remained subordinate to economic strategy) and succeeded in modifying various laws and regulations (Nam 2007: 49).¹¹⁵ In order to mitigate the painful social costs of the structural (and by and large neoliberal) adjustment brought about by the 1998 social pact and amendment of Korea's labour laws, the Kim Dae-jung government tried to build a stronger and more durable social safety net. After the 1997 crisis, the coverage of social insurance schemes expanded dramatically and the institutional foundation for a comprehensive social safety net was established, although it was at a very embryonic stage (H.-K. Lee 2004: 295; KEIS 2008).

In fact, the Korean state's model for its reform of the social security system and labour market at the time of the formation of the LMGTC was the Danish model of flexicurity (*Hankook-ilbo* 28 March 2006; *Hankyoreh* 29 April 2002). A government officer who participated in the LRRC and LMGTC stated that the original idea behind the formation of the LMGTC was to establish a system emulating the Dutch model of social dialogue. By employing this, it was hoped that the contents of the social pact would resemble the New Course Agreement of 1993 in the Netherlands¹¹⁶ (interviewee P5¹¹⁷). For instance, the 1998 social pact agreed between the LMGTC social partners called for the tripartite system to be applied at the sectorial and regional level. It included concessions to labour in the form of suppression of wage increases. However, compensation for these reforms included concessions to business in the form of a reduction in working hours to 36 hours per week and promises by the government to lower workers' tax burden in return for wage restraints and to improve the legal status of non-regular workers. Meanwhile, the reform of labour

¹¹⁵ Nam (2002) also argues that the outcome of the Kim Dae-jung government's welfare reforms had the institutional features of a conservative model and will eventually become a fully-fledged conservative model (Nam 2002: 164).

¹¹⁶ For the Dutch model of flexicurity and the New Course Agreement of 1993, see Visser (1998) and Meer *et al.* (2005).

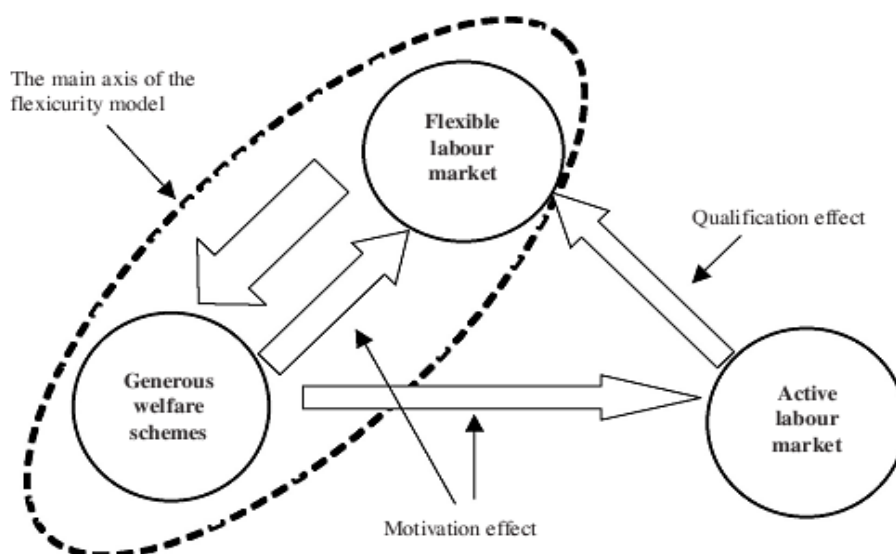
¹¹⁷ Although he pointed to the Dutch model as the favoured model for Korea's labour reforms in the interview, the actual labour law and EI institutional sets are much closer to the Danish model, as seen in Chapter 7 (Section 7.3.1). It is worth noting that the 1998 labour reforms did not intend to increase the number of part-time workers but rather reduce their numbers by enhancing the mobility of regular workers in the core-insider labour market. Furthermore, as will be seen later in this chapter, the state made a strong drive to emulate the functions of the ALMP through EI.

protection (social security system) aimed to boost labour flexibility and security in line with the Danish model—which makes use of social insurance and an active labour market policy (such as employment stabilisation and job skills training)—rather than Dutch model, in which labour flexibility primarily derives from the widespread use of part-time workers with the same labour standards and social security provisions as regular workers. Furthermore, the issue of the ‘Golden Triangle’ of flexicurity in the employment system was emphasised by successive Korean governments.¹¹⁸ During their presidencies, both Kim Dae-jung and Roh Moo-hyun called for flexicurity in the labour market, employing their political rhetoric of ‘productive welfare (or workfare)’ (*Hankyoreh* 4 December 1999) and ‘flexible security’ (*Hankyoreh* 18 August 2003), respectively.¹¹⁹

Which of the features contained within these state blueprints have come to pass?

¹¹⁸ The ‘Golden Triangle’ of flexicurity refers to a unique Danish employment system model that combines a high level of worker mobility between jobs, social security (a generous system of social welfare and social insurance, such as unemployment benefits/passive labour market policy) and active labour market programmes (an active labour market policy, the ALMP, which offers skills qualification, direct wage subsidies or job offers in the public sector) (Bredgaard *et al.* 2006: 64; Haagh & Cook 2005: 173; Madsen 2004: 189; 2007: 525–527; Jochem 2011: 139–140). All three programmes support Denmark’s changing economic situation. As can be seen in Figure 8.1, each of the three individual programmes works in combination with the others, and the arrows between the programmes depict the flow of people between employment, welfare and active labour market programmes. Under this system, the high flexibility in the Danish employment system affords workers low job security, but they are protected by universal benefits and tend to re-enter the labour market after only a short period of unemployment, while those who are unemployed for a longer period receive assistance from the ALMP to re-enter employment.

Figure 8.: A Danish model of flexicurity



*Source: Bredgaard *et al.* (2006: 64)

¹¹⁹ See Kwon (2005: 492) to confirm that Kim Dae-jung’s proclamation of a ‘Productive welfare state’ implies the adoption of a flexicurity model. For the same reason, see Han *et al.* (2010: 299) in the case of Roh Moo-hyun.

8.2.1 Enlargement of comprehensive social security

Of social security benefits, this research focuses on EI because it is considered to have played a major role in easing the problems caused by mass unemployment by providing cash benefits and job skills training since the economic crisis. It also exhibits a number of important features related to the implementation of the institutional reform of the Korean employment system.

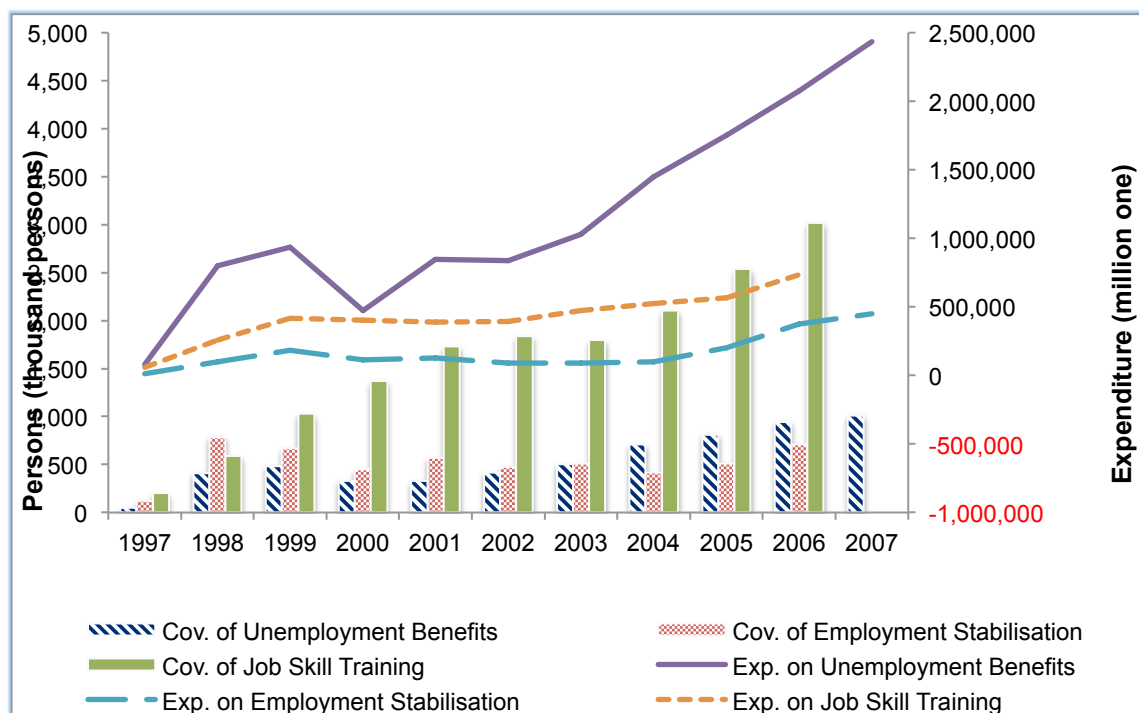
EI was introduced in 1995 to provide not only unemployment benefits but also training and job security grants. Shortly after its implementation, and although it was in an embryonic stage, EI was used to deal with the 1997 crisis; it expanded rapidly as eligibility was widened. In the case of the unemployment benefits scheme, in 1995, wage-workers from firms employing more than 30 people could apply. In January 1998, this eligibility was expanded to firms employing more than ten people and to firms employing more than five in March 1998. In October 1998, EI eligibility was expanded to businesses of any size. During the same period, eligibility for the employment stabilisation scheme and the job skill training scheme expanded alongside that of the unemployment benefits scheme.¹²⁰ Despite the fact that EI is the most recently implemented of all the social safety net programmes, EI's coverage was expanded to encompass all sizes of enterprises two years earlier than was Workers' Compensation Insurance. The latter was introduced in 1964 but coverage was only extended to all enterprises after 2001.

Second, as can be seen in Chart 8.1, the expenditure on and coverage of EI has sharply expanded. In particular, the expenditure on EI unemployment benefits has increased dramatically, from 78,737 million won (USD 686.47 million) in 1997 to 2,434,032 million won (USD 2,123.01 million) in 2007. In particular, unemployment insurance for city dwellers starts at a maximum of 90% of the previous wage (the average over the period being 50%), and the length of coverage is a maximum of six and an average of four months, which is generous for a middle-income economy (Haagh 2006: 399). In addition, although the expansion of coverage is less marked than the increase in expenditure, the coverage has also expanded considerably (see Chart 8.1, and Appendix 4). For instance, it is noteworthy that the number of participants as a percentage of the total labour force, who were compensated by the unemployment benefits in 1997 was only 0.22%, but that in 2007 was

¹²⁰ See Appendix 1.

4.17%. When compared to the recent decreasing trend in coverage of the unemployment benefits in advanced countries –e.g. participant stocks as a percentage of the labour force in Denmark has decreased from 10.07% in 1998 to 4.36% in 2008, and those of OECD average also has decreased from 6.33% in 2004 to 4.93% in 2008, the Korea’s expansion of coverage of the unemployment benefits scheme appears to be innovative.¹²¹ Given that EI has been open to all workers since 1998 and that there has been little or no increases in taxation or the premium rate and that the employment rate has remained stable at around 3.0%, the increase in the number of beneficiaries appears to indicate that the state has actively sought to bring workers into EI by building an integrated network of employers and workers (the Work-Net) and local employment centres.

Chart 8.1: Expenditure on and coverage of Employment Insurance



*Source: Korea Employment Information Service (2008). See Appendix 4.

Third, the coverage of the job skill training and the motherhood protection payment has expanded as radically as unemployment benefits. While the increase in expenditure on the employment stabilisation scheme and the job skill training scheme might not appear to be as great as the increase for unemployment benefits, the amount spent on employment

¹²¹ Source: OECD Stat: Data accessed on 15/08/ 2012 11:01 UTC (GMT); Korean Statistical Information Service (<http://kosis.kr/>): Data accessed on 15/08/2012, 11:20 UTC (GMT).

stabilisation in 2007 was nevertheless four times that spent in 1998, and the expenditure on job skill training in 2006 was three times that spent in 1998.¹²² EI has a unique role in employment stabilisation in Korea, one that is found less in other countries. Separate from its social insurance function, EI includes an employment stabilisation programme that provides firms with subsidies designed to avoid immediate redundancies, which increased dramatically during and after the 1997 economic crisis (Haagh 2004: 184–187). The employment stabilisation scheme has played an active role in stabilising the labour market through the Employment Adjustment Assistance Programme, the Promotion and Employment Programme, and the Employment Creation Programmes. While in the immediate aftermath of the economic crisis the majority of the expenditure was focused on supporting workplace closures, workforce replacement, or turnover through the Employment Adjustment Assistance programme, the main target of expenditure has since moved to Promotion and Employment and the Employment Stabilisation Programmes, which support vulnerable workers (such as the aged and female workers), provide maternity protection, and promote job creation for youth (see Appendix 6). In addition, the total expenditure on the job skill training scheme doubled between 2001 and 2007, with investment in vocational training programmes accounting for the majority of expenditure on training in this period (see Appendix 7).

It must be stressed that the financial resources for both the employment stabilisation scheme and the job skills training scheme are funded exclusively by employers (with no financial input from the government), in contrast to the Western advanced countries (e.g. Denmark, where the general tax is the only financial resource for those schemes), while the unemployment insurance scheme is funded by both employers and employees (50/50 split between employer and employee at a rate of 1% of wages).¹²³ In line with the 2–3% unemployment rate when the EI was established in 1995, the insurance premiums were 0.6% of wages (50/50 split between employer and employee) for unemployment insurance, 0.2% of wages (employer only contribution) for the employment stabilisation programme, and 0.1–0.5% (depending on the size of the firm, employer contribution only) for the job skills training scheme. During the period 1999–2002, when Korea was experiencing the worst of the economic crisis and the unemployment rate reached 6–7%, the premiums increased in

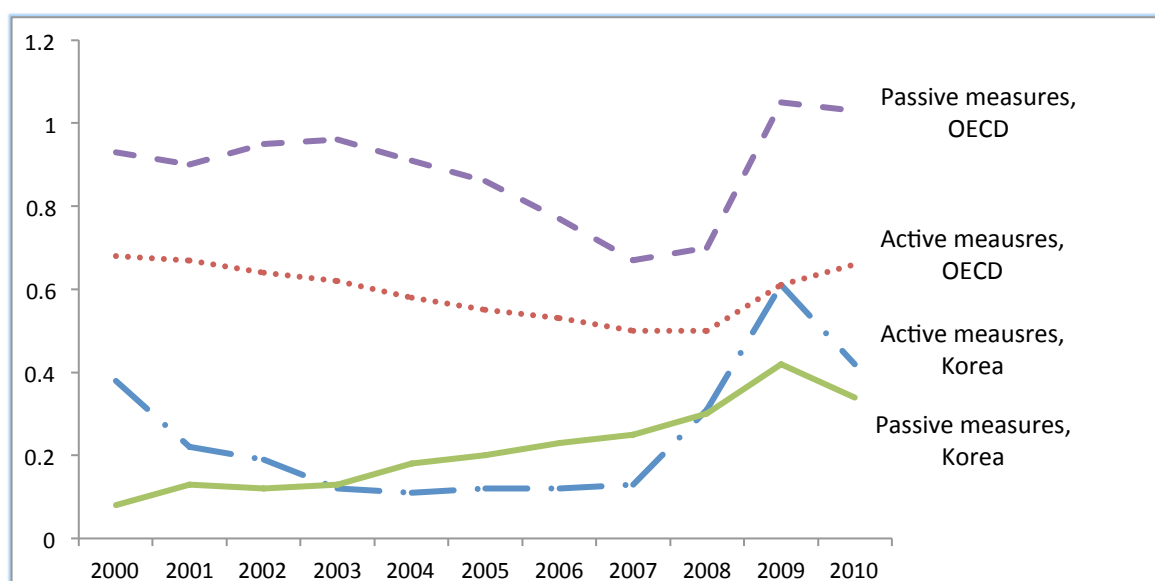
¹²² See Appendix 4.

¹²³ See Appendix 8 to see and compare the amounts of public expenditure (% of GDP) in Korea and OECD averages.

line with the increasing expenditure to 1.0% (50/50 split) for unemployment insurance, 0.3% (employer only) for the employment stabilisation scheme, and 0.1–0.7% (depending on the size of the firm) for the job skills training programme. After this period, premiums decreased to 0.9%, 0.3% and 0.15%, respectively, but with the same employer/employee share (Ministry of Labour 2008a: 84). A system in which employers make the entire contribution to the employment stabilisation scheme and the job skills training scheme and half the contribution to unemployment insurance scheme is unique to Korea. It is also a uniquely Korean practice that the state has control over allocating financial resources within the system.

From the increase in expenditure on EI, the coverage of EI and the pattern of mobilising and operating its resources, it seems clear that the rapid and systemic reform of the institutional set on worker protection was driven by the state's dominance. Furthermore, the real (empirical) practice of developing EI might be viewed as an emerging flexicurity model within which three programmes sought to bring about and balance high mobility in the labour market, comprehensive unemployment benefits (the unemployment insurance scheme), and ALMP (the employment stabilisation scheme and the job skills training scheme).

Chart 8.2: Public expenditure compared with the OECD average by active measures and passive measures (in percentage of Gross Domestic Product)



*Source: OECD. Stat (<http://stats.oecd.org/>) (See Appendix 8)

Moreover, this contention can be supported by comparing Korea's public expenditure on passive and active measures for worker protection with the OECD average, as seen in Chart 8.2. Surprisingly, the level of public expenditure on both active and passive measures for worker protection in Korea since 2000 has been catching up with OECD averages. In particular, the expenditure on active measures increased sharply after Lee Myung-bak's inauguration in 2008, reaching the OECD average of 0.61% of GDP. In fact, Lee Myung-bak's government pushed forward with a job creation programme immediately after his inauguration, with expenditure on direct job creation rising from 0.01% in 2007 to 0.42% in 2009 (see Appendix 8 [Item 60. Direct job creation]). This challenges the general belief that a social democratic government (the two previous governments in Korea were centre-left) is more likely to allocate more resources to public expenditure on employment measures (especially active measure) than a conservative government. Indeed, the current conservative Lee Myung-bak government has further bolstered government support for social care, although it is arguable whether this is a result of the government's genuine long-term commitment to such social policy or is due to other factors such as the global financial recession that has persisted since 2008. What seems clear is that this is not derived by the power of institutional legacy, as public expenditure under the previous Roh Moo-hyun government (2003–2008) was significantly lower. Rather, the suspicion is that Lee Myung-bak's government struck a political bargain with the beleaguered construction industry prior to the presidential election. In his presidential election commitments, he stated that he would push forward with major national-level construction projects to boost the economy and create jobs, which he in fact did after his inauguration. However, the media and opposition parties have criticised these infrastructure projects, claiming that they are actually a way of supporting the construction industry with government subsidies, and they amount to political collusion between Lee Myung-bak government and the construction industry (or employers of these firms) (*Pressian* 5 October 2012).¹²⁴

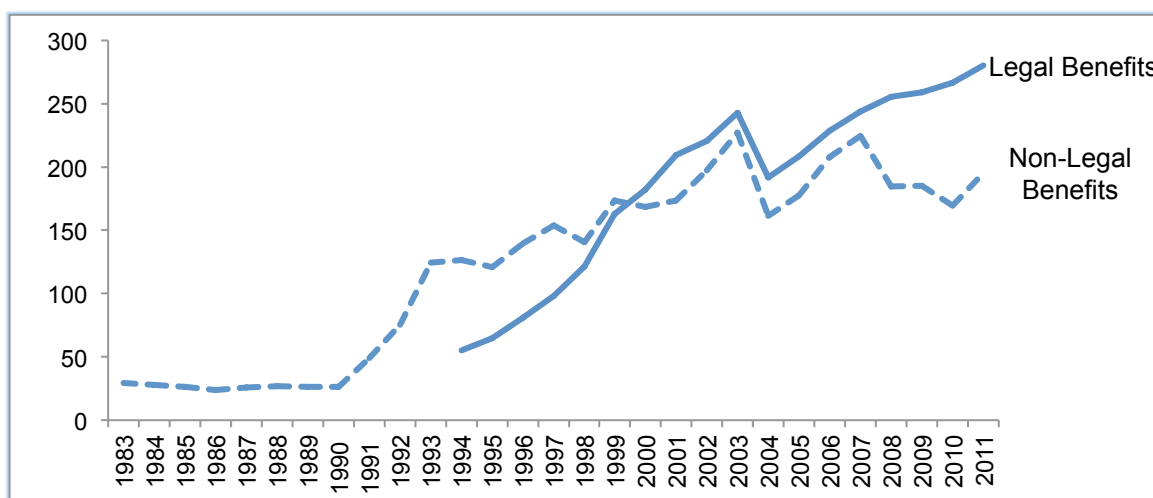
8.2.2 From firm-based workers' welfare to statutory welfare?

With the dramatic expansion in the coverage of and expenditure on EI, companies' spending on welfare benefits for workers as a whole has increased. The benefits provided

¹²⁴ Lee Myung-bak was a chief executive officer of Hyundai Engineering and Construction.

by firms take two forms: those required by law and non-legally required benefits.¹²⁵ The former comprises contributions by employers to various social insurances in accordance with legislation, such as Health Care Insurance, Workers' Compensation Insurance, National Pension Insurance, and Employment Insurance. The latter includes housing, medical and health care, canteens and other food services, support for childcare expenses, and other non-legally required benefits. In the case of non-legally required benefits, from 1982 to 1989, monthly contributions averaged approximately 27 thousand won (USD 23.55) per person. However, from 1993, after the Kim Young-sam government came to power, this figure began to increase sharply and reached 195.5 thousand won (USD 175.89) by 2011, with a peak of 227.3 thousand won (USD 204.50) in 2003. The increase in the cost of legally required benefits has been much more dramatic. In 1994, the cost was a mere 55.1 thousand won (USD 48.06) per person, but this increased sharply to 280.1 thousand won (USD 252.00) by 2011 and stands in contrast to the recent decreasing trend in expenditure on non-legal benefits (See Chart 8.3).

Chart 8.3: Welfare expenditure on workers (monthly average per head, in thousand won)



*Source: Ministry of Labour (<http://laborstat.molab.go.kr/>): Data accessed on 07/10/ 2012, 15:42 UTC (GMT); Ministry of Labour (2008b).

*Note: average monthly cost per head.

¹²⁵ Employing the terms used by the OECD, social expenditure can be categorised into public, (institutional) mandatory and private voluntary expenditures. Using the OECD's terms, 'legally required benefits' for firms would fall into the mandatory category. The increasing patterns of public expenditure and private voluntary expenditure on welfare in Korea will be examined later in this section.

This configuration suggests that the commonly held assumption that private companies make up for the ‘shortfall in state-led welfare provision’ in East Asian countries needs to be re-examined. For example, while there is little doubt that social welfare is provided by a combination of a ‘relatively weak’ welfare state, company welfare schemes, family provision and other means in East Asia (Chang 2007: 5; emphasis is mine) and that business and family played the dominant role in welfare provision during Korea’s period of high economic growth (1961–1987) (Song 2003, 411), the various empirical data sets contradict the firm-based welfare thesis, which claims that there have been ‘attempts to discourage dependence on the state and to encourage private sources of welfare’ (Kwon & Holliday 2007, 243).

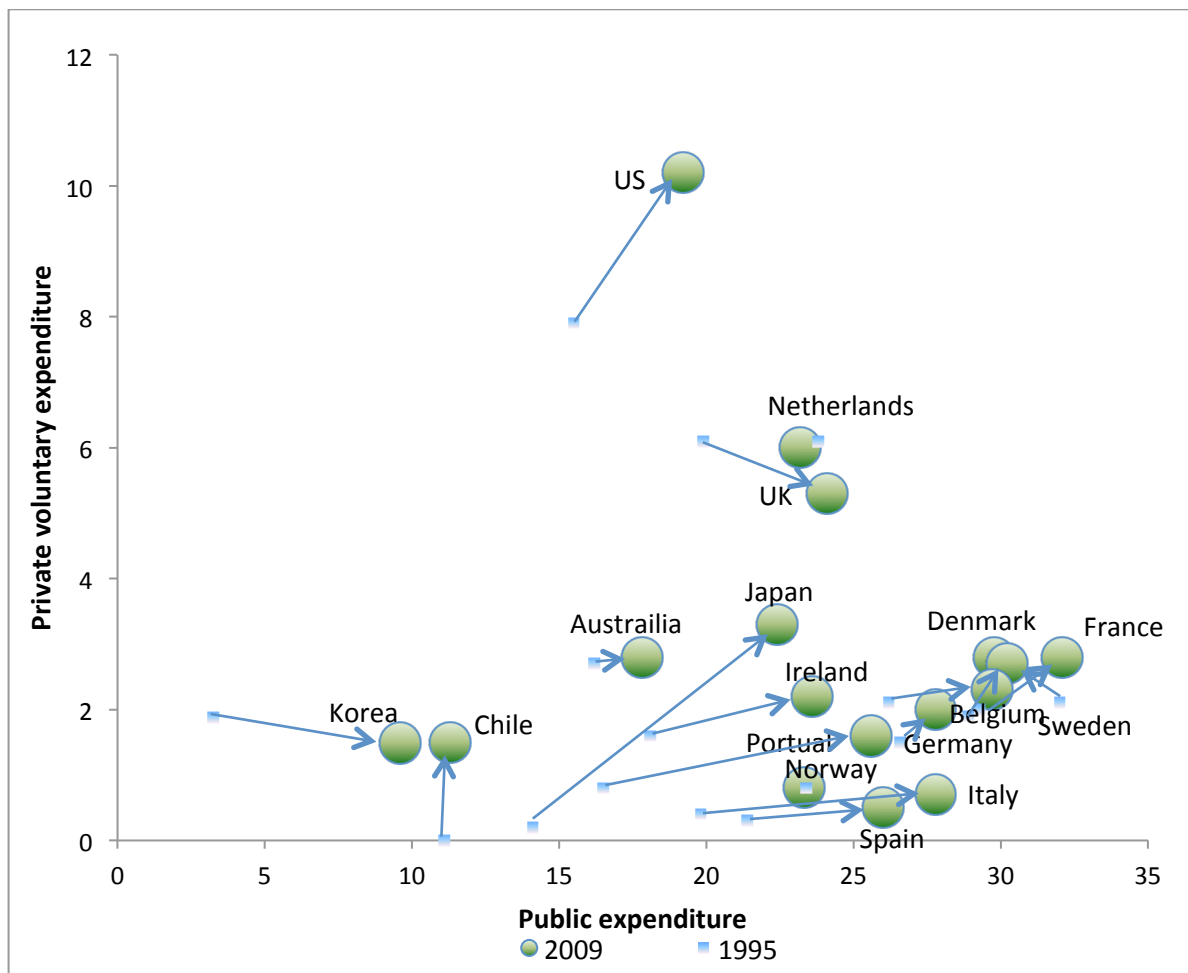
The scatter plots for public and private social expenditure among selected OECD countries in 1995 and 2009 (Chart 8.4) show that Korea’s public expenditure is the lowest but is increasing, although private voluntary expenditure is similar to Portugal and Chile. Of the countries in the sample, there are two clear outliers: the US, where there is extremely high private expenditure; and Korea and Chile, where private expenditure is similar to other OECD countries, but there is an extremely low level of public expenditure. However, it should be noted that the level of Korea’s public expenditure during the period 1995-2009, has increased dramatically, unlike Chile. Although the increasing pattern of public expenditure can be seen as common in some countries, those in Korea, Japan, Portugal and Italy appear to be innovative and rapid. This stands in sharp contrast to the staged or decreasing pattern in the Nordic welfare states and central European countries including Denmark, Sweden, the Netherlands, Norway, France and German.

Countries in the sample are clustered, with high public expenditures (around 25% of GDP) and low levels of private expenditure (although this varies according to the local contexts,¹²⁶ with private expenditure in the UK and the Netherlands higher than in central and southern European countries). In contrast to the assumption that where state-coordinated provision is low, companies face pressure to make up for the shortfall through voluntary measures (Farnsworth 2004: 438), the level of private expenditure in Korea is at the OECD average (and even decreasing) even though public expenditure is very low. The

¹²⁶ Southern European countries like Spain, Portugal, and Greece (except Italy) display relatively lower private expenditure but high public expenditure, whereas Japan, Australia and Ireland, which are commonly characterised as more liberal market economy systems, display comparatively higher rates of private expenditure and lower public expenditure.

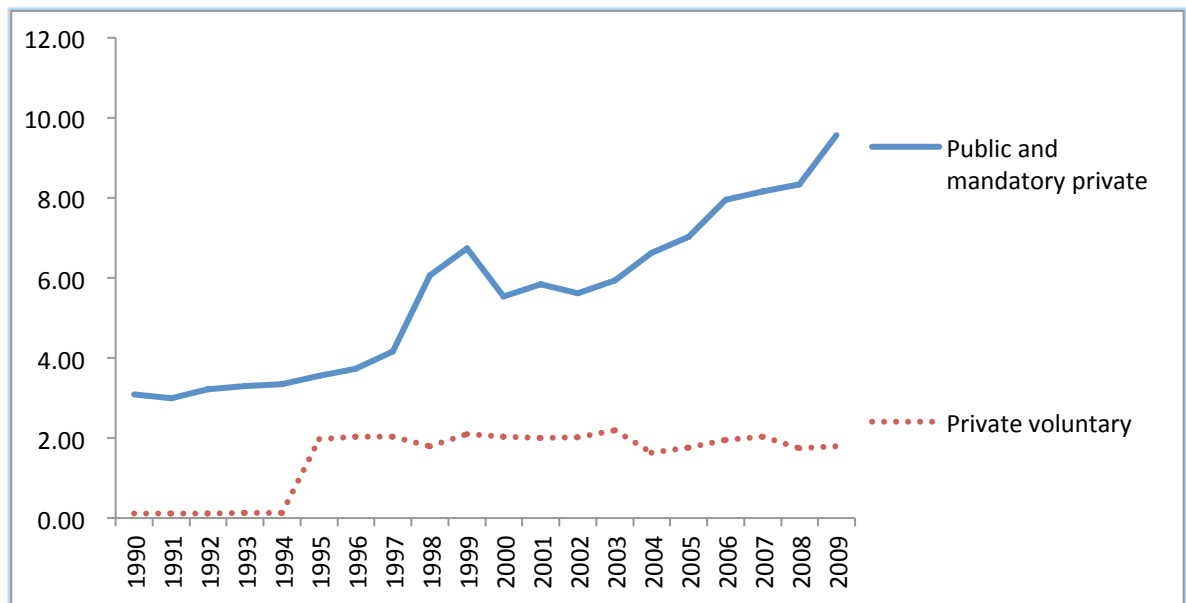
contention that countries with lower levels of statutory provision (i.e. lower levels of corporate taxation and state social provision) are more likely to have higher levels of private voluntary expenditure for non-statutory provision of social benefits is only seen in the case of the US, at least within this sample. If the argument that work-based (formal and informal work) social protections serve to address the shortfall in statutory provisions were true in the Korean case (Peng & Wong 2008: 62), then Korea's private voluntary expenditure on social protection would be expected to be considerably higher. More surprisingly, in this sample, the level of Korea's private expenditure is shown as decreasing (similar to the UK, and only two countries in this sample), while those of others are commonly increasing (particularly, see Japan, US and Chile).

Chart 8.4: Social expenditure by public and private voluntary expenditure (selected OECD countries) by percentage of GDP in 1995 and 2009



*Source: OECD. Stat (<http://stats.oecd.org/>), OECD Social Expenditure Database (SOCX), from www.oecd.org/els/social/expenditure (see Appendix 5)

Chart 8.5: Social expenditure by statutory (public and mandatory private) and private in Korea (1990-2009, as a percentage of GDP)



*Source: OECD. Stat (<http://stats.oecd.org/>), OECD Social Expenditure Database (SOCX) via www.oecd.org/els/social/expenditure (see Appendix 5); Korean Statistical Information Service (<http://kosis.kr/>): Accessed 07/10/2012, 20:59:02

*Note: the data for mandatory private expenditure (in Public and mandatory private expenditure) is unavailable for 2008 and 2009.

Where then is Korea's expenditure on social protection going? Chart 8.5 (see Appendix 5), which shows the patterns of statutory expenditure and private voluntary expenditure per GDP between 1990 and 2009, provides the answer. Since 1990, statutory expenditure, both public and mandatory private (that is, legally required benefits), has increased steadily (with the notable peak around 1998 marking the worst phase of Korea's economic crisis), while the level of private voluntary expenditure has remained at around 2.0% since 1995.¹²⁷ As was seen in Chart 8.3, the state's continued expenditure on social protection has remained firm even after the recent 2008 global financial recession, while private voluntary expenditure (which includes non-legally required benefits from firms and the private insurance market) has been vulnerable to exogenous shocks. Therefore, it is an exaggeration to claim that the Korean welfare state has become Anglo-American or liberal in form (employing Esping-Andersen's terminology) and that firm-based workers' welfare remains at the centre of the Korean social welfare system. More significantly, the argument that the traditional developmental state transformed into a neo-liberal state after the 1998

¹²⁷ The sudden expansion of private voluntary expenditure in 1995 seems to have been caused by the Kim Young-sam government's financial liberalisation, which opened up the private insurance market.

reform projects is misleading, i.e. introducing a more market-centred economic system did not put greater pressure on Korean companies in a globalised market, leading to an increase in firm-base welfare provision (Hundt 2009: 99–101).

Instead, it is more convincing to view the Korean state as having adopted a new interventionist role in the social protection realm, as having developed new institutional sets, and as having taken on new responsibilities (although it seems quite limited). In sum, as recent research on the changes in the East Asian welfare model suggests (Li 2012), the Korean welfare system has continued in the form of a state-centred and state-controlled welfare system. The rapid and systematic development of statutory social provision since the 1997 crisis is reminiscent of the critical role played by the developmental state in the period of most rapid economic development (1970–1980). Moreover, as seen above, the institutional arrangements for worker protection in the labour market is characteristic of a flexicurity model—where workers are compensated, trained and motivated to become re-employed in a highly mobile labour market—that appears to be in its infancy. The state’s intervention and investment in labour protection has followed a self-reinforcing path.

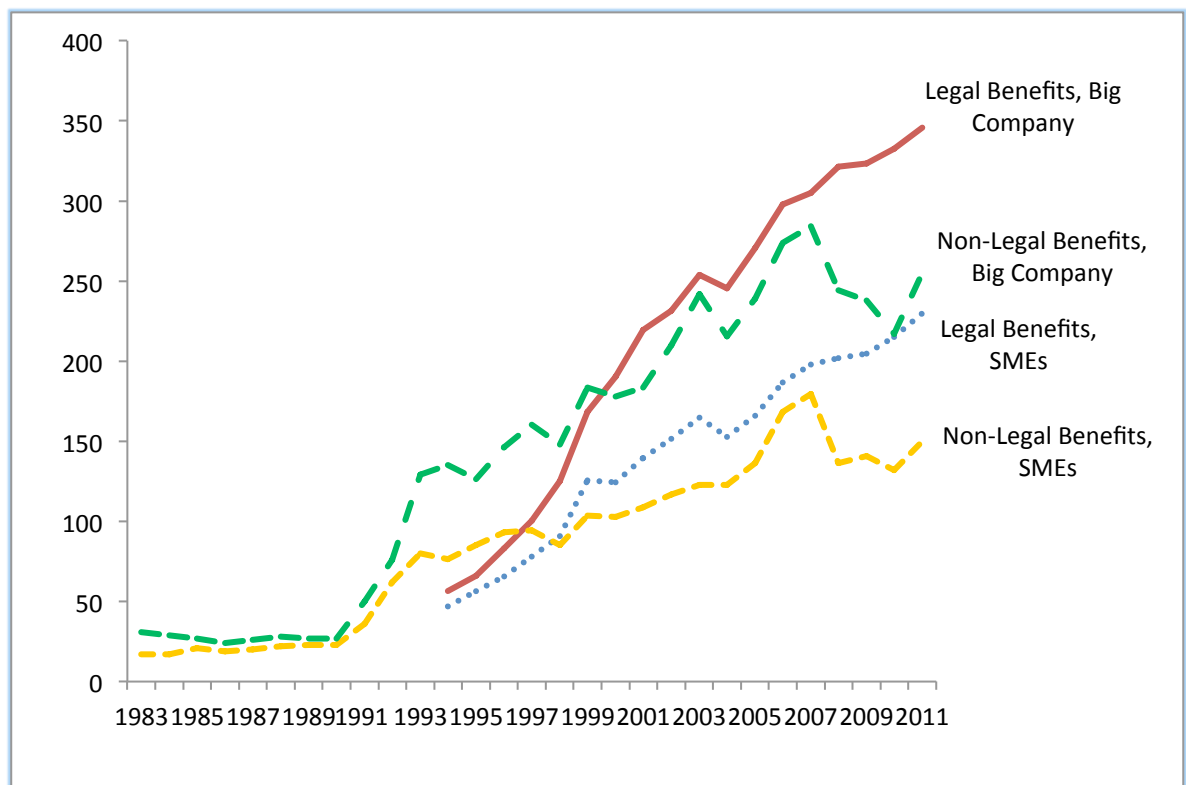
8.2.3 Reproducing dualism in the labour market

The development of EI has followed its own self-reinforcing trajectory, as seen above and in Appendix 1 (see the history of Employment Insurance Act amendments). However, it is crucial to note at this point that the initial form taken by EI (when it was established in 1995) has also restricted its progress. Although the enforcement and the impact of an institution generally changes in line with the political conflicts between the rule-makers and rule-takers, a contingency at the point of institution building can serve to constrain the role and function of an institution and its potential path for change. For instance, it was elite bureaucrats with growth-oriented policy preferences that precluded the EI scheme from being designed originally as a non-occupational (universal)/non-contributory compensation system.¹²⁸ Thus, the fact that the EI was launched as an occupational/contributory compensation system implies that the institutional set for social security has a built-in predisposition towards the exclusion of atypical workers and labour market entrants. In fact, it is undeniable that the Korean social security system, and EI in particular, is underpinned by the assumption that the labour force is divided into a core labour force

¹²⁸ See next section.

and a peripheral labour force; the former will be protected by the social insurance system, while the latter will be excluded or receive only minimal protection. As a result, the ‘two nations hegemonic project’ (Jessop 2003: 139) character of the social security system in Korea was embedded in its institutional sets from the beginning. In selectively providing social protection for regular workers, EI can be seen to have been founded upon an implicit acceptance and affirmation of the current fragmentation of the labour market structure in Korea. Its function is not to fill the gap between the wages and working conditions of regular workers and atypical workers, but to increase the gap.

Chart 8.6: Welfare expenditure on workers by firm size (thousand won)



*Source: Ministry of Labour (<http://laborstat.molab.go.kr/>): Data accessed on 07/10/ 2012, 15:42 UTC (GMT); Ministry of Labour (2008b).

*Note: average monthly cost per head.

While the Chart 8.6 shows that the Korea’s welfare expenditure on workers has a long-term continuity of increasing pattern both in statutory (legal benefits) and private (non-legal benefits), regardless of the 1997 Asian financial crisis, it also confirms that the welfare expenditure gap between workers in large companies and SMEs has been reinforced. For instance, the 1998 revisions to the state’s institutional worker protection schemes have led to increased inequality in welfare expenditure in terms of firm size, with

the welfare expenditure of large companies significantly exceeding that of SMEs. The average monthly in-house welfare expenditure per worker in SMEs (employing fewer than 300 persons) in 2009 was 345,000 won (USD 306), which was 62% of the 561,000 won (USD 497) spent by large firms (employing 300 and more persons).¹²⁹ More significantly, when the increasing gap in welfare expenditure between large firms and SMEs is examined (see Chart 8.6), it is clear that income equality has worsened since 1993, particularly since the LMGTC's social pact was established in 1998. In particular, if the expenditure on legally required benefits (including EI) by large companies is compared to that of SMEs over time, the difference between them can be seen to have increasingly widened since 1999. When the same figures are compared non-legally required benefits, the difference is somewhat less pronounced, although it had begun to grow from 1993.

Even though the state approached the development of its flexicurity model by including provisions for ALMP, the inequality between the beneficiaries of training under EI is significant. In fact, the participation rate in vocational skills development programmes stood at only 14.1% in 2004, the lowest rate among the OECD countries (37.1% was the OECD average in 2002) (Lee & Jeong 2007, 48). Although the overall participation rate is increasing, the gap in the participation rate by firm size and by employment status is deepening, and there is very low participation by vulnerable groups such as SME workers and temporary, daily workers.

Table 8.1: Wage workers' participation in Job Skills Training schemes by firm size (%)

	1-4 workers employed	5-9	10-29	30-99	100-299	Over 300
2007. 08	7.5	10.8	22.6	34.3	39.2	52.5
2008. 03	7.3	13.6	24.9	37.3	40.8	54.0
2009. 08	9.5	16.0	29.2	39.8	46.5	58.3
2010. 08	10.7	16.5	28.9	41.0	48.8	58.3

*Source: Korean Statistical Information Service (<http://kosis.kr/>)

In the case of job skills training schemes by firm size, it can be seen that workers in larger firms are more likely to be able to participate in job training programmes (Table 8.2). The larger firm in which the workers are employed the higher the participation rate in education

¹²⁹ Source: Ministry of Labour (<http://laborstat.molab.go.kr/>).

and training. In 2010, 58.3% of workers in larger firms (those employing more than 300 persons) participated in the job skills training scheme during the previous year, whereas 10.7% of workers in small firms (employing fewer than five persons) participated.

The disparity in participation in job skills training schemes is even more apparent when the employment status of participants is taken into consideration (see Table 8.3). Between 2007 and 2010, the participation rate of wage workers as a whole increased by 6.3%—from 24.9% in 2007 to 31.2% in 2010. However, when these figures are examined by employment status, there is a clear and stable disparity in participation rates between regular and non-regular workers. In 2011, 39.5% of regular workers participated in the job skills training scheme, while only 27.8% of non-regular workers did. The percentage gap between regular workers and non-regular workers has remained at 10% or more since 2007.

Table 8.2: Wage workers’ participation in Job Skills Training schemes by employment status (%)

	Total							
		Regular workers	Non-regular workers	Temporary	Fixed-term	Non-fixed term	Part-time	on call
2007. 08	24.9	28.4	18.6	21.3	22.5	18.4	8.6	18.1
2008. 03	24.5	28.4	17.5	19.0	22.1	11.6	7.9	18.3
2008. 08	26.8	30.4	19.8	21.2	23.8	14.6	8.4	20.6
2009. 03	30.8	34.6	23.4	25.6	29.4	9.9	13.2	24.6
2009. 08	30.8	34.7	23.5	25.2	28.0	13.5	14.9	24.8
2010. 03	32.7	36.3	25.5	29.1	32.5	19.0	15.6	26.3
2010. 08	31.2	34.6	24.4	28.4	32.3	16.4	14.5	24.4
2011. 03	35.4	39.1	28.1	32.3	35.8	22.6	17.2	28.0
2011. 08	35.5	39.5	27.8	32.5	35.9	20.6	16.5	27.8
2012. 03	37.5	41.1	30.1	34.9	39.1	22.1	18.1	29.4

*Source: Korean Statistical Information Service (<http://kosis.kr/>)

In addition, expenditure on training by employers for incumbent workers is much greater than that for the unemployed and vulnerable workers. A pattern of increasing disparity in employers’ expenditure on training for these groups is evident: the former has increased from 180.7 billion won (USD 161.84 million) in 2000 to 581 billion won (USD 520.37) in 2011, whereas the latter has decreased from 278.3 billion won (USD 249.26 million) in

2000 to 269 billion won (USD 240.93 million) in 2011, with a low of 191 billion won (USD 171.07 million) in 2006.¹³⁰

This increase in the inequality in welfare expenditure between larger firms and SMEs implies that, despite the dramatic expansion of EI, welfare provision inequality between regular workers and non-regular workers has also increased given that workers in large firms are mainly regular workers and those in SMEs are non-regular workers. More seriously, as seen in Chapter 7 (Section 7.2), while the percentage of regular workers benefitting from the statutory social provisions of national pension insurance, national health care, and EI is very high (82%–99%), the percentage for non-regular workers is very low (29%–35%) (Han 2011: 7; Kim 2011: 26).

More importantly, it should be noted that despite EI covering all workers, including on-call workers, EI does not provide low-income workers with tax credits or any payments to top-up earnings. Although Korea's unemployment rate is low compared to other OECD countries (around 3%), low-income workers account for 25.4% of all paid workers, and EI appears to be failing in reducing the number of 'working poor' and welfare income inequality for workers.

While it is true that income and welfare provision inequalities were magnified by the 1997 crisis and the subsequent amendment of the labour laws, the trend towards income inequality and job insecurity actually started to appear at the beginning of the 1990s as a result of the various liberalisation policies (You & Lee 2001). However, the social insurance programmes introduced to protect the victims of labour market flexibility do not effectively cover them. Unfortunately, this paradox is reproduced within Korea's approach to ALMP, especially as regards job skills training schemes. Since ALMP is run as a part of the employment insurance program, most non-regular workers and employees in unorganised small firms are excluded from the benefits and various services of ALMP, as are new labour market entrants such as young workers (university graduates), who do not yet contribute to the insurance funds. Expenditure on training for skill upgrading still suffers from underinvestment and is differentiated by firm size and the employment status of workers.

¹³⁰ Source: e-National indicators (www.index.go.kr).

It is clear, therefore, that Korea's attempt to build a flexicurity model where all workers are covered by either unemployment insurance or unemployment assistance has led to a different institutional outcome than that of the Danish system, the flexicurity model upon which it drew. This is mainly because the institutional sets that were developed for it contained the legacy of 'contributivity' from the original formulation of EI, and this has 'strengthened the link between the amount of contribution and the volume of the benefits' (Palier & Thelen 2012: 218). This means that being a citizen of Korea is not enough in itself to guarantee protection under EI and that direct contribution to the insurance funds is necessary. As seen above, however, low-income non-regular workers, who are rarely organised but make up half the total wage workers in the Korean labour market, are excluded from the social security system. In sum, the attributes of the occupational compensation system under EI reinforces labour market dualism by drawing a sharp line between the contributor and non-contributor, between the large premium payer and the small premium payer and between regular workers and non-regular workers. In so doing, it pushes outsider workers to the boundary of EI, and there emerges a new role, new responsibilities and a new kind of welfare funding (taxation) for the developmental welfare state. This policy outcome is not the one that the state expected when it designed EI, and it results from shifting economic circumstances and unforeseen changes in other policy realms. When the state initially considered the formation and the design of EI, no one could have foreseen the coming economic crisis, the resultant unprecedented levels of unemployment and the failure of EI's occupational/contributory compensation system to address the levels of unemployment, meet non-regular workers' needs and function as a means of building a golden triangle of flexicurity.

8.3 Transformation of the developmental welfare state

Economic and industrial explanations for the increasing inequality in the social security system in Korea have focused on the dominance of firm-based unionism in Korea. For theorists subscribing to this explanation, the greater power of *chaebol* unions relative to other unions was central to the failure to design and implement an EI system that afforded comprehensive (universal) welfare provision for workers (Koh 2004; Lee & Jeong 2007: 48–49; Ma 2002; Yang 2006: 206–216). Assuming the Western experience of welfare development as a standard, these theorists have sought to investigate the extent of certain

welfare developments by examining the competency of labour (unions) or simply the implementation of institutions, and they hold that when labour (or a labour-based political party) has sufficiently strong capacity and democratisation matures in Korea, then type and quality of welfare institutions in Korea will be similar to other welfare states. However, as seen in Chapter 7 (Section 7.4.2), the primary concerns of Korea's militant labour movement, which is led by the *chaebol* unions, are employment stability, wage increases and more welfare provision by employers, so firm-based unions have no incentive to intervene in social issues to improve the lot of the non-unionised unemployed and non-regular workers. It seems reasonable, therefore, to suggest that labour is at least partly responsible for the fact that EI was set up as, and has continued to be, a contribution-based rather than citizenship-based system. Consequently, there is no provision within EI for a universal unemployment assistance programme (that is, universal income assistance from national taxation); instead, EI provides only unemployment insurance, and compensation is determined solely by one's work-based insurance contributions. Similarly, the motherhood protection scheme provides compensation only based on one's employment career (that is to say, a person's taxpaying history). As a result, the EI system is unlikely to promote or facilitate income redistribution and is instead more likely to compensate regular-wage workers in larger firms.

Since the unions played little role in the social policy-making process, they were determined to protect their minimal (but basic) political rights under the authoritarian-conservative governments and even after the 1998 labour laws amendment. There was no room for unions to contribute actively to building the institutional sets for worker protection and welfare provision, especially in the face of the introduction of multiple reforms affecting labour rights and the labour market. These include the labour laws amendment (for higher flexibility in the labour market), the structural reorganisation of the *chaebol* production system (for lower labour costs) and changing employment practices (the introduction of a performance-based and annual contract system for greater labour flexibility).¹³¹ Although the state sought to bring unions into the policy domain through the LRRC in 1996 and the LMGTC in 1998, the former was frustrated by the developmental state's unilateral state-led reforms and the dominance of the policy coalition of economic

¹³¹ See Chapter 7 (Section 7.4).

bureaucrats and business organisations,¹³² while the latter has been declining in importance since the 1998 social pact and structural reform project in 1998–1999.¹³³ Furthermore, given that the discussions on the design and implementation of EI took place in 1990–1995 without input from the strongest labour organisation, the KCTU, which was not a legal organisation until the end of 1999, it is natural that the realistic goal of labour organisations in that period was to survive, protect their rights, and strive to gain parliamentary representation through a labour-centred political party.¹³⁴ To them, in turn, the 1998 enhanced social policy, including EI, was ‘recompense from the state’ (interviewee P6) for assenting to mass layoffs.

In sum, Korea’s firm-based, militant-business unionism, characterised by the strong collective bargaining power of *chaebol* unions relative to the weak capacity of labour as a whole, was unable to shape the original design or evolution of EI. Instead, the Korean state’s developmental orientation ensured that EI was enacted (Haagh & Cook 2005: 191). The following section examines the role of the state, and particularly the way in which the state implemented institutional sets for worker protection and welfare provision. The issue here is to determine whether the Korean developmental state changed, and if so, how it changed. To do this, the institutional origin and evolution of EI is examined with a particular focus on the roles of the state and social partners, the fragmentation of elite bureaucrats and the emerging prominence of a new group of social bureaucrats.

8.3.1 The diehard developmentalist approach to guiding the EI

Historically, demands on the state from a newly emergent social class, first the bourgeoisie and then the urban working class, played a role in the gradual extension of the democratic franchise. In a similar vein, the new distributive conflict models of regime change have focused on the demands on the state ‘from more diverse and combined interests across the social class’ as central to regime change (Haggard & Kaufman 2012: 512). Korea’s current social policy-making regime appears to have been designed based on an adoption of the politics of inclusion (tripartite system), the rise of social bureaucrats and a bottom-up approach that included civic movement groups and labour after the 1998 reform projects. It

¹³² See Chapter 5.

¹³³ See Chapter 6.

¹³⁴ See Chapter 7 (Section 7.4 and conclusion).

might therefore appear that the Korean state has undergone a wholesale transformation into a pro-welfare state in which a ruling coalition between social bureaucrats, labour-centred political party, unions and civic groups dominates the policy agenda and policy-making process, producing an interconnected social policy preference network (Yang 2004: 194–200).

Before attempting to determine whether this apparent transformation in the Korean developmental state was merely a brief and transitional phenomenon during and immediately after the moment of crisis or whether it has become a new developmental state model since then, it should be determined whether the argument that the ruling coalition and policy preference network should be at the centre of the analysis on the change in the institutions and welfare system is in fact valid. Although it is the case that in the traditional Korean developmental state, the ruling coalition of economic bureaucrats (technocrats), business, the president and the authoritarian-conservative ruling party was the single authority over institutional arrangements in almost every policy area (Hundt 2009: 38; Yang 2004: 196) and that this ruling coalition, with its catch-up strategy, had control over all national resource mobilisation and institutional arrangements during Korea's economic development era (1970s–1990s), it is nevertheless an exaggeration to claim that the central factor that led to policy reform was a battle between confrontational policy coalitions within the bureaucracy in an attempt to strengthen support for their respective positions 'outside' the state apparatus. However, this desire to achieve popular support undoubtedly contributed to the struggle between the segregated policy blocs 'within' the state, and more specifically within the bureaucracy (the conservative neoliberal economic bloc vs. the reform-minded economic bureaucrats and social bureaucrats).¹³⁵

Rather, the political dynamics of the social policy reforms were confined to 'within' the state. While it is true that the Bureau of Employment Policy of the Ministry of Labour and the Employment Insurance Study Task Force (henceforth EISTF) held discussions with other government bureaus in 1993 on EI and sought feedback from labour representatives and academics, and the FKTU and KEF each made their recommendations on EI to the Ministry of Labour in June 1993 (Ministry of Labour 2006b: 329), this cannot be regarded as active bottom-up participation of labour, business and civic groups in the decision-

¹³⁵ See Chapter 5 (Section 5.1.3).

making process. Instead, it appears more reasonable to regard the social bureaucrats of the Ministry of Labour and EISTF as having utilised the official demands from labour, civic groups and even business as a means of garnering support to counter the hostility that their rival bloc (the elite economic bureaucrats within the Economic Planning Board [EPB] and other economic and financial bureaus) displayed towards welfare reform. For example, although the EISTF, which led the EI building process within the Ministry of Labour, allowed representatives of business and labour to participate in their committee meetings, they took part only as observers and were not given the chance to submit their own proposals to the committee (interviewee P6). Furthermore, the EISTF used a collective bargaining agreement between the KEF and FKTU as a means of mobilising support for its policy. When negotiation on the issue of EI eligibility reached an impasse in early 1994, an agreement struck between the KEF and FKTU on EI eligibility at the Central Committee of Labour and Management (CCLM) enabled EI to be enacted in 1995.¹³⁶ This negotiated settlement struck a balance between the competing proposals of the EISTF, which held that the initial eligibility of the EI's unemployment insurance scheme should cover firms employing five persons or more, the Ministry of Labour's proposal for coverage to start with firms employing over 30 persons, the EPB compromise plan for coverage for firms employing 50 persons (Ministry of Labour 2006b: 333–335), and the Ministry of Commerce and Industry's position, which was that EI eligibility should start from 1995 with firms employing 150 persons. The EISTF contacted labour representatives (the FKTU) and recommended that the Ministry of Labour's recommendation should be accepted. The former head of the EISTF interviewed during the field research depicted this situation as follows:

There were intense debates on the matter of EI eligibility in early 1994: the Ministry of Commerce and Industry insisted on eligibility for firms employing 150 persons; the Ministry of Labour called for eligibility for firms employing 30 persons; and I wanted eligibility for firms employing [five] persons. I called an executive member of the FKTU and convinced them to compromise and accept the Ministry of Labour's proposal, and this was the plan that the CCLM ultimately agreed upon [in April 1994]. Thus, with this agreement between labour and business, we could go ahead with implementing EI with firms employing 30 persons eligible for the

¹³⁶ The CCLM, a business-labour organisation established in 1980, formed a central part of the new corporatist's collaboration to deliberate major labour issues in the mid-1990s, but it was not successful.

Unemployment Insurance scheme and firms employing 70 persons eligible for the Employment Stabilisation scheme and Job Skills Training schemes [in October 1994] (interviewee P6).

The EISTF's efforts to persuade the KEF and the FKTU to agree to support the proposal to make wage workers in firms employing more than 30 persons eligible for support under the unemployment insurance scheme meant that the EI could be enacted in 1995. This compromise agreement was a direct consequence of the EISTF's efforts to gain the support of business and labour in order to challenge the economic bureaucrats. Labour's support for the proposals was strengthened by the announcement of the commitment to expand eligibility to firms employing more than 10 persons in 1998.

The EISTF's guiding role and responsibility to build labour protection scheme in Korea and the development of policy idea by researching various labour protection schemes in advanced countries started much earlier. During the developmentalist era in the 1980s, discussion on building social security institutional measures was vigorous but in its infancy. However, these discussions among a few elite bureaucrats on preparing the ground for EI were not sanctioned by political elites in the Blue House under the authoritarian-developmental regime (at least not until a year prior to the 1992 presidential election). It was precisely this disregard for social welfare (or even discussion of welfare issues) by developmentalists that was responsible for the underdevelopment of Korea's welfare system.

The change of orientation on social protection (and more specifically, EI) within the bureaucracy occurred in 1991, a year prior to the 1992 presidential election and general election and during the Roh Tae-woo government's discussion on the seventh five-year economic development plan.¹³⁷ There was no consensus within the EPB, which was responsible for drafting the plan, on the need to introduce EI because its members had an insufficient understanding of the issues involved. Key executives from the Ministry of Labour and the KLI—who accumulated learning from advanced countries like the Netherlands, Denmark and Japan over time (interviewee P5; interviewee P6)—visited the EPB on 27 March 1991 to discuss the need to introduce an EI system. This discussion led

¹³⁷ The five-year economic development plan was the core institutional measure of the Korean developmental state. Like Lenin's New Economic Policy (NEP), the Korean state designed these plans—which assigned economy policies, public goods management, land development and fiscal policy—every five years from 1962 to 1997.

to key EPB executives becoming sympathetic to idea of introducing EI, and they agreed to the introduction of EI during the seventh five-year economic development plan (Ministry of Labour 2006b: 327). During its election campaign in the run up to the 1992 general election and presidential election, the ruling party pledged to introduce EI in 1995, with the opposition party subsequently making a similar commitment. On 25 February 1993, the FKTU's board of representatives adopted the 'EI resolutions' and called on the newly elected Kim Young-sam government to introduce EI. As part of its five-year economic development plan, the Kim Young-sam government began implementation of EI in 1995 (Ministry of Labour 2006b: 327–328).

To sum up, the EISTF tried to gather support from labour and to expand its alliances within the state to overcome the strong opposition to welfare reform from the economic bureaus and elite economic bureaucrats. The policy initiative was taken not by the policy preference network or ruling coalition in concert with labour and civic groups, but by the social bureaucrats (interviewee P5¹³⁸). Significantly, the KCTU, which was the strongest labour organisation but was not legally recognised, was almost entirely absent during the opinion gathering phase on EI implementation, whereas the FKTU, which consistently opposed universal welfare provision schemes (such as integration of regional medical insurance and workplace medical insurance) and the expansion of eligibility (the inclusion of regional subscribers into the national pension scheme), did participate in the consultation process. After being brought into the LMGTC in 1998, the KCTU was finally able to become involved in discussions on integrating medical insurance and expanding the coverage of the national pension. Along with civic groups, it began to call for increases in public welfare provision through national budget reform. However, this should not be viewed as the emergence of a welfare alliance of wage earners, as will be seen in following section.

8.3.2 Continuity of role and function of social bureaucrats on behalf of labour

As regards the 1998 expansion of EI and the various newly introduced social protection schemes, it is a misunderstanding to claim that representatives of labour in Korea ultimately consented to labour flexibilisation as a *quid pro quo* for the welfare state

¹³⁸ A long-serving government officer who participated in the LRRC and LMGTC.

expansion and the protection of core workers (Peng 2012: 233–238; Chang & Chae 2004: 432). While it is true that the 1998 social pact promised significant labour protection and welfare provision, labour did not take the lead in pressing for these measures, but rather focused on the legalisation of the KCTU and other political rights for unions. To the KCTU, the expansion of EI in the moment of crisis (1998–1999) was regarded as a short-term project and of relatively minor importance. A former executive member of the KCTU provides a clear statement as to the union's immediate concerns and its lack of a clear vision and strategy on the direction of future worker protection reforms.

It was not that we were indifferent towards the institutional implementation of measures for social security and the protection of workers' welfare, but rather that EI, as an issue that was not part of the KCTU's strategic goals and was regarded as a short-term project, was not our major concern. The main focus of our struggle at the time was guaranteeing wage increases and job security at the individual firm-level through collective bargaining. Another point is that we were not actually strong enough to press for worker protection reform ... We constantly raised the issues of EI and Workers' Compensation Insurance, but we gradually tired of pressing these points ... As for the 1998 amendment of EI, we participated in the LMGTC discussions on EI reform, but we did not have major disagreements with the proposed amendments, except for the increases in workers' insurance rates. (interviewee P12)

Thus, the overhaul of EI and its considerable expansion should not be viewed as the result of a trade-off between the state and labour on labour protection and labour flexibility, but as a continuity of state dominance in policy making process at social protection realm. This research could find no evidence whatsoever of political (or any type of) exchange between the state and labour on the expansion of welfare provision. In particular, the four amendments in a single year (1998) that led to the expansion of eligibility for all EI three schemes (unemployment insurance, employment stabilisation and job skills training) to firms of any size should be understood not as the result of a state-labour bargain but as a consequence of a combination of factors: (1) the self-reinforcing factor—a commitment to expand EI eligibility had already been made in 1994 and the system was designed to incorporate this expansion; (2) the functional factor of increased funding for EI programmes as a result of increasing the number of tax payers to cover rising

unemployment in 1998 (interviewee P5); and (3), President Kim Dae-jung's will and leadership (interviewee P2; interviewee P5; interviewee P6).¹³⁹

After the worst of the economic crisis had passed (by the end of 1999), the traditional pattern of state intervention in labour protection continued under the Kim Dae-jung and Roh Moo-hyun governments, despite the fact that the LMGTC had been established. For example, on the issue of a reduction in working hours, no significant agreement was struck between labour and business within the LMGTC for four years (see Chapter 6). With the special committee discussions between labour and business on this issue deadlocked, the Head of the Ministry of Labour and researchers from the Korean Labour Institute (KLI¹⁴⁰) tried to mediate between the opposing sides. Finally, the Ministry of Labour proposed amending the Labour Standards Act in late 2002 (which became the 2003 amendment of the Labour Standards Act) (ESDC 2008: 301–306; Ministry of Labour 2006c: 91–92). The case of implementation of labour protection for non-regular workers (introduction of the Act on the Protection, Etc. of Fixed-term and Part-time Workers and the Act on the Protection, Etc. of Temporary Agency Workers in 2006), which included increasing the scope of EI eligibility, was similar. Demands from the KCTU, FKTU and other civic groups led to discussions on this issue within the LMGTC from July 2001. While business and labour eventually managed to reach an agreement, it was actually the government officers of the committee who led the discussions due to the continuous confrontation and contestation between labour and business on every aspect of the issue (ESDC 2008: 309–312). More importantly, the strongest labour organisation, the KCTU was mostly absent from the negotiations in both cases.

What is clear is that the development of EI and labour protection regulations since 1998 is the result of the combination of state interventionism and the 'low level of social cohesion' within labour, which is common in 'developmental contexts' (Haagh 2006: 417). Contrary to the thesis that the development of social rights is steered by the rise of civil and political citizenship, in the Korean case, elite bureaucrats insulated from social interest groups still have dominant power over setting the social rights agenda and development of social welfare.

¹³⁹ The Ministry of Labour opposed the final amendment on expanding eligibility to firms of any size, but the Blue House pressed ahead with the expansion of eligibility (interviewee P6).

¹⁴⁰ A government-funded research institute under the Office of the Prime Minister.

In short, it was the social bureaucrats in the Ministry of Labour and the KLI that led the policy initiatives on EI and its expansion, and met the demands of the Korean society for labour protection. Although there were internal veto possibilities on EI implementation within the bureaucracy (from economic bureaucrats), the economic bureaucrats' veto possibilities were ultimately not strong enough to block or mediate the setting of policy either during the phase in which EI emerged or during the phase in which EI was expanded. Instead, the social bureaucrats took on the responsibility for the institutional arrangements on labour protection and sought to persuade their opponents and expand their alliances (within and outside the state).

To put it differently, the social bureaucrat-led pattern of shaping the course of EI, including the four amendments in 1998, did not differ significantly from the initial EI enactment in 1994–1995 in the sense that the elite bureaucrats and a pilot agency (the EISTF) were insulated from social groups and had sufficient autonomy and capacity to play a key role in directing the development of EI. The expansion of EI eligibility had been designed from the outset and was due to take place in 1998 regardless of the social pact of the same year and the existence of any policy coalition network outside the state. In the case of EI reform, the Ministry of Labour supported increasing subsidies and broadening the coverage of the job skills training scheme, whereas business called for reducing the tax rate for employers or abolishing it altogether, with the aim of reducing labour costs (ESDC 2008: 277–278). The same pattern is seen in the case of implementation of the EI employment stabilisation schemes, where the Ministry of Labour was determined to include this scheme as an active labour market policy in EI in 1993, whereas business called for no widening in the coverage of EI (Ministry of Labour 2006b: 331).

It is convincing, therefore, that the social bureaucrats who sprang forth from within the economic bureaucratic bloc took on a new responsibility and institutional initiative towards social protection in the developmental era. During the moment of crisis in 1997–1999, the economic bureaucrats lost their previously dominant organisational power within the bureaucracy and their control over the policy-making process due to Kim Young-sam's attempts to dissolve the EPB and reorganise economic bureaus (see Chapter 6). The elite bureaucrats from the Ministry of Labour, who had been emasculated under the economic bureaucrats' dominance over the policy arena, emerged at the centre of the policy-making process and, in fact, led the institutional arrangements for Kim Dae-jung's labour and

employment reform projects and industrial (*chaebols*) structural reforms. Thus, it is not unreasonable to regard the transformations of the Korean developmental state, social (workers) protection and the employment system during the 1998 reforms as having derived from the emerging ‘policy advocates of welfare idealists’ (Kwon 2005: 491). The points to examine further are whether this pro-welfare bloc was able to maintain its policy dominance after the crisis phase (after 2000) and whether it was able to mobilise policy support from within and outside the state. The answers to these points will demonstrate whether, as democratisation theorists argue, the Korean developmental state has been dismantled as a result of social bureaucrats and a policy network (or ruling coalition) working in combination with labour and civic groups to inform the policy-making arena and control the social policy-making process (Kwon 2005; Wong & Peng 2008; Peng 2012).

These democratisation theorists aim to explain the transformation of the Korean employment system and the Korean developmental state by bringing civil society back into political research. For them, the historical moments of Korean democratisation (e.g. 1987 Great Workers’ Struggle, the first civilian presidency of Kim Young-sam and the ruling coalition transition from an authoritarian-conservative bloc to a liberal-democratic bloc with Kim Dae-jung’s inauguration) contributed to fostering the innovative changes in the policy sets for the economy, labour, welfare and the policy-making process. They also led the way to the traditional Korean developmental state’s metamorphosis. For instance, Kwon maintains that the prime factor in the Korean state’s transformation was the confrontation between the welfare idealists’ advocacy coalition and the economic pragmatists who had played the key role in the pro-growth productivist system (Kwon 2005: 491; similarly, Yang 2004: 194–200). However, as was seen earlier in this section, the economic bureaucrats’ dominant influence over policy implementation had already been seriously undermined before the social bureaucrats became involved with the pro-welfare coalition of Kim Dae-jung and his political colleagues.

Moreover, the argument that a new developmental state pattern has appeared is a somewhat hasty generalisation, especially when the focus of analysis moves on to the way of ruling process in the employment system. The almost complete absence of the strongest labour organisation, the KCTU, from the policy-making process means that it cannot be argued that there has been a strong policy coalition or policy advocate network, at least

regarding the reform of social (labour) protection and the employment system. Although it is true that civic groups have made a range of demands on other welfare policy issues, such as the national pension, health care, gender equality in the workplace and equal employment rights for the disabled, these were single-issue demands and were short-term and temporary; it is therefore difficult to regard these individual demands as forming part of an integrated policy coalition. On labour and employment issues, labour, the KCTU in particular, did not play a leading role despite the existence of a tripartite organisation, the LMGTC.

A more plausible explanation, therefore, is that, unlike the Western corporatist experience of collective bargaining between the labour and business or the democratisation argument of the emergence of policy preference networks (see Section 7.4.2 in Chapter 7), the state (social bureaucrats) took on the role and responsibility for labour protection and employment reform on behalf of labour in the developmental context.

8.4 Concluding remarks

The scope of social protection in Korea has certainly broadened, and the institutional purpose of Korea's social policies is no longer subject to an economic rationale. Moreover, the active labour market policies of EI have contributed to bringing about a more protective employment system, which is based on the social bureaucrats' conception of a flexicurity model. However, the EI institutional sets for labour protection have not produced the results that were originally intended and adopted, largely due to the combination of the unprecedented unemployment during the economic crisis and the transformation in employment practices (increasing numbers of non-regular workers, an annual salary system and performance-based contracting). Thus, the occupation-based beneficiary system of EI selectively served regular workers in larger firms and fostered the increasing inequality in welfare provision and ALMP for workers.

The common belief that firm-based workers welfare is still the dominant form in the Korean welfare system is also misleading. The expenditure on and expansion of labour protection via statutory institutional arrangements demonstrates the increased role and function of the Korean developmental welfare state in welfare provision. It should be noted

that labour has had little impact on this development due to the fact that corporatism has not been embedded in Korean society to any great degree.

In this vein, the democratisation theorists' argument that, as with the advanced democracies in Europe, the emergence of a policy network and coalition brought about the development of a Korean welfare state is at best superficial; when the institutional arrangements and their origin and evolution are analysed, they reveal that what is happening below the surface actually represents greater continuity with the tradition of state intervention in Korea rather than constituting any substantial change. However, the Korean state reinvented and reinvigorated itself by taking on the role and responsibility for enhancing social (worker) protection by nurturing social bureaucrats. A more plausible explanation, therefore, is that, unlike the Western corporatist experience of collective bargaining between the labour and business or the democratisation argument of the emergence of policy preference networks, the state (social bureaucrats) took on the role and responsibility for labour protection on behalf of labour in the developmental context. This is the reason that this study labels this revised form of state as the transformation of Korean developmental welfare state, unlike the recent developmental welfare state thesis emphasises the submission of social policy to economic growth and the role of democratic policy network or coalition in welfare development.

Chapter 9

Conclusion

9.0 Introduction

This chapter addresses the theoretical implications and contribution of the term ‘employment system’ as the analytical framework used in this study to examine the change and continuity of Korean development welfare state. The findings and arguments of the previous chapters are comprehensively reviewed by employing an analytically refined version of the critical juncture framework incorporating the logic of incremental change. This chapter also suggests new research questions by analysing what is not addressed by the study.

The purpose of this study has been to examine the transformation of the Korean employment system since 1980, when the country was released from military dictatorship and its rapid economic development began to lag for the first time in its economic developmental trajectory (although this was temporary). Between 1997 and 1999, the trajectory of the Korean employment system experienced a critical juncture. The study has therefore investigated the three major labour policy reforms in this period – which afforded greater labour flexibility, more comprehensive labour protection schemes, and significant political rights to unions – in order to illustrate the transformation of the employment system and to situate the institutional outcomes within a formal conceptual setting, thereby contributing to the debate on the transformation (or transition) of the Korean developmental welfare state. Furthermore, this study has explored the state-driven structural reforms to the *chaebol* and industrial system during this period because it presumes that the employment system consists not only of labour policies, but also other formal and informal sets of institutional constraints that directly and indirectly influence the design and the results of institutional arrangements.

9.1 The employment system and its implications

In this research, the employment system is conceptualised as a set of institutions combining labour policy, industrial policy, financial policy, and economic policy, which

directly and indirectly affect the character and transformation of employment practices at the empirical level. In addition, the informal institutions embedded in employment practices through past practices are also regarded as factors responsible for the transformation of the employment system.

The conceptualisation of ‘employment system’ used in this study was first presented by Madsen (1999) and was further theoretically developed by Haagh (2004: 155). In this research, it has been used as an analytical lens to detect the changes in the labour market, labour relations, and labour protection, which have been termed employment practices. It has been used to understand the institutional adaptation of the developmental welfare state and entails four theoretical implications. First, the term employment system explicitly entails the notion of institutional complementarity (Boyer 2005; Bronk 2009; Chang 2007; Haagh 2012; Hall & Soskice 2001; Streeck 2009), which refers to how the contribution of each individual institution is enhanced by mutual co-operation with other institutions. For example, the combination of a labour policy that aims to foster greater flexibility in the labour market and a financial policy whose objective is to reform the shareholder financial market is expected to impart greater labour flexibility than if each element were considered separately. When these policies are combined with the occupational/contributory compensation system of an employment insurance scheme, which tends to provide social benefits only to resource contributors (due to its occupation-based selection on eligibility and beneficiaries), the resulting welfare provision is more likely to contribute to an increasing pattern of income and welfare inequalities. Therefore, to illustrate the comprehensive nature of the employment system and its transformation, it is necessary to explore not only labour policy, but also other affiliated policies such as social policy, industrial policy, and financial policy.

Second, it is also noticeable that the performance of the complementary or combined sequence of rules enacted by individual institutions sharing similar policy goals and policy direction does not always produce positive sum policy outcomes. Rather, due to institutional complementarity, the result could be unstable, unexpected and *inverted* or a negative sum policy outcome. For instance, when Article 31 of the Labour Standards Act – intended non-regular-outsider labour market (more flexibility in the insider labour market and more security at the margins) – was combined with the Act on the Protection, Etc. of Temporary Agency Workers – introduced with the aim of securing the jobs and working

conditions of non-regular workers at the margins – the policy outcome that emerged from these rules ran counter to the original intention of each rule: the dualism of rigidity in the insider labour market and the numerical flexibility at the margins was reproduced (see Section 7.3 in Chapter 7 and the following sections).

The fact that institutional change not only alters the constraints within which actors make strategic choices, but also ultimately reshapes the very goals and ideas that animate political action (Thelen & Steinmo 1992: 27) means that it is possible to explain this phenomenon. Unless it is accepted that the only mechanism in operation is self-reinforcement, it is not surprising that institutional change results in policy outcomes that derive from the inputs of complementary institutions over time, which themselves are the result of the actors' diverse and sometimes contradictory interpretations of the institutions themselves and their enactment. Thus, the logic of the employment system brings our analytical scope down to an actor-based approach in which the diverse and competitive interests (goals and ideas) of political actors matter when examining institutional change and its impact, and ultimately brings the analytical compass back to the realm of politics. Hence, the third theoretical implication of the actor-based conceptualisation of the employment system used in this thesis lies in the fact that institutional change is more likely to be motivated by endogenous and slow-moving causal processes than exogenous shock or contingency (Mahoney & Thelen 2010; Streeck 2009).

For instance, this study has identified the creation of the Labour-Management-Government Tripartite Commission (LMGTC, established in 1998) as a watershed moment in the dismantling of the Korean developmental state and the opening up of the starting point for institutional innovation in the formation of a new form of Korean state (i.e. a tripartite system, as evidenced by the 1998 labour law amendments based on the 1998 social pact agreed upon by the LMGTC), even though it failed to incorporate effective self-reinforcing or self-reproducing mechanisms. Although institutional measures to support the operation and reinforcement of the LMGTC have existed for a decade, the LMGTC has not brought about a break from Korea's traditional state-led policy-making process, in which the bureaucrats have a central role and responsibility for decision making on policy. This can be explained by the way in which the new relationship forged between the traditional state-business partnership, which had long controlled the shaping of policy, and labour broke down, with each actor pursuing different goals. On the one hand, this was due to Korea's

lack of experience in creating a corporatist social consensus and the embedded practice of collective bargaining and, on the other, each actor's widely differing interests in and interpretations of the LMGTC and its enactments and the huge asymmetric configuration of their power. In effect, the LMGTC's weak and ambiguous institutional foundations, poorly defined organisational and functional objectives, and the lack of practice and embeddedness of collective bargaining in less formal institutional sets meant that the actors' interpretations of the purpose and the enactments of the LMGTC differed considerably from each other. While the state wished to draw up social agreements through the LMGTC so as to demonstrate tangible results to the international community in order to secure the International Monetary Fund's (IMF) loan deal for economic rescue, business saw the LMGTC as a means to achieving its aim of securing greater flexibility in the labour market and mitigating the effect of the government's *chaebol* reform plans. Labour viewed the newly implemented tripartite system as an instrument for pushing forward industrial relations reform (the structural reform of *chaebols*) and gaining political rights for unions. Furthermore, even within the government, perceptions on the LMGTC and its role in the policy-making process differed. Ultimately, by 2000, when Korea had overcome the worst of the economic crisis, the LMGTC lost its institutional power over the actors, and its role and function in the policy-making process declined.

A clear lesson derived from this case is that the diverse factors motivating actors' participation in and compliance with a particular institutional implementation (or change) lead to inherent dynamic tensions and pressures that cement the potential for further institutional change. In fact, the institutional adjustments that were made to facilitate the operation of the LMGTC (i.e. the series of regulations and acts introduced to normalise and enhance the constitutional role and function of the LMGTC since March 1998) not only failed to bolster the functioning of the LMGTC but also to mediate and abate the conflicting interests and power struggle between social partners. The term employment system, which refers to a combined set of institutions, therefore needs to examine not only the policy outcomes of a particular employment system, but also the roles, interests, and responsibilities of actors, because the policy outcomes, which are fraught with the tension and pressure of the institutional actors, both make room for further institutional change and constrain actors' policy preferences and responsibilities. This is the fourth implication of the employment system.

To sum up, a change in the employment system may be largely dependent on the politics that shape institutional arrangements within the employment system, and change may be effected by mediating the diverse and competitive interests of political actors. While, on the one hand, increasing pressure from international markets and the international community's demand for a genuinely democratic society have ushered the Korean state to follow the 'best practice' (in Anglo-American neo-liberal terms) in various policy areas, on the other hand, the alternative explanation that domestic politics and embedded practice in labour market steer policy implementations in response to changes in internal and external environments should be highlighted.

9.2 Critical juncture and its conditions

With the theoretical implications of the employment system now outlined, the causal factors (and the sequence in which they occurred) in the transformation of the Korean employment system and its policy outcomes will be identified through the perspective of institutional continuity and change. The primary feature of the historical institutionalist approach, that of the path-dependency thesis and the critical juncture framework, may be represented by the logic that the previous period's policy implementation and its continuity (or institutional legacy) affects present institutions (and their change) over time, and the goals, means, and interests of actors are bound by the framework of the previous institutional sets. In this vein, classic examples of the critical juncture framework (e.g. Collier & Collier 1991) argue that the legacy and influence of institutional and organisational systems are long term when the formation of a specific institutional arrangement takes place at a decisive moment and in a relatively short time (the critical juncture). Thus, it is important to draw a conceptual distinction between the path of the first phase and the institutional constraints (that is, the mechanisms of increasing returns, self-reinforcement, or lock-in effect) in order to examine the change in institutional arrangements under the critical juncture framework. However, sometimes any discussion on institutional change within classical theorising about critical junctures over-emphasises the role of external shock, which means that the responsibility for institutional change is placed somewhere outside the existing political structure (for example, economic crisis, war, or the emergence of a 'political giant'). It is unsurprising, therefore, that despite the

critical juncture framework's ability to recognise clearly the institutional policy inputs and outcomes (although they are identified *ex post facto*, at least in the labour market and welfare literature), there is little agreement on which political contexts provide the preconditions for institutional change and how they function as part of the causal mechanisms at the critical juncture.

Thus, on the one hand, this study adopts the historical institutionalist approach as its main research framework and, on the other, tries to open the 'black box' (Falleti & Lynch 2009: 1145) between policy inputs and outcomes in the critical juncture framework. This implies that the analytical strategy used in this study is underpinned by a presumption that not only affects labour policies directly, but also the process and results of conflicts, negotiations, and compromise. For instance, this study investigates an endogenous mechanism (i.e. the role, motivation, and responsibility of elite-bureaucrats in the developmental state context, their insulation and autonomy, and their commitment to economic (and in this thesis, social) growth via a catching-up strategy) in its analysis of the origin, implementation, and expansion of the Employment Insurance scheme and its consequence for labour and industrial policies, all of which contributed to the transformation of the employment system regardless of the 1997 Asian financial crisis. The economic crisis can at best be regarded as a trigger for fostering the (smooth) institutional expansion of labour protection.

The focal points of this chapter examine the transformation of the employment system through focusing on two pivotal phases within the critical juncture framework: first, it examines the causal conditions at work, along with how the political actors selectively chose a certain policy among the various policy options. To do this, this study distinguishes between two types of causal conditions: permissive conditions and productive conditions. The former represents the easing of constraints around the institutional structure to make room for actors to move and fill the institutional vacuum with alternatives. The latter, in the presence of the permissive conditions, produces the institutional outputs that are (initially) locked in when the window of opportunity marked by the permissive conditions disappears and the juncture comes to a close (Soifer 2012: 1573-1576). For instance, examining the effect that the transition in the rule-making process had on the employment system, labour's empowerment from the 1997 general strike, the economic crisis, and the presidential elections of 1997 created permissive conditions for reshaping the state-led policy-making process. The productive conditions of

President Kim Dae-jung's labour-friendly gestures and his social democratic leadership helped to restore state autonomy and allowed his government to push forward with industrial reform plans (which were backed by the IMF) and the creation of a tripartite system (LMGTC) for the policy-making process, which can be considered a symbol of the dismantlement of Korea's traditional developmental strategy on policy-making and paving the way for the Korean state's transformation. The outcome of these productive conditions can be regarded as a Korean form of tripartite system coming into play, and the 1998 amendment of Korea's labour laws, which was enacted without delay in accordance with the 1998 social pact. And the juncture phase concluded in 2000, when the influence of the permissive conditions (i.e. the national crisis and the transition of presidential power) waned (see Section 9.3.1 in this chapter).

The second focal point to be examined is the period of institutional legacy, where the mechanisms of reproduction endow institutional stability. If the outcomes from the critical juncture extend over time and various counter mechanisms to change (i.e. increasing returns) function well, then the legacy of the critical juncture outcomes may be institutional stability. However, this study demonstrates that the emergence of effective reproduction mechanisms is not automatic. In other words, the logic of the accumulated conflicts and pressures during the antecedent and cleavage stages inherently leads to new branches at the tipping point, and the argument that the outcome from the juncture is necessarily set to continue over time due to the evolution of self-reinforcing mechanisms is shown by this study to be unconvincing. Instead, the outcomes from the juncture can be re-directed, re-shaped, become deadlocked, or decay in the on-going process of institutional change due to the complex interdependence of actors and institutions, in which integrated units (markets or system) are more than the simple sum of their parts. For example, in the case of the LMGTC – a tripartite system created to reform the policy-making process – has been in deadlock and decay for the last decade, as can be seen through the LMGTC's diminishing influence: the impact of its institutional and organisational functions of encouraging collective bargaining between business and labour has declined, and although state autonomy was initially regained through the outcome of the juncture, some of the state's newly found power was lost after the worst of the economic situation was over. Furthermore, it should be noted that this tripartite system was not supported by a well-established practice of corporatism between social partners in Korea and was undermined

by the pressure from the world capitalist system in the form of economic globalisation (see next section in this chapter and Section 6.3 in Chapter 6).

To sum up, the critical juncture framework as used in this study provides not only an analytical means of exploring the transformation of the Korean employment system from a historical viewpoint, but also an opportunity to refine the critical juncture framework itself by applying it to the transformation of the Korean employment system. This study contributes to the refinement of the critical juncture thesis via a more detailed elaboration of the causal factors (and the sequence in which they occurred) underpinning the institutional change in the Korean employment system.

In the next section, by employing the theoretical implications and contributions of the incremental change thesis and the conceptualisation of the employment system that the previous two sections have elaborated upon, the reshaping of the rule-making process in labour and social policy and the changes to labour market flexibilisation and labour protection in Korea are presented.

9.3 Transformation: rule-making process, labour market, and the developmental welfare state

The purpose of this section is to review the main arguments and to consider the interplay of the different factors presented in each chapter in this dissertation.

9.3.1 Developmental strategy on rule-making for the employment system

The first subject of this study is the issue of the (institutional) changes in (or continuity of) the Korean developmental state's approach to reform of the employment system over time. Since this study assumes that the transformation of Korea's employment system was steered by an endogenous mechanism rather than by exogenous factors, the political configuration and struggles of each actor within the diversity of political and economic interests and their efforts to change the rule-making process with the purpose of instilling their own interests into the institutional reform are the focal points in this study. Thus, examining whether the reforms point to the decline or the re-establishment of the Korean developmental state, which type of model of governance was employed to deal with the

demands of business and labour (a developmental state model, a post-developmental state, or something entirely different), and how and why the political elites and bureaucrats pursued specific policies is equivalent to exploring what and who enabled the reform of the employment system.

To this end, the tripartite system (the LMGTC in this case) is analysed because its role, by definition and in the Western experience, is to mediate the conflicts between business and labour and to implement institutional arrangements. The experience of drawing up the 1998 social pact between business and labour through the LMGTC is treated in this study as a critical juncture in the Korean state's policy-making process, thereby providing a foundation for the breaking away from the traditional developmental strategy of the state assuming the rule-making role over business and labour. This implies that rather than employing its past unilateral policy-implementation pattern, the state felt that the reform of the employment system could be handled autonomously through collective bargaining between business and labour. However, as shown in the case of the LMGTC, this study does not confirm the argument of the mechanical explanation that, once implemented, the institution will automatically continue to function as intended or be reinforced. Rather, the critical juncture in which a new institutional arrangement is established should be re-examined by investigating the emergence of the causal factors before and during the critical juncture and the reproducing mechanisms after the juncture. The main subjects on this subject, therefore, are: (1) How did the LMGTC originate, and has it been reinforced or has it decayed? (2) Depending on the answer to the first question, how can the Korean state be characterised after its transformation in 1998?

As seen in Table 9.1, the state's efforts to form a corporatist policy-making system with regard to the employment system were not unprecedented. From the early 1990s, political and economic conditions that predated the critical juncture – the existence of mobilised labour from the 1987 Great Workers' Struggle, the organised businesses of the KEF (Korea Employers Federation), and corporatist attempts by the state (the LRRC and so forth) – acted as a critical antecedents to the creation of the LMGTC. It is also noteworthy that the first civilian government (that of Kim Young-sam and formed in 1992) sought to differ from the past authoritarian governments by beginning the dismantling of Korea's pattern of developmental rule over society (for instance, it dissolved the Economic

Planning Board (EPB)¹⁴¹) and thus its overwhelming power over business and labour. In addition, labour's general strike in 1997 (the first in Korean history) acted as a permissive condition that, within the critical juncture, shaped the extent to which the tripartite model was implemented. In the wake of the 1997 Asian financial crisis, the public's criticism of the Korean developmental model and its expectation of reforms by the new government increased the opportunity for the establishment of a tripartite body to reform the employment system.

The institutional implementation of the LMGTC and the industrial reform projects, which suppressed the power of business and the *chaebols* and ultimately reformed Korean industrial relations in line with a more liberal market economy, during the critical juncture were shaped by a combination of political leadership, international pressure, and the state's restored autonomy. The change in the relationship between empowered labour and weakened business, complemented by the state's enhanced autonomy and reform projects, offered productive conditions at the juncture, with the result that the social pact that was arrived at through the LMGTC could be revealed in February 1998.

The factor that constrained each actor (the state, business and labour) within the LMGTC at that moment was a political configuration structured by the interactions between them (conflict, meditation, and compliance) based on their political interests and calculations. President Kim Dae-jung, an opposition leader since 1961 and political 'loser' under the old system (the traditional labour-excluded authoritarian process), tried to introduce a new ruling system with support from a liberal-democratic bloc, which included the KCTU, by replacing the LRRC with the LMGTC. However, the major policy issues for the LMGTC (higher labour flexibilisation and greater political rights for unions) were inherited from the LRRC, and all actors already had fixed positions on them. While labour opposed any type of institutional measures for labour flexibilisation, business opposed the granting of political rights to unions.

¹⁴¹ The EPB, with the absolute confidence of successive presidents, planned comprehensive economic and industrial policy and controlled the policy implementation of every bureau in the government. The EPB was regarded as the pilot agency of the Korean developmental state (like MITI in Japan), and its dismantlement by Kim Young-sam in 1995 was recognised as a sign of the retrenchment of the Korean developmental state.

Table 9.1: Inward-Looking Korean tripartite system as a critical juncture¹⁴²

Critical antecedent	Empowerment of labour from the 1987 Great Workers' struggle and democratisation movement First civilian government (of Kim Young-sam) launched in 1992 and its attempts to dismantle the developmental state model (i.e. dissolution of the EPB) The state's corporatist attempts (i.e. LRRC)
Permissive conditions	Labour's general strike in early 1997 due to state's unilateral amendment of labour laws at the end of 1996 (following re-amendment of labour laws in March 1997) Economic crisis due to the 1997 Asian financial crisis (contingent-exogenous shock) Political vacuum in the 1997 presidential election phase
Productive conditions	Incorporation of labour through Kim Dae-jung's inauguration, and his social democratic position and leadership (Initial) Restoration of state autonomy by Kim Dae-Jung government's industrial reforms plan (structural reform of <i>chaebols</i> , financial reform, public sector and labour relations) and backing from the IMF Institutional replacement of the LRRC with the LMGTC
Outcome	The LMGTC's 1998 social pact (Korean tripartite system launching) 1998 amendment of labour laws
End of critical juncture	End of the national crisis phase in 2000
(failing) Mechanisms of reproduction	Decline of the LMGTC: end of the organisational phase within state entities and the loss of its functional role in bringing about collective bargaining Retrenchment of social bureaucrats due to loss of support of political elites and improvements in the economic and employment situation Business, status quo (no more motivation for participation in the LMGTC) Labour's discontent over the LMGTC and the 1998 amendment of Korea's labour laws, its failure to achieve political mobilisation due to the decentralised union system, and internal factionalism in the KCTU
Consequences	Deadlocked tripartite system Continuity of state intervention in economic-social development (but with a modified role, ideas, motivations, and responsibilities) Relapse into the traditional pattern of confrontation between business and labour

¹⁴² The form of this table (especially the vertical entries) is borrowed from Soifer (2012: 1579).

At the time of the LMGTC's launch, business, which would derive economic benefit from labour market flexibilisation, opposed Kim Dae-jung government's attempt to bring about reforms through the LMGTC because the government simultaneously aimed to implement institutional measures for the structural reform of the *chaebols* (towards a more liberal (shareholder) market economy). However, the veto possibilities of business were relatively weak vis-a-vis the state because of its need to repair its reputation in the eyes of the public and its political influence in the policy realm – it had received widespread public condemnation for its role in bringing about the financial crisis.

Labour also had little room for manoeuvre. The KCTU, in particular, assumed that it could increase its political power against business by participating in the LMGTC; it aimed to push for the structural reform of the *chaebols* and the dismantling of the existing authoritarian-coercive labour relations through trading agreement on a more flexible labour market in exchange for democratic (liberal) industrial relations.

However, the institutional implementation of the tripartite policy-making process was not 'locked in'; rather it provided room, albeit with ambiguities, in which actors could shape the impact of the LMGTC because the goals and preferences of the state and social partners differed widely from its inception. After Korea had escaped from the worst of the economic situation in 2000, the LMGTC began to lose its stature and organisational status, a status that became quite ambiguous within the state entities (and even within government bureaus) despite a series of institutional measures to reinforce the LMGTC. Thus, as set out below, the institutional mechanisms of reproduction in Korea's tripartite system appear to have failed,

After the 1998 social pact and the conclusion of the structural reform of the *chaebols*, the attitude of business towards the LMGTC became more opportunistic. Since the institutional measures for labour market flexibilisation were enacted immediately after the 1998 social pact was agreed, business did not have any further motives that would lead it to participate constructively in the LMGTC, especially given that changing the institutional status quo is costly. For instance, the issues of union's political rights (i.e. allowing multiple unions and banning payment to union officials) were not the policy preferences of business, but those of labour. As a result, due to the continuous resistance by the KEF, discussion of the issues on this matter within the LMGTC were delayed and deadlocked up to 2012.

For labour, there was huge discontent about the tripartite system due to the government's refusal to immediately legalise the KCTU after the agreement of the 1998 social pact and the LMGTC's deferring of action on labour's interests on most reform issues (employers' abuse of mass layoffs, a reduction in working hours, the elimination of unfair labour practices, the granting of legal status to the LMGTC, and, most importantly, the legalisation of collective bargaining at the industrial level and the setting up of a commission on public sector reform). Furthermore, the KCTU, which had played the (embedded) role of social democratic reformist in recent Korean history, failed to enhance its political power against business and over the public, and its internal factionalism and political corruption was self-defeating. In short, labour was less successful than business in effecting formal institutional change through the LMGTC and was unable to remodel the LMGTC to meet labour-favourable ends. Furthermore, labour failed to pave the way for a transition from the firm-based union system to the industrial union system and thus labour's political empowerment. The KCTU, the largest and strongest national union, refused to rejoin the LMGTC after its withdrawal in 1998. As a result, the 'tripartite system' failed to include the principal representative of labour, and the traditional pattern of confrontation between business and labour continued. This was mainly due to the combination over time of the decentralised union system, the state-led implementation of institutions, and the conflicts within labour, which were all embedded in the Korean policy-making process on reform of the employment system.

At this point, it should be noted that the elite-bureaucrats (especially the social bureaucrats in the Ministry of Labour, the KLI, and the Blue House) played a significant role in social policy expansion and urged greater representation of the interests of labour on behalf of the unions in the LMGTC. The collective bargaining that took place on the 1998 social pact within the LMGTC was not an exchange of equivalents – labour market flexibility for workers' security (flexibility-security payoffs) – as seen in the case of the West, but an exchange of flexibility for the unions' political rights to organise unions in every industrial sector, to undertake political activity, and ultimately establish the institutional foundations to build a labour-centred political party. In the 2000s, the overriding concerns of labour, as evidenced via two amendments to the labour laws, was not to enhance the labour protection schemes for workers or to reduce income and welfare inequalities, but to gain institutional guarantees for liberal labour relations and union officials' statuses and

payments. Thus, the Western experience of the roles, motivations, concerns, and responsibilities of labour were taken up by the social bureaucrats in the Ministry of Labour, the KLI, or other elite-bureaucrats in the government.

On the other hand, while the social bureaucrats in the LMGTC took on responsibility and played a traditional (state-led) role in the labour market and social policy reforms, it should be noted that there were conflicts between the governmental bodies on the institutional outputs of the LMGTC. For instance, agreements struck by the LMGTC (i.e. the May 2000 agreement on the reduction of working hours) were often blocked by economic bureaus in the government. This intentional neglect of the both the LMGTC and its decisions by governmental bodies was prevalent throughout all its phases, including when individual issues were negotiated and formalised, such as the expansion of eligibility for employment insurance.

This implies two things: first, embedded interests and the practices of economic bureaucrats fostered the decline in the role and function of the LMGTC; second, the breakdown in internal cohesiveness within the state entities led to a decrease in state capacity. While it is evident that the LMGTC appears to have declined as a functioning institution due to the combined result of its institutional ambiguity, conflicts between elite bureaus, and the lack of support from political elites (especially since Roh Moo-hyun's inauguration), it is far less clear that the policy advocate coalitions (the social bureaucrats and reformist block, and the neo-liberal-economic-conservative bloc) and the rivalry between them played a key role in the policy-making process. Instead, it appears that the dominance of social bureaucrats over the policy reform process was temporary, as evidenced by the far less clear distinction between social bureaucrats and economic bureaucrats under the Roh Moo-hyun government (2003-2007) and the Lee Myung-bak government (2008-2012). As seen in Chapter 6 (Section 6.3.3), with the escape from the worst of the economic and employment situation in around 2000 and Kim Dae-jung's stepping down from the presidency, the dominant role of social bureaucrats in the policy-making process came to an end, and the traditional configuration in which the economic bureaucrats' held dominance over the policy arena was restored. In short, the policy-making process for the employment system, even within the LMGTC, returned to the pattern that had operated under the developmental state, with elite-bureaucrats that favour the traditional policy preference of growth playing the key role in policy reform.

However, to view the development of the Korean employment system since then as having conformed entirely to Korea's traditional pro-growth productivist and developmentalist system would be a misinterpretation. Instead, a more convincing argument is that the ideas and preferences of economic bureaucrats were both shaped and restricted by the labour and social policy institutional sets that were implemented at this critical juncture. As seen during the implementation process of EI, non-regular workers' protection schemes, and the increasing pattern of welfare provision (see Chapter 8), the Korean state re-invented and re-invigorated itself by taking on the responsibility for enhancing labour (worker) protection by nurturing social bureaucrats. This explains why this study labels this revised form of state as the Korean developmental welfare state.

In sum, despite the introduction of layered institutional supports (due to the demands of left-centred political elites and labour) over the course of a decade, the LMGTC has become deadlocked and is a tripartite system in name only. By examining the formation, operation, and decay of the LMGTC over time, it can be seen that the requisite characteristics of the developmental state seemed at first to disappear, but then re-emerge. The next section therefore examines the impact of the developmental state's features on the labour market and labour practice institutional reforms.

9.3.2 Labour market flexibilisation and labour relations liberalisation: endogenous and exogenous, and reinforcing or deadlock

This section deals directly with the institutional changes in the employment system between 1980 and 2010. In this study, the 1998 amendment of Korea's labour laws is regarded as the institutional product of the continuous and dialectical process of democratisation and economic liberalisation that took place from the 1980s, but also marking the starting point of a new phase of pressure and tension, at which rule-makers and rule-takers compete, negotiate and compromise the main issues under consideration: greater flexibilisation in the labour market, legalisation of the KCTU, and the permitting of political activities by unions.

The significance of the 1998 amendment lay in its permitting the immediate implementation of these measures, which had already been authorised by the 1997 amendment of labour laws but whose implementation was to be delayed until 1999 or the

2000s. It is important to note here that the principle of the 1998 social pact struck within the LMGTC, which underpinned the 1998 amendment of the labour laws, had also already been established two years previously with the creation of the LRRC. Furthermore, the origins of Article 31 in the Labour Standards Act (for greater labour flexibility) lay in the LRRC's unsuccessful attempts to revise the Labour Standards Act in 1996 and in fact had its origins in the postponed attempt to amend Korean labour law a decade earlier (Parliament's proposal in 1988 for amendment of the labour laws and President Roh Tae-woo's veto). Indeed, the fundamental proposals contained in the February 1998 LMGTC agreement (the 1998 social pact) were strikingly similar to the previous government's 1996 proposal for the amendment of the labour laws. Moreover, it can be seen that the 1998 article on collective layoffs did not differ significantly from the 1991 Supreme Court ruling that extended the 1989 provision that permitted mass redundancies only in cases where the business operation would be jeopardised without the imposition of mass layoffs (Supreme Court, Ruling No. 87DaKa2132).

It seems clear, therefore, that it was the economic crisis that drew the actors together to sit at this *new* negotiating table, the LMGTC, and provoked the immediate enactment of the already amended labour laws. Nevertheless, the principles underpinning the institutional change and its subsequent direction were not remoulded by the crisis but locked in by the legacy of the institutional trajectory.

Another instance of institutional transformation due to endogenous factors is EI, whose origins, implementation, and development effected by the elite-bureaucrats and a pilot agency in the Ministry of Labour and KLI, actors who were insulated from social groups and had sufficient autonomy and the capacity to play a key role in shaping the initial EI enactment in 1994-1995 (see Section 8.3 in Chapter 8). The bureaucrat-led pattern of shaping and developing the course that EI would take, including the four amendments in 1998 and the worker protection regulations, continued after 1998 (see third column in Table 9.2). This pattern was the result of the combination of state interventionism and the 'low level of social cohesion' within labour, which is common in 'developmental contexts' (Haagh 2006: 417). In this regard, the case study of EI presented two important findings: first, contrary to the democratisation thesis, which contends that the development of social rights was the result of the rise of civil and political citizenships, in the Korean case, elite-bureaucrats insulated from social interest groups still had dominant power over the setting

of the social rights agenda and the development of social welfare; second, in contrast to the productivity welfare theorists' assertion that social welfare provision by the developmental state was driven by an economic motive, the institutional purpose of Korea's social policies was no longer subject to an economic rationale. Although it is an exaggeration to see the Korean state as having undergone a wholesale transformation into a pro-welfare state, the traditional policy preference, with its dichotomous logic that social-welfare policy is (should be) subordinate to economic growth and that social welfare is not compatible with socio-economic development, has been less in evidence since the 1998 reform of labour and social policy.

Through the previous chapters, this thesis focuses on the matter of institutional continuity on the Korean welfare system by examining the transformation of the employment system: whether welfare provision by firms has noticeably declined over recent decades, whether the role of elite bureaucrats and the traditional policy preference for economic growth contributed to reinforcing the role of the Korean state in welfare development, and whether the social and political configuration lasted long enough to label the birth of a (distinct) Korean welfare state. This study argues that the Korean developmental welfare state has remodelled itself with the tradition of state intervention and investment, which has followed a self-reinforcing path in labour protection. The state took on the role and responsibility for labour protection on behalf of labour in the developmental context (strong bureaucratic organisation, cohesiveness within the organisation, and its connectedness with business). This is the reason that this study labels this revised form of state as the transformation of Korean developmental welfare state, unlike the recent developmental welfare state thesis emphasises the submission of social policy to economic growth and the role of democratic policy network or coalition in welfare development.

Over the past two decades, the state's interventionism in conjunction with the shifting role and responsibilities of elite bureaucrats (less-involved social actors), on the one hand, and the developmental principle of policy reform involving a catching-up strategy for welfare development, on the other hand, appear as major factors in the Korean developmental welfare state's transformation. In this regard, the argument that the traditional developmental state had transformed into a neo-liberal state after 1998 reform projects, leading to an increase in firm-based welfare provision (for example, see, Hundt 2009: 99-101), and the widely held belief that firm-based worker welfare was still the dominant

form in the Korean welfare system are also misleading.¹⁴³ A more convincing conclusion is that the Korean state adopted a new interventionist role in the realm of social protection, developed new institutional sets, and took on new responsibilities, although the social protection had a very limited function and coverage. The expenditure on and expansion of worker protection via statutory institutional arrangements demonstrated the increased role and function of the Korean state in welfare provision. It should be noted that labour had little impact on this development due to the fact that corporatism had not been embedded in Korean society to any great degree. The rapid and systematic development of statutory social provision since the 1997 crisis is reminiscent of the critical role played by the developmental state in the period of Korea's fastest economic development (1970-1980), although the level of public welfare expenditure is still lower than in advanced welfare states, and it is doubtful whether the development of welfare provision contributed to any change in the productive system. Moreover, as seen above, the institutional arrangements for worker protection in the labour market are characteristic of a flexicurity model – where workers are compensated, trained, and motivated to become re-employed in a highly mobile labour market – even though the model might appear to be in its infancy.

Returning to the issue of innovation and continuity in the employment system, while the triumvirate of labour, business, and the state within the LMGTC failed to reinforce their institutional and political status and function from 2000 after the worst of the economic crisis was over (as examined by the critical juncture framework in previous section), the institutional sets on the labour market flexibilisation has been in the path of self-reinforcing after the 1998 amendment. As seen in first column of Table 9.2, further institutional measures for labour flexibilisation including the greater flexibility in the working-hours system and greater allowance on using temporary agency workers and fixed-term and part-time workers were enacted in the 2000s. In addition, diverse informal measures for achieving higher labour flexibility and lower labour costs including the outsourcing and in-house subcontracting, the annual salary system, and performance-based contracting were brought into practice.

This was largely due to business superiority over labour, which was gained after the end of national crisis phase and simultaneously contributed to the deadlock of labour relations reform. As seen in second column of Table 9.2, measures to reform labour relations, such

¹⁴³ See Chapter 2 (Section 2.1) and Chapter 8 (Section 8.2.2) in this thesis.

as the prohibition of the payment of full-time union officials by employers and legalisation of multiple unions, remained unaddressed until 2010.¹⁴⁴ This state of affairs was strongly connected to the theoretical argument that legislative reform of the labour code embodies two conflicting demands: the desire to restore a sense of social justice (social democracy in a broad sense, and workers protection in a narrow sense) and the affirmation of the process of marketisation supported by a powerful group (primarily business) (Haagh 2002b: 87). As with Haagh's study (Haagh 2002b: 96-97), the development (liberalisation) of labour relations and political democracy in Korea were issues central to labour. In particular, the KCTU's support for social democratic measures that enhanced labour's power in labour and industrial relations above all other goals proved to be a constant. Even when further labour market flexibilisation issues such as the protection of non-regular workers and temporary agency employees re-emerged in the mid-2000s, the KCTU was less concerned with these than with the strengthening of industrial-level collective bargaining and the establishment of a labour-centred political party. Indeed, this was the KCTU's ultimate aim when it provisionally agreed to participate in the LMGTC in 1998. This confirms, therefore, that the collective agreement struck between business and labour in 1998 was a political exchange not of flexibility for security, as is commonly seen in the West, but of flexibility for political rights.

In sum, although the 1998 amendment embodied a fundamental restriction on the extent and scope of future reforms of the employment system, it contained substantial room for institutional ambiguity and thus for each actor to renegotiate, recreate, and re-form (or delay) the institutions. Therefore, the real practice of transformation of the employment system was not as simple as the rule-makers expected, but instead complicated or sometimes inverted to the original intentions.

¹⁴⁴ This was due to the conflict between business and labour. On the issue of the banning of payment to unions officials, business approved of the plan, while labour opposed it, arguing that this regulation threatened the power of labour. On the other hand, on the matter of approving multiple unions at the enterprise level, business opposed the measure, while labour supported it.

Table 9.2: Changes in labour laws and labour protection legislation (selected, 1980-2010)¹⁴⁵

Year	Labour market/ Labour standards	Labour relations	Labour protection
1987	Reduction in working hours (48 hours) Abolition of the flexible working hours system	Reduction in the restrictions on the formation of unions Elimination of the restrictions on union officials Re-establishment of the union shop system	Creation of minimum wage system (1986)
1989	Creation of industrial maintenance by the Labour Relations Commission for unfair layoffs and time-offs Reduction in working hours (44hours)		Priority given to wage payments in cases of bankruptcy (last three months' wages)
1995			Creation of the Employment Insurance Act
1997	Greater flexibility in the working-hours system Facilitation of 'part-time' work Introduction of layoffs in cases of urgent business reasons (starting from 1999) Elimination of the Labour Relations Commission's approval for mass layoffs Elimination of priority re-hiring of former workers	Prohibition on the payment of full-time union officials by employers (starting from 2001) Legalisation of multiple unions (with immediate effect for sectoral or national unions, with enterprise unions starting from 2002) No responsibility on employers to pay during labour disputes Ban on political activities by unions lifted Ban on third-party intervention lifted	
1998	Immediate effect of layoffs in cases of urgent business reasons Broader re-definition of "urgent business reasons" for mass redundancies (including cases of sell offs and M&A)	Reduction in the restrictions on the formation of unions	Creation of the Act on the Protection, Etc. of Temporary Agency Workers (determining allowed industries, restriction on the contract type, and making clear the legal relations between prime employer, sub-employer and

¹⁴⁵ For more details, see Appendix 1 in this thesis.

			agency worker)
1999	Greater flexibility in the working-hours system and the permitting of mass redundancies (part removal of the restriction on dismissal exceptions)		Four amendments to the EI act (increasing eligibility)
2001		Legalisation of multiple enterprise unions put back from 2002 to 2007, and prohibition on the payment of full-time union officials by employers put back from 2001 to 2007	Creation of Motherhood Protection (compensation for maternity leave and paternity leave)
2003	Reduction in working hours (40 hours, starting from 2004 and annually expanding its coverage by firm size) Greater flexibility in the working-hours system		
2006	Greater allowance on using temporary agency workers	Legalisation of multiple enterprise unions put back from 2007 to 2010, and prohibition on the payment of full-time union officials by employers put back from 2007 to 2010	Creation of the Act on the Protection, Etc. of Fixed-term and Part-time Workers (prohibition on using fixed-term and part-time contract for more than two years, effective as from July 1 2007)
2007	Greater allowance on using fixed-term and part-time workers		
2010		Legalisation of multiple unions (with enterprise unions starting from 2011) Ban on payment to unions officials	

9.3.3 System and practice: unstable complementarity of institutions

The transformation of an employment system is an on-going process, and the labour market and labour practices are ultimately constructed by the complicated (expected or unintended, sometimes inverted or biased) complementarities of the institutions and the shifts in line with the political conflicts that emerge due to the gap between actors' interpretations and the actual enforcement of labour and economic policies. As seen in the previous sections, the institutional outputs (the LMGTC and its tripartite configuration) and the outcomes from the (formal) institutional reforms to the policy-making (rule-making) process on the employment system (policy outcomes) appeared to differ from the original intentions of the rule-makers (state-led, but business and labour organisations approved this) because each actor's preference and their purpose for participating in the LMGTC differed. In a similar vein, as seen in Table 9.3, the practices of the labour market, labour relations, and labour protection (the policy outcomes) can also be considered as being due to the combined effect of each policy implementation, in which the actors' diverse and conflicting interests, preferences, interpretations, and actions are inherently instilled and which this thesis calls institutional complementarity.

First, the dualism in the labour market increased and broadened after the 1998 amendment of Korea's labour laws. Although the original intention of the amendment had been to enhance (numerical) flexibility in the insiders' labour market so as to balance the degree of flexibility between the (regular workers) insiders' market and the (non-regular or atypical workers) outsiders' market, the combined effect of institutions in fact led to inverted outcomes: a weakening of the numerical flexibility of the insiders' labour market (but increased functional flexibility such as more flexible job placement and a flexible wage and contract system); the massive illegal use of non-regular workers; and increased (numerical and functional) flexibility in the outsiders' labour market. More specifically, by introducing the Labour Standards Act and the Act on the Protection, Etc. of Temporary Agency Workers in 1998, policy makers (or social partners within the LMGTC) believed that the traditional rigid (closed/impervious) insiders' labour market would be dismantled, with the consequence that the insiders' labour market would become more flexible (mobile/ permeable) for non-regular workers at the margins. The hope was that outsiders

would be able to enter the core labour market through the effect of the former act (the Labour Standards Act) and that they would be protected by the latter (see Chapter 7).

Table 9.3: Transformation of the employment system as a result of unstable complementarity

	Policy output	Policy outcomes (employment practices)
Rule-making process	Tripartite system of the LMGTC	'Tripartite system' without labour (due to withdrawal of the KCTU) Role and responsibility of Social bureaucrats acting on behalf of labour (modified developmental context)
Labour market Flexibility I:	1998 amendment of labour laws (Greater flexibility in the working-hours system, in using of 'part-time' work, and in layoffs in cases of urgent business reasons)	Greater rigidity in the core-regular workers labour market, and greater (numerical) flexibility at the margins
Labour market Security II:	1995 EI act	Increasing statutory welfare and stagnant firm-based welfare
	1998 Act for the Protection, Etc. of Temporary Agency Workers	Broadening and deepening of income inequality in wages and compensation
	2006 Act on the Protection, Etc. of Fixed-term and Part-time Workers	Increasing gap in the application of the ALMP between regular workers and non-regular workers
Labour relations	Legalisation of multiple unions	Legalisation of the KCTU and the formation of a labour party (which failed soon after)
	Ban on political activities by unions lifted	Continuing dominant power of <i>chaebol</i> /unions (for regular workers)
	Ban on third-party intervention lifted	The continuance and reinforcement of firm-based unionism and business unionism
Industrial reforms	Structural reforming of <i>chaebols</i>	Restructuring of the supply chain with strong vertical hierarchy (more flexible and competitive)
	Financial reform for shareholder economic system	Needed for short-term profit based management and flexible contracts (removal of lifetime employment practices and seniority-based contracts)

In reality, however, the employers' efforts to increase labour flexibility in workplaces by employing the Labour Standards Act were hampered by the legalised unions and the web of regulations on dismissals contained in the Act itself. As a result, employers sought alternative measures for achieving labour flexibility. For the past decade, therefore, they have been using the in-house subcontracting system, even though the Supreme Court has ruled that this constitutes an illegal use of temporary agency workers.¹⁴⁶ This illegal use of temporary agency workers can be understood as the result of the fundamental undermining of an institution's original intentions and functions that occurs when rules are ambiguous enough to permit different (often contrasting) interests, preferences, interpretations, and practices among actors.

In addition, the macro-structural reforms that reshape the Korean economic system into a neo-liberal form contributed not only to the restructuring of the supply chain structure in Korean industry, but also to making employers pursue considerable flexibility in the workplace. The large firms including *chaebols* survived the *chaebol* reform project during the period 1998-1999 by re-organising their workforce and supply chain.¹⁴⁷ Outsourcing and in-house subcontracting system that were used by large firms to restructure their workforce and supply chain, served not only to achieve higher labour flexibility and lower labour costs, but also to increase the part-time workers and fixed-term workers in Korean labour market. With a result, relatively homogeneous labour market transformed into a highly heterogeneous one in which various types of contracts existed side by side (see Section 7.4 in Chapter 7).

Second, these changes in the labour market presented a serious challenge to the unions representing full-time (regular) workers, and coupled with the prevalence of firm-based unionism, unions at *chaebols* and large firms became trapped in a cycle of business (utilitarian) unionism, which refers to a union movement that focuses on the immediate economic interests of union members – such as wages, welfare, working conditions, etc. – rather than emphasising social and political issues as do labour unions in the West¹⁴⁸ or as

¹⁴⁶ See Chapter 7 (section 7.3.3) in this thesis.

¹⁴⁷ During this period, eight of the *chaebols* that were listed among Korea's biggest 30 conglomerates in 1997 were taken out of founding-family ownership and their management placed under the control of a parent company and its affiliates.

¹⁴⁸ Political unionism pursues a particular political ideology or political purposes and is associated with a particular political party or trade union movement. The most typical political unionism is revolutionary

Korean unions did before the 1998 structural reforms. In particular, firm-based unionism, which in the main represented only regular workers at large firms, directly resulted in the isolation of non-regular workers. Under firm-based unionism, non-regular workers were necessarily regarded as outsiders as they did not qualify for union membership. In this respect, firm-based unionism represented only regular workers and inherently excluded many atypical workers and the unemployed, with the result that the interests of regular workers were over-represented by the such unions, whereas non-regular workers had no legalised and organised power or collective action channel for presenting their interests (i.e. wages, working-hours, contracts, welfare provision, and so on) to employers.

In addition, the fragmentation of the labour movement due to firm-based unionism and two competing national unions (the KCTU and the FKTU) should be noted as factors that weakened labour's collective bargaining position. The KCTU's failure to establish a labour-centred political party due to collusion between union officials at large firms and employers, the intense friction between rival factions in the KCTU, and the political scandals in which the union was implicated contributed to the decline of labour power.

Third, a combination of labour market dualisation, firm-based unionism (particularly in large firms employing many regular workers), the industrial reforms to create a liberal market economy, and the active labour market policies (ALMP) of EI contributed to reinforcing income and welfare provision inequalities. For instance, low-income non-regular workers, who are rarely organised but make up half the total wage workers in the Korean labour market, are excluded by the social security system. Although EI provided a more protective employment system with its expanded coverage and expenditures, due to its occupation-based beneficiary system, it selectively served regular workers in larger firms (large premium payer) and pushed outsider workers (non-contributor or tax payers with low levels of historical contributions) to the boundary of EI, with a result that it fostered the increasing inequality.

unionism, which is founded on Marxist (Leninist) ideology or another such radical ideology, and whose top priority is the transformation of capitalist society. By contrast, social unionism seeks ways to promote the interests of wage-workers as well as the wider citizenry by raising and aiming to resolve not only the union members' economic interests but other social and political issues. The philosophy of unions in Germany and the Nordic countries is a prime example of social unionism.

To summarise, in the case of Korean employment system, the institutions did not play out in the complementary way. Rather, the results of combined effects of each institution in the reforms of employment system were unstable and sometimes inverted to the original intentions of the rule-makers. This is due to the change of political configuration over time between institutional actors, whose preference and purpose for participating in various institutional reforms differed. For instance, the restored power of business over labour (sometimes the state) after the escape from the national crisis enabled business to block the enactment of labour-friendly institutions via LMGTC or to abuse the institutional regulations on the labour market (e.g. illegal use of subcontracting system). In short, the practices of the labour market, labour relations, and labour protection can be considered as being due to the combined effect of each policy implementation, on the one hand, and this also implies that the political configuration and relationship between the state, business and labour matters in examining the institutional complementarity, on the other hand, since the competition and negotiation between actors' diverse and conflicting interests and preferences play a role in affecting the interpretation and enactment of institutions.

9.4 Causal mechanisms in the transformation of the employment system

As alluded to in the previous section,¹⁴⁹ the causal mechanisms in the transformation of the employment system appear to intertwine between the policy outputs and outcomes, mediated by actors over time. The institutions were the products of the actors' compromise and defiance, reflecting their social divisions, and the ideas and preferences of actors were embedded in the (formal and informal) institutions. The explanations that either a single exogenous shock or contingent event was the critical factor that gave rise to the wholesale transformation of the institution cannot account for the causal factors that have been revealed in this study on the transformation of Korea's employment system, which have been shown to be interactive (i.e. inter-factor relationships), multilateral (i.e. relations between actors and their interests in, preferences for, and reactions to the institutions), and multidimensional (i.e. the labour market, labour relations, and labour protection). Furthermore, since the direction of causality varied, the distinction between independent

¹⁴⁹ In Table 9.3, the causal mechanisms appear across the rows and columns.

factors and dependent factors became less meaningful over the course of the historical process.

The institutional change over time was therefore continuous, endogenous, and dialectical. Through the perspective of path dependency (whether in its classical or newly theorised forms), we are able to view how institutions play an important role at the meso-level of political decision making, as they function as filters for the individual actors' interpretations of the specific contexts and thus structure not only the strategies but also the goals pursued by actors. It is these institutionally constructed preferences that directly underpin the historical institutionalist claims that institutions should be treated as endogenous, causal variables, which when understood in this way add substantially to our understanding of contemporary societies; they are also closely related to claims suggesting that employment institutions only matter in interaction with other factors. '[A]s a result it is impossible to make predictions of individual instances of policy outcomes solely on their basis' (Bonoli 2001: 264). In this sense, at the heart of the current theoretical innovation within the comparative labour market literature lies the distinct institutional configurations of industrial and social policies that generate a particular systemic logic of labour (flexibility). Thus, the various performances of particular institutional adoptions or borrowing practices can be derived from the distinct institutional configurations in each country.

However, the methodological matter of measuring institutional complementarity is not as straightforward a task as Boyer's simple equation appears to suggest.¹⁵⁰ As this study has shown in its analysis of the Korean employment system, on the one hand, labour policy, industrial policy, and social policy interact with each other at the level of formal institutions; on the other, employment practices interact with the state's embedded role towards business and labour, and the roles, capacity, preferences (motivation), and responsibilities of political elites and bureaucrats, business and labour interact at the level of empirical policy outcomes. The dialectical pattern of change between the formal institutional sets of the employment system and the empirical outcomes of employment practices has been shown as being a continuous and slow-moving process.

¹⁵⁰ Boyer formalised the concept of institutional complementarities in a straightforward manner: two elements, E and E', are said to be complementary if the performance of the conjunction of E and E' is superior to the performance of each element considered separately; i.e. $R(E,E') > R(E)$ and $R(E,E') > R(E')$ (Boyer 2005: 44-80).

9.5 Concluding remarks: unraised questions

Through analysing the institutional transformation of its employment system, this study has attempted to provide a comprehensive illustration of how the Korean developmental welfare state has undergone the transformation. In this research, the formal institutional arrangements of the employment system and the empirical employment practice outcomes have been brought to light along with an in-depth analysis of the political dynamics in the process of the institutional change.

The common themes in the study of the comparative political economy of capitalist states deal with the restructuring of the democratic nation-state, the liberalisation of national economies, and the concurrent globalisation of markets and of the political institutions that regulate them. To address these issues, this study has explored, on the one hand, the overhauling of Korea's labour laws in the direction of greater labour flexibility, the changes in collective labour relations, and the policy innovations on labour protection, and on the other, the transformation in Korea's traditional rule-making process to include both the government and social groups, the restructuring of industrial relations (particularly as regards changes to the supply chain structure), and the embedded role of the state and labour practices in workplaces.

In so doing, the role and capacity of the state to shape social relations and the institutional arrangements for the capitalist economy under conditions of increased globalisation emerge as the central factor. In order to discuss the state's capacity, one needs to understand the cohesiveness within the state. This study conceptualises the Korean state as a combination of the state entities of the ruling party, the government, and the Blue House (*dang-jeoung-cheong*), and emphasises the change in the relationship and cohesiveness between them.

However, the following question that has not been raised in this study: how did 'the restructuring of the Korean democratic nation-state' affect the transformation of the employment system? This study has focused on examining the process of rule-making and the establishment of working practices within the Korean nation-state, but it does not shed light on how Korea's distinctive political and institutional contexts, such as its political

system, electoral system, political party structure, parliament, and the judiciary, affected the transformation of the employment system.

In addition, while recent political economy studies address the convergence and divergence of different national models of modern capitalism as well as the possibilities for a regional model of a socially regulated market economy (for example, a European or Nordic model), this research does not go beyond the Korean context to conceptualise and analyse the wider regional contexts of East Asia. While it is generally held that the East Asian developmental states (Japan, Korea, Taiwan, and in similar vein, Hong Kong and Singapore) present common political and cultural contexts on labour market regulation and labour protection practices and although this study has pointed to the paternalism in this policy realm in areas such as life-time contracts, the seniority-based salary system in the labour market, and family-oriented and firm-based welfare provision, it has been shown that the continued prevalence in Korea of these 'common East Asian political and cultural contexts' needs to be re-examined in light of the huge changes that have occurred because of the combined effects of diverse institutional regulations. However, it remains inconclusive whether these changes can be regarded as being convergent in this region (or internationally), or as divergent for each nation-state in the region, or as yet another regional exceptionality.

Appendices

Appendix 1: Changes in labour laws and labour protection regulations (1980-2010)

Date	Legal act	Amendments
Dec 1980	Labour Standards Act	Ban on graded severance pay within the same workplace Creation of a flexible working-hours system
	Trade Union Act	Ban on third-party intervention Annual inspection of unions' finances Union dues to be used partly for worker welfare Extension of the valid term of a collective agreement arrived at by collective bargaining (1 year to 3 years) Elimination of the union shop system Removal of the constitutional mandate on the right to collective bargaining Strengthening of the restrictions on organising unions
	Conciliation Act	Ban on labour disputes within state organisations, local government, public corporations, and military corporations Ban on labour disputes outside the workplace Increase in the time allowed for completion of mediation
	Works Council Act	Created to reinforce the works council system before the enactment of the Trade Union Act Increase in the number of personnel and representation on works council
Dec 1981	Government Organisation Act	The Ministry of Labour replaces the National Labour Office
Dec 1986	Minimum Wage Act	Minimum wage to be determined by the Minimum Wage Inquiry Committee
	Trade Union Act	Removal of national unions from parties covered by the term "third party" Elimination of the use of union dues for worker welfare Change from the approval system to a reporting system, whereby a union delegates the right to collective bargaining to a higher union
	Conciliation Act	Removal of national unions from parties covered by the term "third party" Decrease in the time allowed for mediation (20 days, and 30 days for the public sector)
Dec 1987	Labour Standards Act	Reduction in working hours/abolition of the system of flexible working hours Priority given to wage payments in cases of bankruptcy (last three months' wages) Extension of the coverage of the Act to companies with more than 10 employees
	Trade Union Act	Reduction in the restrictions on the formation of unions Elimination of the restrictions on union officials Reduction of the bargaining period Re-establishment of the union shop system Strengthening of the annual inspection of unions' finances
	Conciliation Act	Reduction in the types of companies deemed public corporations

		<p>Creation of an arbitration system</p> <p>Reduction in the time allowed for completion of mediation (10 days, and 15 days for public sector)</p>
	Works Council Act	Elimination of the restrictions on worker membership on works councils and bureaucrats' right to dissolve councils
March 1989	Labour Standards Act	<p>Priority given to wage payments in cases of bankruptcy (industrial accident, compensation, and retirement pay)</p> <p>Extension of the coverage of the Act to companies employing more than 5 employees</p> <p>Creation of industrial maintenance by the Labour Relations Commission for unfair layoffs and time-off</p> <p>Reduction in working hours (44 hours)</p>
July 1995	Employment Insurance Act	Creation of the Employment Insurance Act (eligibility of unemployment benefits – firms employing more than 30 workers; eligibility of employment stabilisation and job skill training – firms employing more than 70 workers)
March 1997	Trade Union and Labour Relations Adjustment Act Workers Council Act	Merging of the Trade Union Act and the Conciliation Act Act replaced by two separate pieces of legislation: Act on the Promotion of Workers' Participation and Cooperation
	Labour Standards Act	<p>Greater flexibility in the working hours system</p> <p>Facilitation of 'part-time' work</p> <p>Introduction of layoffs in cases of urgent business reasons (starting from 1999)</p> <p>Definition of cases that can be deemed "urgent business reasons" for mass redundancies</p> <p>Elimination of the Labour Relations Commission's approval for mass layoffs</p> <p>Elimination of priority re-hiring of former workers</p>
	Trade Union and Labour Relations Adjustment Act	<p>Prohibition on the payment of full-time union officials by employers (starting from 2001)</p> <p>Legalisation of multiple unions (with immediate effect for sectoral or national unions, with enterprise unions starting from 2002)</p> <p>Restriction on worker replacement due to the labour disputes</p> <p>No responsibility on employers to pay during labour disputes</p> <p>Ban on political activities by unions lifted</p> <p>Ban on third-party intervention lifted</p> <p>Removal of ceiling on union membership dues</p> <p>Establishment of a system of mediation</p>
	Act on the Promotion of Workers' Participation and Cooperation	<p>Changes to the electoral rules for Works Councils</p> <p>Expansion of coverage under consideration by works councils</p> <p>The status of the Labour Relations Commission strengthened</p>
Feb 1998	Labour Standards Act	<p>Introduction of layoffs in cases of urgent business reasons (with immediate effect)</p> <p>Broader redefinition of cases that can be deemed "urgent business reasons" for mass redundancies (including the cases of selling off and M&A)</p>

		Creation of restrictions on mass redundancies (employer's efforts to avoid dismissal; reasonable and fair criteria for selecting persons subject to dismissal; requirement for termination of employment notices to be given at least 60 days before the intended date of dismissal and consultation with the labour union to be undertaken; prohibition on gender discrimination in layoffs; reporting to the Ministry of Labour) Re-establishment of priority rehiring of former workers
	Trade Union and Labour Relations Adjustment Act	Reduction in the restrictions on the formation of unions (transfer of the superintendence to mayor or governor from the Ministry of Labour)
	Act on the Protection, Etc. of Temporary Agency Workers	Creation of the Act (determining allowed industries, restriction on the contract type, and making clear the legal relations between the prime employer, sub employer, and agency worker)
(Jan 1998)	Employment Insurance Act	Increased the eligibility of unemployment benefits, firms employing more than 10 workers Increased the eligibility of employment stabilisation and Job skill training, firms employing more than 50 workers
Mar 1998	Employment Insurance Act	Increased the eligibility of unemployment benefits, firms employing more than 5 workers
July 1998	Employment Insurance Act	Increased the eligibility of employment stabilisation and Job skill training, firms employing more than 5 workers.
Oct 1998	Employment Insurance Act	Increase the eligibility of unemployment benefits, employment stabilisation and job skill training, firms of any size
Feb 1999	Labour Standards Act	Greater flexibility in the working-hours system and mass layoffs (part removal of restrictions on dismissal exception)
	National Health Insurance Act	Creation of the National Health Insurance Act (amended every year until 2011)
Sep 1999	National Basic Living Security Act	Creation of the National Basic Living Security Act
March 2001	Trade Union and Labour Relations Adjustment Act	Delayed the due date of the legalisation of multiple enterprise unions (from 2002 to 2007) and the prohibition of the payment of full-time union officials by employers (from 2001 to 2007)
Aug 2001	Framework Act on Workers' Welfare	Introduction of Employee Ownership System
	Employment Insurance Act	Creation of Motherhood Protection (compensation for maternity leave and paternity leave)
Oct 2001	Labour Standards Act	Protection on pregnant women and nursing mothers
Sep 2003	Labour Standards Act	Reduction in working hours (40hours, starting from 2004 and to expand its coverage annually by firm size) Greater flexibility in the working hours system
May 2005	Labour Standard Acts	Greater protection for pregnant women and nursing

		mothers
Dec 2006	Act on the Protection, Etc. of Fixed-term and Part-time Workers	Creation of Act on the Protection, Etc. of Fixed-term and Part-time Workers (prohibition on using fixed-term and part-time contracts for more than two years, effective from July 1 2007)
	Act on the Protection, Etc. of Temporary Agency Workers	Greater allowance on using temporary agency workers
	Trade Union and Labour Relations Adjustment Act	Delayed the due date of the legalisation of multiple enterprise unions (from 2007 to 2010) and the prohibition of the payment of full-time union officials by employers (from 2007 to 2010)
April 2007	Act on the Protection, Etc. of Fixed-term and Part-time Workers	Greater allowance of the use of fixed-term and part-time workers
July 2007	Labour Standards Act	Reduction in the number of days required for termination of employment notices and consulting with the labour union to 50 days Compulsory priority re-hiring of former workers
	Act on the Protection, Etc. of Fixed-term and Part-time Workers	Applied to workplaces with more than 300 employees from 1 July 2007 (workplaces with more than 100 employees from 1 July 2008; workplaces with more than 5 employees from 1 July 2009)
March 2008	Trade Union and Labour Relations Adjustment Act	Increase on union membership dues (no discrimination by race, religion, sex, political party or status -> race, religion, sex, age, physical condition, employment status, political party or social status)
Jan 2010	Trade Union and Labour Relations Adjustment Act	Legalisation of multiple unions (with enterprise unions starting from 2011) Ban on payment to unions officials

*Note: revised from Haagh (2004, 198), with additions from the Ministry of Labour (2006a; 2006b;2006c; 2008a; 2008b; 2009), Economic and Social Development Commission (2008).

Appendix 1-1: Major changes in political configuration in line with labour law reforms (1980-2010)

Date	Political affairs	Labour laws reforms
Oct 1979	Assassination of President Park (10.26)	
Dec	10 th presidential election Chun's Military Coup (12.12)	
Aug 1980	11 th presidential election and the Chun government launched	
Nov	Media integration and abolition	
Dec		Flexible working-hours system Ban on third-party intervention Elimination of the union shop system Ban on labour disputes within state organisations, local government, public corporations, and military corporations
Jan 1981	Forming the <i>Min Jung Dang</i> (or <i>Minju-Jeongui Dang</i> , the Democratic Justice Party, and the ruling party)	
Feb	12 th presidential election (Chun's remaining in office, and revision of the Constitution including the single-term president system of seven years by indirect election system)	
Mar	11th General election (<i>Min Jung Dang</i> 151/276, <i>Min Han Dang</i> 81, <i>Han Kuk Dang</i> 25, others 19) <u>The ruling party won a majority</u>	
Jan 1985	Forming the <i>Shin Han Min Ju Dang</i> (with Kim Young-sam and Kim Dae-jung)	
Feb	12 th general election (<i>Min Jung Dang</i> 148/276, <i>Shin Han Min Ju Dang</i> 67, <i>Min Han Dang</i> 35, <i>Han Kuk Dang</i> 20, others 6) <u>The ruling party won a majority</u>	
Apr 1986	Chun's announcement of the Protection of the Constitution Action (4.13 Act)	
June	June Uprising <u>6.29 Declaration of Democratisation</u> <u>Great Workers Struggle</u>	
Oct	Referendum on the direct presidential election system (93% of yes vote)	
Dec	13 th presidential election by direct election system, and Roh government launched	Removal of national unions from parties covered by the term "third party"
Dec 1987		Reduction in working hours/abolition of the system of flexible working hours Extension of the coverage of the Labour Standard Act to companies with more than 10 employees Reduction in the restrictions on the formation of unions Elimination of the restrictions on union officials Re-establishment of the union shop system
Apr 1988	13 th general election (<i>Min Jung Dang</i> 125/299, <i>Pyunghwa Minju Dang</i> (of Kim Dae-jung) 71, <i>Tong Il Minju Dang</i> (of Kim Young-sam) 59, <i>Shin Minju Gonghwa Dang</i>	

	(of Kim Jong-pil) 35, others 9) <u>The opposition won a majority</u>	
Mar 1989		Extension of the coverage of the Labour Standard Act to companies employing more than 5 employee Reduction in working hours (44hours)
Jan 1990	<u>Samdang-Hapdang</u> (the Three Party Merger of <i>Min Jung Dang</i> , <i>Tong Il Minju Dang</i> and <i>Shin Minju Gonghwa Dang</i>), then <i>Min Ja Dang</i> (the Democratic Liberal Party) launched	
Sep 1991	Forming <i>Min Ju Dang</i> (the Democratic Party, with Kim Dae-jung) from the <i>Pyunghwa Minju Dang</i>	
Mar 1992	14 th general election (<i>Min Ja Dang</i> 149/299, <i>Min Ju Dang</i> 97, others 53) <u>The ruling party won a majority</u>	
Dec	14 th presidential election and Kim Young-sam elected	
Feb 1993	Kim Young-sam government launched	
July 1995		Creation of the Employment Insurance Act
Apr 1996	15 th general election (<i>Shin Han Kook Dang</i> (re-named from <i>Min Ja Dang</i>) 139/299, <i>Sae Jung Chi Kuk Min Hoe Ui</i> (or <i>Kuk Min Hoe Ui</i> , of Kim Dae-jung) 79, <i>Ja Min Ryun</i> 50, others 31)*	
Dec	<u>The opposition won a majority</u> Joining the OECD <u>Rushing through of a revised bill (1996 labour laws) without the presence of opposition party legislators in the National Assembly</u>	
Jan 1997	1997 general strike	
Mar		Greater flexibility in the working hours system Facilitation of 'part-time' work Introduction of layoffs in cases of urgent business reasons (starting from 1999) Prohibition on the payment of full-time union officials by employers (starting from 2001) Legalisation of multiple unions (with immediate effect for sectoral or national unions, with enterprise unions starting from 2002) No responsibility on employers to pay during labour disputes Ban on political activities by unions and third-party intervention lifted
Nov	<u>Applied to the IMF for a bailout</u>	
Dec	15 th presidential election and Kim Dae-jung elected (<u>first transfer of presidential power</u>)	
Feb 1998	<u>The LMGTC launched</u> Kim Dae-jung government launched	Introduction of layoffs in cases of urgent business reasons (with immediate effect)

		Broader redefinition of cases that can be deemed "urgent business reasons" for mass redundancies Reduction in the restrictions on the formation of unions Creation of Act on the Protection, Etc. of Temporary Agency Workers
Jan - Oct		Four times of EI coverage
Feb 1999		Greater flexibility in the working-hours system and mass layoffs (part removal of restrictions on dismissal exception)
Sep		Creation of the National Basic Living Security Act
Apr 2000	16 th general election (<i>Han Na Ra Dang</i> (Grand National Party) 133/ 273, <i>Sae Chun Nyun Minju Dang</i> (or <i>Min Ju Dang</i> , the New Millennium Democrat Party) 115, <i>Ja Min Ryun</i> 17, others 8) <u>The opposition won a majority</u>	
Mar 2001		Delayed the due date of the legalisation of multiple enterprise unions (from 2002 to 2007) and the prohibition of the payment of full-time union officials by employers (from 2001 to 2007)
Aug		Creation of Motherhood Protection
Nov	Kim Dae-jung's defection from his <i>party</i> (<i>Min Ju Dang</i>)	
Dec 2002	16 th presidential election and Roh Moo-hyun elected	
Feb 2003	Roh Moo-hyun government launched	
Seb		Reduction in working hours Greater flexibility in the working hours system
Apr 2004	17 th general election (<i>Han Na Ra Dang</i> 121/ 299, <i>Sae Chun Nyun Minju Dang</i> 9, <i>Uri Dang</i> (the ruling party) 152, <i>Ja Min Ryun</i> 4, <i>Minju Nodong Dang</i> (Democratic Labour party) 10, others 3) <u>The ruling party won a majority</u>	
Dec 2006		Creation of Act on the Protection, Etc. of Fixed-term and Part-time Workers (prohibition on using fixed-term and part-time contracts for more than two years, effective from July 1 2007) Delayed the due date of the legalisation of multiple enterprise unions (from 2007 to 2010) and the prohibition of the payment of full-time union officials by employers (from 2007 to 2010)
Dec 2007	17 th presidential election and Lee Myung-bak elected (transfer of presidential power)	
Apr 2008	18 th general election (<i>Han Na Ra Dang</i> 153/ 299, <i>Min Ju Dang</i> (previous ruling party) 81, <i>Jayu Sunjin Dang</i> 4, <i>Minju Nodong Dang</i> 5, others 56) <u>The ruling party won a majority</u>	
Jan 2010		Legalisation of multiple unions (with enterprise unions starting from 2011) Ban on payment to unions officials

Apr 2012 19th general election (*Sae Nu Ri Dang*
(renamed from the *Han Na Ra Dang*) 152/
300, *Min Ju Dang* 127, others 21)
The ruling party won a majority

Dec 18th presidential election and Park Geun-hye
elected

* See footnote 70

Appendix 2: Union membership rates, number of labour disputes and working days lost in South Korea

Year	Unit unions (In establishment)	Union members (In 1,000 persons)	Density (%)	No. of labour disputes (Cases)	Working days lost (Days)
1983	2 238	1 010	19.4	-	-
1984	2 365	1 011	18.1	-	-
1985	2 534	1 004	16.9	-	-
1986	2 658	1 036	16.8	-	-
1987	4 086	1 267	18.5	3 749	-
1988	5 598	1 707	19.5	1 873	5 400 837
1989	7 861	1 932	19.8	1 616	6 351 443
1990	7 698	1 887	18.4	322	4 487 151
1991	7 656	1 803	17.2	234	3 271 334
1992	7 531	1 735	16.4	235	1 527 612
1993	7 147	1 667	15.6	144	1 308 326
1994	7 025	1 659	14.5	121	1 484 368
1995	6 606	1 615	13.8	88	392 581
1996	6 424	1 599	13.3	85	892 987
1997	5 733	1 484	12.2	78	444 720
1998	5 560	1 402	12.6	129	1 452 096
1999	5 637	1 481	11.9	198	1 366 281
2000	5 698	1 527	12.0	250	1 893 563
2001	6 150	1 569	12.0	235	1 083 079
2002	6 506	1 606	11.6	322	1 580 404
2003	6 257	1 550	11.0	320	1 298 663
2004	6 017	1 537	10.6	462	1 198 779
2005	5 971	1 506	10.3	287	847 697
2006	5 889	1 559	10.3	138	1 200 567
2007	5 099	1 688	10.8	115	536 285
2008	4 886	1 666	10.5	108	809 402
2009	4 689	1 640	10.1	121	626 921
2010	4 420	1 643	9.8	86	511 307

*Source: Ministry of Employment and Labour, Yearbook of Employment and Labour Statistics

*Note: Changed method No. of labour disputes from 2006(ILO)

Appendix 3: GDP elasticity of employment by industry

	Total	Agr. Fishery	Manf.	Elec., gas & water	Construction		Service total			
							Retail & restaurant	Logistics	Finance & insurance	Others
1980	-	-	-	-	-	-	-	-	-	-
1981	0.403	0.172	-0.302	-1.722	-0.608	1.110	0.872	-0.164	3.432	1.110
1982	0.347	-0.747	0.945	0.000	-0.306	1.160	1.772	-0.146	0.068	0.439
1983	0.081	-1.069	0.490	-0.116	-0.065	0.452	0.181	0.465	1.829	0.612
1984	-0.065	4.464	0.146	0.883	2.081	0.261	-0.316	0.518	1.324	1.301
1985	0.551	-1.024	0.712	0.976	0.156	1.121	1.003	1.386	0.978	2.025
1986	0.337	-0.393	0.454	-0.096	-0.911	0.464	0.197	0.592	0.889	0.836
1987	0.493	0.511	0.805	0.948	0.273	0.439	0.275	0.376	0.771	0.737
1988	0.296	-0.332	0.477	1.783	1.168	0.399	0.094	0.721	0.677	0.963
1989	0.607	1.313	1.344	1.157	0.801	0.796	0.540	0.771	1.546	1.206
1990	0.327	0.901	0.065	1.096	0.696	0.791	0.581	0.632	1.075	1.114
1991	0.332	-7.776	0.550	-0.426	1.242	0.852	0.727	1.055	0.976	1.302
1992	0.329	-0.228	-0.827	0.000	-61.339	0.762	1.893	0.269	1.957	-0.479
1993	0.193	0.471	-1.015	-0.120	0.112	0.853	1.746	-0.310	0.946	0.312
1994	0.374	-9.788	0.071	0.689	1.017	0.753	0.899	0.020	1.023	0.549
1995	0.311	-0.671	0.108	-0.459	0.780	0.583	0.400	0.496	0.879	1.045
1996	0.307	-1.445	-0.300	0.693	0.411	0.777	0.761	0.449	1.139	0.703
1997	0.372	-0.354	-0.818	0.401	0.785	0.906	1.315	0.437	1.277	1.392
1998	0.878	-0.768	1.731	64.185	2.203	0.621	0.432	0.576	1.428	-0.985
1999	0.187	-0.673	0.129	0.182	0.837	0.569	0.194	0.251	1.413	1.235
2000	0.502	-2.117	0.390	0.251	-2.105	0.718	0.485	0.256	2.046	1.153
2001	0.513	-3.794	-0.292	-1.295	0.035	0.865	-0.334	0.336	2.580	4.071
2002	0.397	1.049	-0.080	-1.346	3.678	0.517	0.388	0.405	0.428	1.354
2003	-0.044	1.094	-0.154	9.736	0.464	0.142	0.859	-0.582	2.191	1.070
2004	0.399	-0.700	0.182	-0.798	0.122	1.705	-1.100	0.461	11.252	2.272
2005	0.316	-0.736	-0.185	-0.179	3.680	0.752	-0.467	0.785	1.260	1.907
2006	0.251	1.109	-0.187	2.052	3.590	0.591	-0.215	0.658	1.421	0.965
2007	0.245	-3.047	-0.178	3.280	0.446	0.496	-0.179	0.343	1.113	0.958

*Source: Department of Statistics, Bank of Korea (<http://ecos.bok.or.kr>) : Data accessed on 15/ 08/2012, 15:42 UTC (GMT)

*Note: GDP elasticity of employment = rate of employment/rate of GDP

Appendix 4: Employment Insurance coverage

Person and expenditure

(thousand workplaces, thousand persons)

	Persons (thousand persons)					Expenditure (million won)				
	Employment Stabilisation	Job Skill Training	Motherhood Protection		Unemployment Benefits	Employment Stabilisation	Job Skill Training	Motherhood Protection		Unemployment Benefits
			Maternity leave	Paternity leave				Maternity leave	Paternity leave	
1997	123.0	200.0	-	-	49.2	12,245	58,873	-	-	78,737
1998	784.0	588.0	-	-	411.7	97,449	257,671	-	-	799,416
1999	669.0	1,030.0	-	-	484.8	184,304	418,184	-	-	936,163
2000	450.0	1,367.0	-	-	332.7	113,809	404,238	-	-	470,793
2001	570.0	1,730.0	-	-	327.3	128,751	386,977	-	-	845,116
2002	476.0	1,836.0	23.0	4.0	416	90,052	392,239	22,601	3,087	839,315
2003	507.0	1,794.0	32.0	7.0	502.2	91,573	474,940	33,522	10,576	1,030,304
2004	415.0	2,104.0	39.0	9.0	707.4	97,006	524,232	41,610	20,803	1,448,306
2005	510.0	2,535.0	41.0	11	812.8	202,081	564,116	46,041	28,242	1,751,974
2006	708.0	3,017.0	50.0	14	943.5	374,985	733,875	90,886	34,521	2,074,004
2007	-	-	61.0	21	1009.2	448,657	-	132,412	60,989	2,434,032

*Source: Korea Employment Information Service (2008)

Appendix 5: Social Expenditure (in selected OECD countries, in percentage of Gross Domestic Product)

Public expenditure

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Country																		
Chile	10.17	10.15	9.69	9.81	9.54	11.39	12.22	11.87	12.22	13.05	13.18	13.38	13.37	12.80	11.75	11.16	10.49	10.56
Denmark	25.14	25.92	26.39	28.13	29.45	28.92	28.20	27.18	26.50	26.44	25.68	26.11	26.63	27.86	27.68	27.21	26.59	26.10
Japan	11.28	11.46	12.07	12.78	13.40	14.28	14.54	14.69	15.46	16.12	16.54	17.42	17.82	18.09	18.22	18.59	18.44	18.70
Korea	2.83	2.73	2.95	3.03	3.05	3.24	3.41	3.68	5.09	6.12	4.80	5.25	5.11	5.37	6.02	6.45	7.37	7.57
UK	16.75	18.18	19.92	20.54	20.09	19.91	19.61	18.68	18.87	18.55	18.60	19.32	19.37	19.82	20.45	20.57	20.36	20.54
US	13.46	14.45	15.13	15.41	15.34	15.38	15.20	14.77	14.77	14.50	14.46	15.27	15.86	15.97	15.88	15.83	15.99	16.20
OECD	17.60	18.50	19.39	19.90	19.67	19.44	19.51	19.21	19.24	19.22	18.88	19.21	19.69	20.06	19.89	19.77	19.51	19.24

Public and mandatory private

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Country																		
Chile	10.73	10.83	10.49	10.73	10.65	12.62	13.52	13.24	13.60	14.58	14.39	14.68	14.71	14.13	13.24	12.60	11.81	11.76
Denmark	25.60	26.33	26.79	28.55	29.80	29.42	28.63	27.54	26.79	26.77	25.96	26.37	26.87	28.09	27.89	27.44	26.82	26.35
Japan	11.62	11.81	12.44	13.17	13.81	14.72	15.00	15.19	16.03	16.75	17.24	18.21	18.70	18.84	18.81	19.12	18.97	19.26
Korea	3.09	2.99	3.22	3.30	3.34	3.55	3.72	4.15	6.06	6.73	5.54	5.84	5.62	5.93	6.62	7.02	7.95	8.15
UK	17.07	18.72	20.49	21.18	20.71	20.46	20.24	19.32	19.50	19.22	19.30	20.06	20.13	20.60	21.25	21.38	21.16	21.32
US	13.99	15.01	15.69	15.90	15.85	15.84	15.61	15.17	15.16	14.90	14.85	15.67	16.26	16.35	16.25	16.17	16.31	16.50
OECD	18.10	19.03	19.95	20.50	20.26	20.09	20.11	19.80	19.85	19.84	19.50	19.84	20.32	20.68	20.50	20.37	20.10	19.83

Voluntary private

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Country																		
Chile	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Denmark	1.65	1.66	1.65	1.72	2.01	1.93	1.95	2.01	2.02	2.09	2.09	2.17	2.22	2.32	2.38	2.39	2.25	2.33
Japan	..	..	..	..	..	0.03	0.02	2.94	3.14	3.19	3.05	3.35	3.37	2.94	2.88	2.49	2.40	3.09
Korea	0.12	0.11	0.11	0.13	0.14	1.96	2.03	2.04	1.79	2.10	2.04	2.01	2.02	2.19	1.64	1.76	1.95	2.04
UK	4.75	5.50	6.07	6.16	6.25	6.06	6.00	6.11	5.84	5.90	6.82	6.16	5.40	5.31	5.15	5.31	5.33	5.01
US	7.09	7.38	7.66	7.69	7.69	7.85	8.18	8.24	8.29	8.49	8.69	8.94	9.31	9.53	9.59	9.66	9.93	10.18
OECD	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

*Source: OECD Stat: OECD Social Expenditure Database (SOCX): Data accessed on 03/ 10/ 2012, 16:04 UTC (GMT)

Public social spending in other OECD countries, 1980-2012

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Country																	
Denmark	24.8	24.8	24.8	25.0	23.8	23.2	23.1	23.8	25.1	25.3	25.1	25.9	26.4	28.1	29.4	28.9	28.2
Finland	18.1	18.5	19.5	20.5	21.5	22.6	23.0	23.6	23.0	22.7	24.3	29.4	33.4	33.4	32.8	30.9	30.8
France	20.8	21.8	22.3	22.6	22.8	26.0	25.8	25.9	25.7	24.8	24.9	25.5	26.3	27.8	27.8	28.5	28.8
Germany	22.1	22.8	22.8	22.5	22.2	22.5	22.5	23.0	23.0	21.9	21.7	23.7	25.6	26.3	26.3	26.8	27.4
Japan	10.4	10.8	11.2	11.5	11.3	11.2	11.6	11.7	11.4	11.1	11.3	11.5	12.1	12.8	13.4	14.3	14.5
Korea											2.8	2.7	3.0	3.0	3.0	3.2	3.4
Netherlands	24.8	25.5	27.0	27.4	26.0	25.3	24.7	24.7	24.3	24.0	25.6	25.5	26.0	26.1	24.7	23.8	22.6
New Zealand	17.0	17.2	18.1	17.8	17.2	17.7	17.6	18.4	19.8	21.1	21.5	21.9	21.8	20.0	19.2	18.7	18.6
United Kingdom	16.5	18.0	18.5	19.3	19.3	19.4	19.5	18.8	17.5	16.9	16.7	18.2	19.9	20.5	20.1	19.9	19.6
United States	13.2	13.5	13.9	14.1	13.1	13.1	13.2	13.1	13.1	13.1	13.5	14.4	15.1	15.4	15.3	15.4	15.2
Chile																11.4	12.2
OECD-34	15.6	16.2	16.7	17	16.7	17.3	17.3	17.4	17.4	17.3	17.6	18.5	19.4	19.9	19.7	19.4	19.5

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Country																
Denmark	27.2	26.5	26.4	25.7	26.1	26.6	27.9	27.7	27.2	26.6	26.0	26.6	30.2	30.1	29.9	29.5
Finland	28.6	26.4	25.8	24.3	24.3	25.0	25.9	26.0	26.1	25.9	24.9	25.7	29.6	29.1	28.4	28.0
France	28.6	28.8	28.8	27.7	27.7	28.4	28.9	29.0	29.0	28.6	28.4	28.6	30.7	31.0	30.4	29.9
Germany	26.7	26.6	26.6	26.6	26.7	27.4	27.7	27.1	27.2	26.1	25.2	25.2	27.6	27.3	26.4	25.8
Japan	14.7	15.5	16.1	16.5	17.4	17.8	18.1	18.2	18.6	18.4	18.7	20.0				
Korea	3.7	5.1	6.1	4.8	5.2	5.1	5.4	6.0	6.4	7.4	7.6	8.1	9.0	9.0	9.4	9.7
Netherlands	21.8	21.4	20.5	19.8	19.7	20.5	21.2	21.1	20.7	20.3	20.1	20.2	22.5	22.6	22.2	21.5
New Zealand	19.6	20.1	19.4	19.1	18.4	18.5	18.0	17.7	18.1	19.0	18.4	20.1	21.4	21.8	22.1	21.8
United Kingdom	18.7	18.9	18.6	18.6	19.3	19.4	19.8	20.5	20.6	20.4	20.5	21.5	24.3	24.4	23.7	22.9
United States	14.8	14.8	14.5	14.5	15.3	15.9	16.0	15.9	15.8	16.0	16.2	16.8	19.5	20.4	20.3	19.5
Chile	11.9	12.2	13.1	13.2	13.4	13.4	12.8	11.7	11.2	10.5	10.6	10.6	12.5	11.6		
OECD-34	19.2	19.2	19.2	18.9	19.2	19.7	20.1	19.9	19.8	19.5	19.2	20.2	22.5	22.2	22.1	22.1

*Source: OECD Social Expenditure database (SOCX, www.oecd.org/els/social/expenditure), "Is the European welfare state really more expensive? Indicators on social spending, 1980-2012 and a manual to the OECD Social Expenditure database (SOCX)" (OECD Social, Employment and Migration Working Papers No. 124)

*Note: Social spending aggregates based on detailed data for 1980-2007; aggregate spending projections for 2008-2012

Appendix 6: Expenditure on Employment Stabilisation scheme

(in million won)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
Total	101,621	186,110	114,043	128,970	90,502	93,504	98,377	206,131	378,741	454,032	
sum	80,723	155,191	71,603	77,012	35,039	28,779	33,804	33,180	35,974	35,795	
	79.4%	83.4%	62.8%	59.7%	38.7%	30.8%	34.4%	16.1%	9.5%	7.9%	
Employment Adjustment Assistance	Closing	533,442	47,483	21,837	32,234	19,904	21,138	23,760	25,110	23,853	24,580
	Reduction of working hours	566	717	74	185	14	81	65			
	Training	15,849	16,506	3,492	12,836	7,122	2,945	2,901	2,292	2,514	2,686
	Outside dispatching*	824	1,118	92	15						
	Leave	3,489	13,002	3,251	9,973	5,191	3,015	5,303	3,410	7,105	4,825
	Personnel relocation	484	394	453	547	404	209	17	106	92	442
	Merge		322	200	187	94					
	Career change grants	32									
	Entrepreneurship education & training*	162									
	Recruitment incentives*	5,877	75,132	40,780	20,226	1,373	16				
	Reemployment incentives*		517	1,423	766	506	734	329	747	887	821
	Turnover supporting incentives				43	432	641	1,428	1,514	1,522	2,441

	Sum	20,898	30,899	42,184	51,017	54,167	62,563	61,478	135,823	231,389	291,333
		20.6%	16.6%	37.0%	39.6%	59.9%	66.9%	62.5%	65.9%	61.1%	64.2%
Employment Promotion & Employment Stability	Support for employment of the elderly	12,470	25,474	36,758	41,620	39,980	46,236	41,139	33,098	34,271	38,405
	Support for female employment	2,457	1,541	2,349	3,821	4,099	6,076	7,552	7,446	9,822	12,373
	New employment promotion			359	2,954	7,154	5,248	6,748	83,439	172,111	218,722
	Adaptive training grants*	106									
	Long-term unemployed jobs*	3	49		0						
	Mature trained graduate careers						153	379	615	966	1,825
	Nursery teacher wage support	1,689	2,029	2,483	2,403	2,483	2,918	4,128	5,952	8,106	10,429
	Retirees' continued employment							161	1,223	1,764	2,492
	Wage peak conservation benefits									579	1,538
	Support continued employment after childbirth									13	174
	Workplace childcare facilities installation and support	4,172	1,806	234	219	450	1,931	1,371	4,050	3,756	5,375

	Sum						1,657	31,945	95,781	104,272
							1.7%	15.5%	25.3%	23.0%
Employment creation	Working hour reduction of mid-term workers						1,657	12,110	15,243	11,413
	Shift system conversion support							6,233	31,583	12,088
	Environment improvement for mid-term employment							3,218	8,457	23,188
	Mid-term professional workforce							9,152	38,508	54,922
	Mid-term new industries entering							1,232	1,990	2,661
	Construction workers retirement deductions instalment	20	256	942	1,295	2,162	812	641	1,437	1,207
Construction workers employment security						626	4,542	14,160	21,425	

*Source: KEIS (2008).

*Note: * marked was abolished

Appendix 7: Expenditure on Job Skills Training scheme

(in million won)

	2001	2002	2003	2004	2005	2006	2007
Total	386,977	392,239	474,940	524,232	569,116	733,875	871,273
Vocational skills training	170,414	170,107	180,838	198,243	236,495	296,864	340,924
	44.0%	43.4%	38.1%	37.8%	41.6%	40.5%	39.1%
Paid vacation training	10,145	11,075	6,869	8,021	7,887	10,419	13,823
	2.6%	2.8%	1.4%	1.5%	1.4%	1.4%	1.6%
Purchase loans and support for vocational training facilities and equipment	7,349	3,468	3,671	6,250	9,832	8,000	7,600
	1.9%	0.9%	0.8%	1.2%	1.7%	1.1%	0.9%
course funding	3,543	3,435	4,224	5,873	11,688	28,851	52,782
	0.9%	0.9%	0.9%	1.1%	2.1%	3.9%	6.1%
Training for unemployed reemployment (training for former unemployed)	43,016	52,188	63,476	74,799	76,505	81,642	79,851
	11.1%	13.3%	13.4%	14.3%	13.4%	11.1%	9.2%
Working student loan	43,016	52,188	63,476	74,799	76,505	81,642	79,851
	39.4%	38.7%	27.8%	23.7%	24.0%	17.5%	17.5%
Government commissioned training (first selected occupations, training)			69,767	89,992	50,071	134,613	149,310
			14.7%	17.2%	8.8%	18.3%	17.1%
SME consortium	766	506	14,104	16,848	39,850	45,000	74,379
			3.0%	3.2%	7.0%	6.1%	8.5%

*Source: KEIS (2008).

Appendix 8: Public Expenditure compared with OECD by selected programmes and total (in percentage of Gross Domestic Product)

		Time	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Programmes	Country												
21: Institutional training	Korea		0.07	0.05	0.05	0.04	0.04	0.04	0.04	0.04	0.06	0.08	0.07
	OECD		..	..	..	..	0.12	0.11	0.1	0.09	0.08	0.11	0.11
41: Recruitment incentives	Korea		0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.03	0.03	0.02	0.02
	OECD		..	..	..	..	0.08	0.08	0.08	0.07	0.07	0.08	0.1
50: Supported employment and rehabilitation	Korea		0.03	0.02	0.02	0.02	0.03	0.02	0	0	0.02	0.03	0.03
	OECD		0.08	0.08	0.09	0.09	0.08	0.08	0.08	0.08	0.08	0.08	0.09
51: Supported employment	Korea		0.03	0.02	0.02	0.02	0.02	0.02	0	0	0.02	0.03	0.03
	OECD		..	..	..	..	0.05	0.05	0.05	0.05	0.06	0.07	0.07
52: Rehabilitation	Korea		0	0	0	0	0.01	0	0	0	0	0	0
	OECD		..	..	..	..	0.03	0.03	0.02	0.02	0.01	0.02	0.02
60: Direct job creation	Korea		0.25	0.1	0.08	0.01	0	0	0.01	0.01	0.19	0.42	0.28
	OECD		0.11	0.1	0.09	0.08	0.07	0.06	0.06	0.05	0.06	0.08	0.09
80: Out-of-work income maintenance and support	Korea		0.08	0.13	0.12	0.13	0.18	0.2	0.23	0.25	0.3	0.42	0.34
	OECD		0.8	0.77	0.82	0.83	0.81	0.75	0.67	0.57	0.6	0.96	0.95
100: Total	Korea		0.46	0.35	0.3	0.26	0.29	0.32	0.35	0.38	0.61	1.02	0.76
	OECD		1.67	1.62	1.63	1.66	1.51	1.43	1.31	1.17	1.23	1.69	1.72
110: Active measures (10-70)	Korea		0.38	0.22	0.19	0.12	0.11	0.12	0.12	0.13	0.31	0.61	0.42
	OECD		0.68	0.67	0.64	0.62	0.58	0.55	0.53	0.5	0.5	0.61	0.66
120: Passive measures (80-90)	Korea		0.08	0.13	0.12	0.13	0.18	0.2	0.23	0.25	0.3	0.42	0.34
	OECD		0.93	0.9	0.95	0.96	0.91	0.86	0.77	0.67	0.7	1.05	1.03

*Source: OECD Stat: Data accessed on 07/10/ 2012, 21:10 UTC (GMT)

Appendix 9: Information sheet



Title: The Nature of and Changes in the Employment System in Korea

Dear Sir/Madam,

My name is Sang Hyeob Lee, and I am currently undertaking research for my PhD course at the University of York in the UK. If you could take part in this interview, it would be a great help in developing my research. In order to assist your understanding my research project, I would like to introduce the aims of my research and the purpose of the interview in which you will participate.

The Aim of the Research

The main aim of the research is to understand the experience of political elites/bureaucrats, business leaders, and labour leaders in terms of the Employment System (henceforth ES). The research concerns three aspects of the ES: institutional implementation, labour relations, and social protection. The specific aims of the research are as follows:

- 1) How did the current ES in Korea emerge and develop?
- 2) Did globalisation bring about changes to the ES, and if so, in what ways?
- 3) What role did the state play in resolving political, social, and economic problems in the aftermath of the 1997 financial crisis under the ES framework?
- 4) What did business do to overcome the 1997 financial crisis, and how did business meet the challenge of labour under the ES framework?
- 5) How did labour confront the restructuring of the labour market in the aftermath of the 1997 labour laws under the ES framework?

Research Methods

The research is a qualitative study and will primarily comprise face-to-face interviews. Political elites, bureaucrats, business leaders, and labour leaders will be interviewed. The total number of interviewees will be around 20, composed of 9 bureaucrats, 4 business leaders, 5 labour leaders, and an agent and a recipient of local Employment Insurance services.

All interviews will be audio-recorded using a digital recorder. The basic structure of the interviews is similar, but the wording of interviews and the questions asked might differ in accordance with the differing role of each group or interviewee.

Time, Length, and Venue of the Interview

An interview will generally take about an hour, and you have the right to stop the interview at any time if you do not wish to continue. You may make your preferred interview venue known to the researcher. The only stipulation on the researcher's part is that it is quiet enough to record the interview.

Use of the Interview

The audio recording of the interview will be transcribed, coded, and analysed by the researcher. The data generated by this procedure will be primarily used for my PhD Degree thesis, which will include findings based on the information collected from you. The findings may be used for other academic papers and publications.

There may be times when some of your statements from the interviews will be quoted in my thesis and academic articles. However, your anonymity and the security of private information will be guaranteed. The transcript and audio recording of the interview will not be available to anyone except the researcher. In addition, they will be removed from my personal computer and any other memory device after transferring the data to York University central storage drive, which is secured and encrypted by private security number and the university's security system.

All data, both written and recorded (including the coded sheets), will be anonymised. Your anonymity as an interviewee will be guaranteed by re-labelling your name. The interviewee will be given a code number, which will be noted on a separate sheet, and only the researcher will have access to this coding sheet. All written data will be presented via these codes, and no reference to a participant's identity will appear in any written material.

Researcher Contact

If you would like to know more about the research and interview, you can contact me by any of the following methods:

Telephone: +44-7595-834535 (UK); +82-10-3663-8635 (Korea)

E-mail: s1588@york.ac.uk; ezr91@hotmail.com

Address: 4b Garrowby Way, Heslington,
York, UK, YO10 5DW

Many thanks and Best wishes

Sang Hyeb Lee
Ph D candidate
Department of Politics
The University of York
UK

Appendix 10: Interview consent form



INTERVIEW CONSENT FORM

인터뷰동의서

The Nature and Change of the Employment System in Korea

연구제목: 한국고용체계의 성격과 변화

I consent to participate in an interview for the research project on ‘the nature and change of the Employment System in Korea’.

나는 ‘한국고용체계의 성격과 변화’ 연구를 위한 인터뷰 참여에 동의한다

I fully understand that this interview is confidential, and the transcript and tapes will not be opened by anyone except by the interviewer, SangHyeb Lee.

나는 이 인터뷰 내용이 기밀에 부쳐지고, 인터뷰를 정리한 내용과 녹음한 카세트 테이프가 연구자 이상협 씨 외에는 누구에게도 공개되지 않을 것임을 충분히 이해한다.

I agree to the interview being tape-recorded. I can request a copy of the cassette recording of the interview and a copy of the interview transcript.

나는 이 인터뷰를 카세트 테이프에 녹음하는 것을 허락하지 않고, 인터뷰 녹음 파일이나 그 내용을 정리한 것의 복사본을 요청할 수 있다.

In addition, I fully understand that I have the right to withdraw from the interview at any time I want, and any data I have provided will be destroyed.

또한, 나는 인터뷰 도중에 내가 원하면 언제든지 인터뷰를 중지시킬 수 있으며 내가 제공한 어떤 정보도 파기시킬 수 있음을 충분히 인지하고 있다.

Signed 사인 (Interviewee).....

Date 날짜,.....

Appendix 11: Topic guide for interviewees



Introduction

- Introduce myself and the general scheme of the research
- Explain the interview process and the confidentiality of information
- Receive approval to record and obtain signature on consent form

Personal Information

- Original working background and period of office
- His/her major role in the policy reforms

Question Contents

1. What were your organisation's responses to the 1997 financial crisis, the 1998 institutional reforms, and since then?

[Probe]

- Reorganisation or structural reform (in state entities, and business and labour organisations)
- Institutional reforms impact on your organisation
- Conflict or confrontation within and between organisations
- (Changing) Extent of cohesiveness within organisation
- Path dependency
- Role and function of leadership

2. From where and how did the policy ideas on institutional reform occur?

[Probe]

- Role, function, and responsibility of political elite and elite-bureaucrats
- Role of the Korea Labour Institute on policy adoption, learning, accumulation, and policy implementation
- Role of unions and business organisations

3. What were your expectations and interpretation of the institutional enactment and implementation in the case of each policy reform?

[Probe]

- On establishing the corporatist system or tripartite system in the policy-making process
- On reforming labour market policies
- On designing and expanding social policies

4. How did cooperation or conflict between state, business, and labour manifest itself in each institutional reform?

[Probe]

- On the LMGTC
- On the Ministry of Labour (especially since 1998)
- On the EISTF

5. Suggestions for this research

Glossary of Key Terms

Active labour market policy (ALMP) government programmes that intervene in the labour market to help the unemployed find work. There are three main categories of ALMP: Public employment services, Training schemes, and Employment subsidies.

Blue House the executive office and official residence of the South Korean head of state, the President of the Republic of Korea.

Chaebol the South Korean form of business conglomerate, which is family-controlled and government-supported corporate group.

Chaeya opposition politicians and dissident without political party membership in Korea

Developmental state a state that plays a critical role in economic development through planning and organisation based on strategic targets: first, the state prioritises economic development, in which the key goals are growth, productivity, and competition; second, in pursuit of economic success, the state aggressively intervenes in the market, guiding and controlling it and the private sector via the strategic allocation of resources; third, behind the success of the state's strategic intervention lies an efficient and rational bureaucracy and state autonomy does not result in rent-seeking or looting.

Developmental welfare state a state that comprise a set of social policies and institutions that are predominantly structured for facilitating economic development. The characteristic of the East Asian welfare state are embodied in the notion of the developmental state, in which elite policy-makers set economic growth as the fundamental goal, pursue a coherent strategy to achieve it, and use social policy as an instrument for attaining that goal.

Dualism of labour market labour market's separation into a primary sector and a secondary sector. The first relates to jobs characterised by high skill levels, medium-to-high rates of pay, job security, union coverage and other advantages. The second, in contrast, is dominated by precarious employment (casual work/non-regular work) which is less stable, with low rates of pay, mainly widespread in smaller enterprises and with little union coverage.

Employment system a set of institutions combining labour policy, industrial policy, financial policy, and economic policy, which directly and indirectly affect the character and transformation of employment practices at the empirical level. And the informal institutions embedded in employment practices through past practices are also regarded as factors responsible for the transformation of the employment system.

Golden triangle of flexicurity a unique Danish employment system model that combines a high level of worker mobility between jobs, social security (a generous system of social welfare and social insurance, such as unemployment benefits/passive labour market policy) and active labour market programmes.

Great Workers' Struggle workplace struggles that took place in 1987 occurred within the wider background of political reform

Institutional complementarity suggest that nations with a particular type of institution then develop complementary institution in other spheres (for example, countries with stock market liberalisation has less labour protection and vice versa). Firms of liberal market economy (LME) and coordinated market economy (CME) respond very differently to a similar shock and institutions are socialising agencies and go through a continuous processes of adaptation.

June Uprising a nation-wide democracy movement in Korea that generated mass protests from June 10 to June 29, 1987. The demonstrations forced the ruling government to hold elections and institute other democratic reforms which led to the establishment of the Sixth Republic and Constitution, the present day government of South Korea

Samkeum three prohibitions in Korean labour laws. The bans on third-party intervention, multiple union representation within the same company and political activity by unions.

Samje three systems in Korean labour laws. The dismissal system for employees based on 'urgent business reasons' (which made firing employees easier), the flexible working-hours system and the temporary employment agency system.

6.29 Declaration of Democracy a speech by Roh Tae-woo, presidential candidate of the ruling Democratic Justice Party of South Korea, on 29 June 1987. In the declaration, Roh promised significant concessions to opponents of the incumbent authoritarian regime. Roh went on to win the open presidential elections that were held that year.

List of Abbreviations

D

DS developmental state

E

EI Employment Insurance

EISTF Employment Insurance Study
Task Force

EPB Economic Planning Board

ESDC Economic and Social
Development commission

F

FKI Federation of Korean Industries

FKTU Federation of Korean Trade
Unions

H

HCI Health Care Insurance

I

IMF International Monetary Fund

K

KCTU Korean Confederation of Trade
Union

KEF Korea Employers Federation

KLI Korea Labour Institute

L

LME liberal market economy

LMGTC Labour-Management-
Government Tripartite Commission

LRRC Labour Relations Reforming
Commission

M

MoFE

Ministry of Finance and Economy

MoL Ministry of Labour

N

NBLS National Basic Living Security

NPI National Pension Insurance

W

WCI Workers' Compensation
Insurance

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