



Working Korea 2022

A Diagnosis of Labor in South Korea

(English Version)

Korea Labor & Society Institute

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한국노동사회연구소



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A Diagnosis of Labor in South Korea

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South Korea's labor market is characterized by employment insecurity, income inequality, and fragmented labor-management relations.

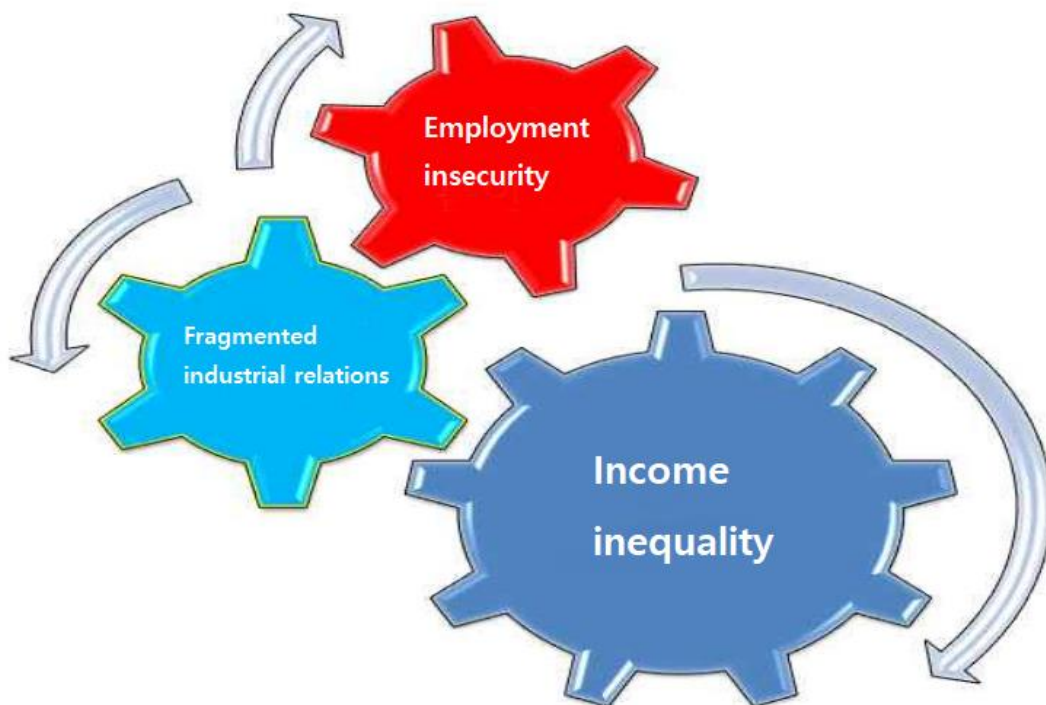


Figure 1. Main characteristics of South Korea's labor market

Chapter 1. Employment Insecurity

1. Employment Protection: Middle-level in the OECD

Korea's government and corporations argue that the nation has a high-level of employment protection and a rigid labor market. According to the OECD's 2019 Indicators of Employment Protection, however, Korea stands exactly in the middle in terms of restrictions on individual dismissal of regular (permanent) workers, ranking 18th of 37 member states with a score of 1.69, while in terms of restrictions on collective dismissal, it falls in the lower group, ranking 23rd with a score of 0.661.¹ When it comes to overall restrictions on dismissal of regular workers (individual and collective dismissal combined), Korea ranks 18th with a score of 2.35. Therefore, it is fair to say that Korea has a mid-level of employment protection (See Figure 2).

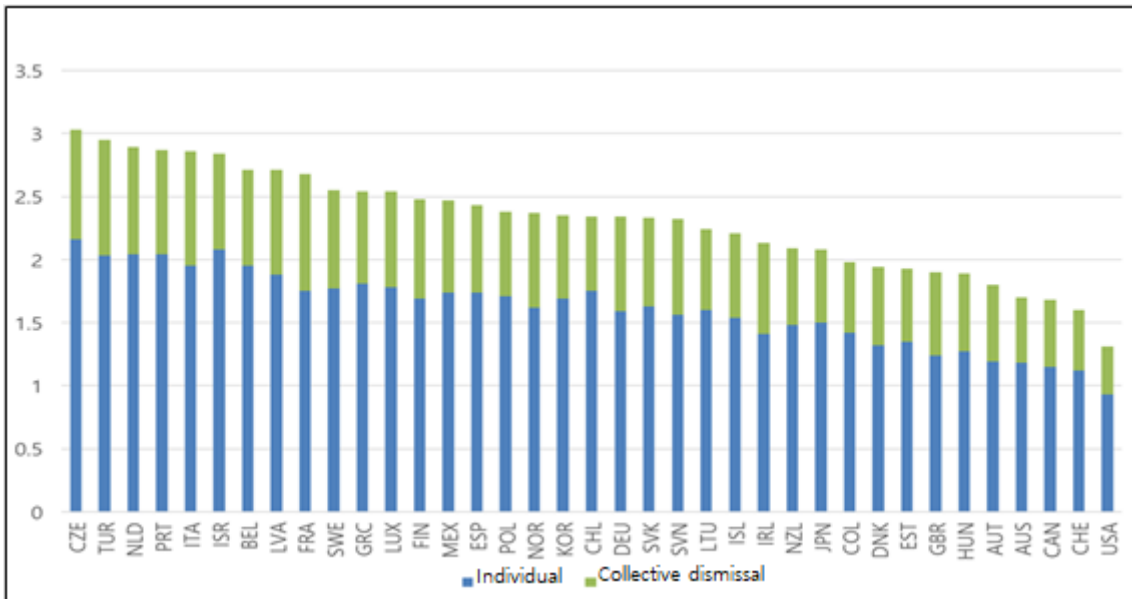


Figure 2. OECD Indicators of Employment Protection for permanent workers, by country

*Source: OECD (2020), *Employment Outlook 2020*, Ch. 3.

Meanwhile, the OECD Indicators of Employment Protection may not accurately portray reality as they allocate points for legal provisions related to dismissal for comparison. First, the

¹ The OECD announces indicators of employment protection for member states every 5 years based on scores attributed to legal provisions related to dismissal.

gender wage gap in Korea is the largest in the OECD even with the “equal pay for work of equal value” provision in the Equal Employment Opportunity Act. This illustrates the discrepancy that often exists between laws and reality. Second, caution is required before simply comparing legal provisions related to dismissal, because the Labor Standards Act serves as the highest standard in Korea, while the European labor market is regulated by collective agreements. For example, the average yearly working hours in Korea amount to 1,908 hours as of 2020, even with a legally-mandated 40-hour work week, while Germany works an average of only 1,332 hours per year when it legally allows a 48-hour work week.

2. Extremely Short Service Years

The ILO, the OECD and other international organizations also look at service years as an indicator of employment security. In the OECD, the share of workers with less than one service year (“short service years”) is the largest in Turkey (34.7%), followed by Korea (31.7%) and Chile (31.3%). This means that about one in three workers move to another employer or get new jobs every year in these countries. In contrast, the OECD average stands at 18.7%, with Italy having the smallest share at 11.1% (See Figure 3).

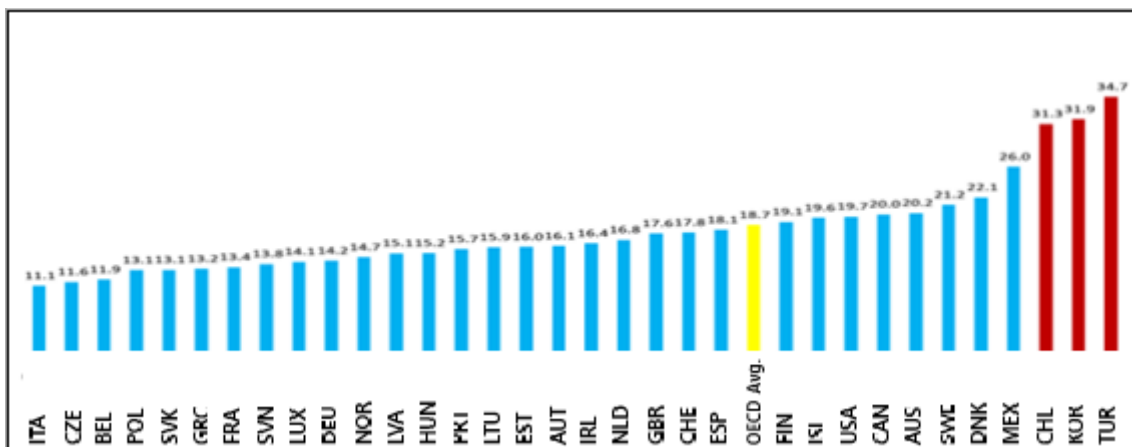


Figure 3. Share of workers with short service years in 2015, by country (%)

*Source: OECD.Stat, accessed on May 12, 2019.

(2014 data for the US, and no data reported from Japan, Israel and New Zealand)

The share of workers with 10 or more service years (“long service years”) in Korea is 20.6%, larger than Chile (19.0%) only. The OECD average stands at 34.1%, with Italy having the largest share of 49.8%. Overall, Korea has extremely short service years with the lowest level of employment security, as demonstrated by the OECD statistics. Meanwhile, Germany, often cited as an example of a flexible labor market with the Hartz reforms, has incomparably higher employment security with 14.2% of workers having one or fewer service years and 41.2% having longer service years (See Figure 4).

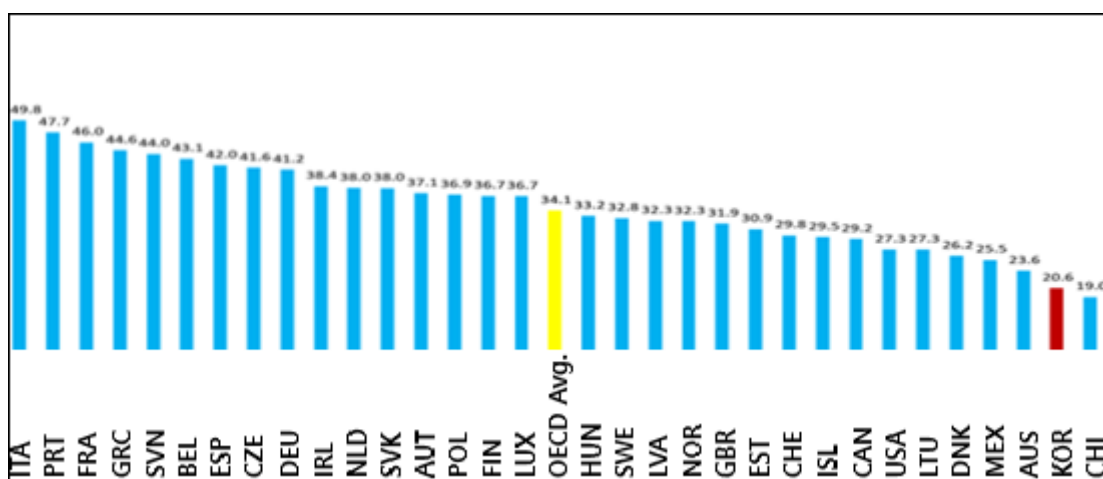


Figure 4. Share of workers with long service years in 2015, by country (%)

*Source: OECD.Stat, accessed on May 12, 2019.

(2014 data for the US, and no data reported from Japan, Israel, New Zealand and Turkey)

3. Annual Turnover of 5.62 million

According to Korea’s Ministry of Employment and Labor Employment Insurance Statistics 2018, 6.71 million workers, or 49.9% of the 13.43 million insured changed employers during that year. Voluntary turnover accounted for 31.7% (4.26 million), and non-voluntary turnover 18.2% (2.45 million). Of non-voluntary turnover, 7.8% (1.04 million) left their employer for managerial

reasons, 9.7% (1.31 million) for expiration of labor contract, and only 0.3% (40,000) for retirement at normal retirement age.

Turnover was higher for women (56.4%) than for men (45.1%). By age group, a U-curve forms, with the lowest turnover rate for those in their 40s (38.5%), and higher rates for those younger or older. Turnover was generally lower for larger establishments, with small establishments with fewer than 5 employees having a 60.3% turnover rate and those with 1,000 or more employees at 32.9%. Still, this means one in three workers in large establishments with 1,000 or more employees left their employers.

Non-voluntary turnover was higher for women (21.5%) than for men (15.8%). By age group, it was generally higher for older workers, with the lowest for those in their 30s at 13.0%, and the highest for those 60 years or above (37.0%). Establishments with 1,000 or more employees had a lower non-voluntary turnover rate of 12.0%, while those with fewer than 1,000 employees had similar rates regardless of their size—ranging from 18% to 21%. It is also observed that, larger establishments that hire fewer than 1,000 employees tend to hire more workers on a fixed-term basis (See Table 1).

Table 1. Employment Insurance Loss and Non-voluntary Turnover in 2018 (thousands, %)

	Number (thousands)					Share (%)				
	Insured	Turn-over (Loss of Insurance)	Insured			Turn-over (Loss of Insurance)	Insured	Turnover (Loss of Insurance)		
			Sub-total	Managerial reasons	Contract expiry			Sub-total	Managerial reasons	Contract expiry
Total	13,432	6,709	2,448	1,042	1,305	49.9	31.7	18.2	7.8	9.7
Male	7,715	3,482	1,218	521	637	45.1	29.3	15.8	6.8	8.3
Female	5,718	3,227	1,230	521	668	56.4	34.9	21.5	9.1	11.7
<30	2,394	1,929	478	176	291	80.6	60.6	20.0	7.4	12.1
30-39	3,422	1,385	445	241	191	40.5	27.5	13.0	7.1	5.6
40-49	3,426	1,320	492	259	218	38.5	24.2	14.4	7.6	6.4
50-59	2,727	1,139	491	239	237	41.8	23.7	18.0	8.8	8.7
60+	1,464	937	542	127	368	64.0	27.0	37.0	8.7	25.1
<5	2,173	1,311	453	312	122	60.3	39.5	20.9	14.4	5.6
5-9	1,451	857	277	174	89	59.0	39.9	19.1	12.0	6.1
10-29	2,289	1,246	407	191	196	54.4	36.7	17.8	8.4	8.6
30-99	2,124	1,081	374	146	213	50.9	33.3	17.6	6.9	10.0
100-299	1,715	807	348	81	256	47.0	26.7	20.3	4.7	14.9
300-999	1,351	641	309	59	243	47.4	24.5	22.9	4.4	17.9
1,000+	2,329	767	280	80	186	32.9	20.9	12.0	3.4	8.0

*Source: Calculated from raw data in *Yearly Statistics of Employment Insurance 2018*, Ministry of Employment and Labor & Korea Labor Information Service.

*Notes:

1) Turnover rate (Loss of employment insurance rate) = No. of turnovers (No. of employment insurance losses) ÷ No. of insured × 100.

2) Non-voluntary turnover rate = No. of non-voluntary turnovers ÷ No. of insured × 100.

4. Four in Ten workers in Non-regular Employment

Statistics Korea releases the Supplementary Results of the Economically Active Population Survey in August every year, where those who describe themselves as being in one of the

following 8 types of employment are categorized as non-regular workers: limited-term work, fixed-term work, part-time work, on-call work, special types of employment, temporary agency work, service work, or home-based work. As of August 2020, there were 7.43 million non-regular workers (36.3%) and 13.02 million regular workers (63.7%). The problem with this statistical practice is that 1.18 million temporary daily workers unjustifiably fall under the category of regular workers.

Temporary daily work is a widespread, informal type of employment in the Korean labor market. The term "temporary daily work" was used back in the 1930s and 1940s under Japanese colonial rule, and Statistics Korea has distinguished between permanent work, temporary work, and daily work in its publications since 1963. Even in the 1970s and 1980s, when the terms "non-regular work," "part-time work," or "temporary agency work" were yet to be coined, many collective agreements had provisions on temporary work. This illustrates that "temporary daily work" has meant an informal type of employment in workplaces for a long time. Therefore, trade unions categorize temporary daily work as non-regular work, in addition to the 8 types of employment mentioned above. According to this adjusted definition, there were 8.5 million non-regular workers (41.6%) and 11.94 million regular workers (58.4%) in Korea as of August 2020.

Still, migrant workers are often excluded from labor surveys, in-house subcontracting is not given as an option and mis-categorized as regular work, and those in special types of employment are often mis-categorized as self-employed. Therefore, the actual share of non-regular work may well exceed 50%. In addition, employment security is further aggravated by the fact that most non-regular workers are under temporary contract in Korea (See Table 2).

Table 2. Scale of Non-regular Work (As of August 2020)

		Number (thousands)				Share (%)			
		Permanent	Temporary	Daily	Total	Permanent	Temporary	Daily	Total
Wage worker (1)		14,570	4,539	1,337	20,446	71.3	22.2	6.5	100.0
Regular worker (2=1-3)		11,942			11,942	58.4			58.4
Non-regular worker (3=①+---+⑧, overlaps excluded)		2,628	4,539	1,337	8,504	12.9	22.2	6.5	41.6
Employment contract	Temporary work	2,147	4,539	1,337	8,023	10.5	22.2	6.5	39.2
	Long-term temporary work ①		2,254	1,132	3,386		11.0	5.5	16.6
	Limited-term work ②	2,147	2,285	205	4,637	10.5	11.2	1.0	22.7
	(Fixed-term work)	2,124	1,768		3,933	10.4	8.6	0.2	19.2
Working hours	Part-time work ③	598	2,128	526	3,252	2.9	10.4	2.6	15.9
Mode of offering labor	On-call work ④			896	896		-	4.4	4.4
	Special types of employment ⑤	19	445	34	498	0.1	2.2	0.2	2.4
	Temporary agency / service work	451	196	69	716	2.2	1.0	0.3	3.5
	(Temporary agency) ⑥	107	42	15	164	0.5	0.2	0.1	0.8
	(Service) ⑦	344	154	54	552	1.7	0.8	0.3	2.7
	Home-based work ⑧	8	25	16	49	0.0	0.1	0.1	0.2

*Source: Statistics Korea, *Supplementary Survey of the Economically Active Population Survey*, August 2020, cited in Kim Yoo Sun, "Scale and Status of Non-regular Work", 2020.

Looking at the trends in non-regular work over the last 20 years, the number of non-regular workers continued to increase between 2001 and 2016, hitting 7.37 million in 2001, 8.61 million in 2007, and remaining somewhat similar between 2008 (8.4 million) and 2016 (8.74 million). With the transition from non-regular to regular employment contracts in the public sector, the number decreased by 310,000 in 2017, and by 220,000 in 2018. In 2019, however, the number rose again by 350,000, and in 2020, fell by 50,000 with the Covid-19 pandemic.

The share of non-regular workers remained around 55-56% between 2001 and 2006, and continued to decrease between 2007 (54.2%) and 2018 (40.9%). It fell by 2.1%p in 2017, and by 1.5%p in 2018. The share increased 0.7%p in 2019, and remained the same (at 41.6%) in 2020.

The decrease in share of non-regular workers between 2007 and 2018 can be attributed to two factors. First, the number of temporary daily workers fell and that of permanent workers increased as informal employment became official in the labor market. Second, the Act on the Protection, etc. of Fixed-term and Part-time Employees was introduced in 2007, and the government implemented a transition process from non-regular to regular employment contracts in the public sector in 2017 and 2018 (See Figure 5).

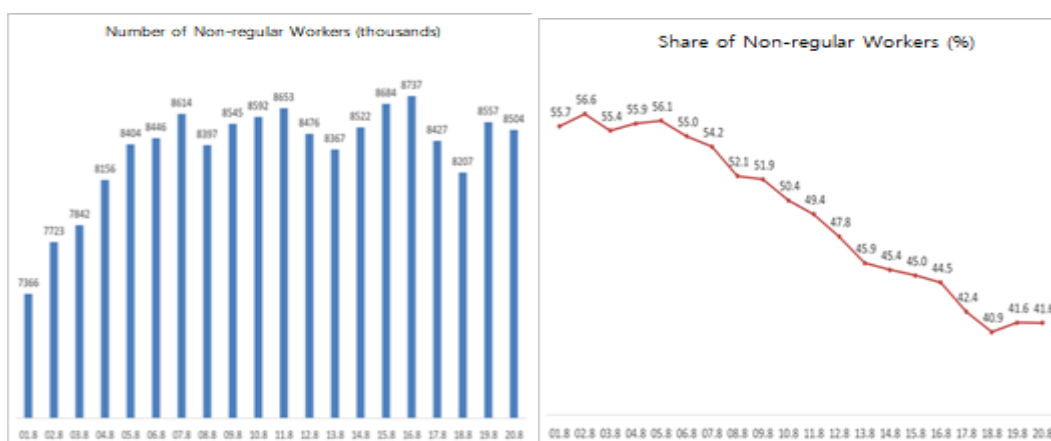


Figure 5. Trends in the scale of non-regular work

5. Four in Ten workers in Non-regular Employment even in Large Enterprises

The numbers examined so far are based on Statistics Korea's Supplementary Results of the Economically Active Population Survey. It is noted that non-regular workers in establishments with 300 or more employees only account for 15.9% of the nationwide total, or 430,000. This has served as a rationale for the government and corporate Korea to argue that the majority

of non-regular workers are employed by SMEs, not by large enterprises, and the SMEs' poor business circumstances hamper resolution of the non-regular work issue.

However, according to the Ministry of Employment and Labor's Employment Type Disclosure System applied to enterprises with 300 or more employees since 2014, as of March 2020, 38.4% of workers (1.92 million of 5 million) in large enterprises are employed on a non-regular basis. Of the 1.92 million non-regular workers, 1.01 million (20.2% of the total of 5 million) are employed directly on fixed-term, part-time and other contracts, and 910,000 (18.3%) indirectly on temporary agency, service and other contracts. Of the 1.36 million workers employed by the 10 largest family-run conglomerates, 520,000 (38.1%) are non-regular workers, including 110,000 (7.2%) employed directly and 420,000 (30.9%) indirectly. This shows that 4 in 10 workers are on non-regular contracts in large enterprises, as well as that conglomerates prefer indirect employment to direct employment for non-regular workers (See Figure 6 and Table 3).

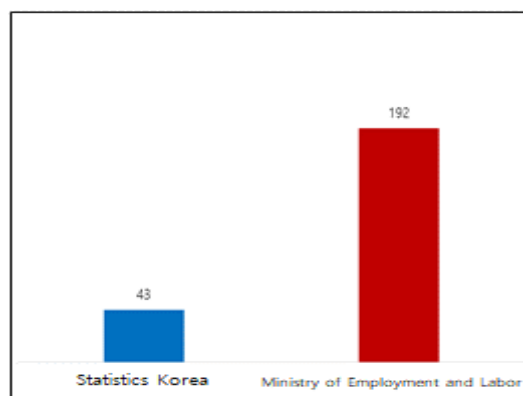


Figure 6. Scale of non-regular work in establishments (enterprises) with 300 or more employees in 2020 (thousands)

*Notes:

- 1) Statistics Korea: Supplementary Results of the Economically Active Population Survey.
- 2) Ministry of Employment and Labor: Employment Type Disclosure System.

Table 3. Scale of Non-regular Work in Conglomerates (as of August 2020)

Conglomerate	No. of affiliates	No. of surveyed affiliates	No. of workers (thousands)	No. of non-regular workers (thousands)				Share of non-regular workers (%)					
				Total	Direct employment			Indirect employment	Total	Direct employment			Indirect employment
					Subtotal	Fixed-term	Part-time (short)			Subtotal	Fixed-term	Part-time (short)	
Samsung	59	39	405	151	15	13	4	136	37.3	3.7	3.3	0.9	33.5
Hyundai Motor Group	54	25	238	85	12	12		73	35.6	4.9	4.9	0.1	30.7
SK	125	46	150	57	9	9	1	47	37.8	6.2	5.9	0.4	31.6
LG	70	28	164	26	6	5	1	20	15.6	3.5	3.2	0.5	12.1
Lotte	86	25	125	65	29	14	22	37	52.4	23.1	11.6	18.0	29.4
POSCO	35	12	64	34	3	3		31	53.3	5.4	5.3	0.1	47.9
Hanwha	86	23	61	23	4	4		19	37.2	6.1	5.9	0.5	31.1
GS	69	16	47	28	9	6	4	18	58.8	19.7	12.4	7.8	39.1
Hyundai Heavy Industries	30	11	58	30	1	1	0	29	52.2	2.2	2.2	-	49.9
Nonghyup	58	16	47	20	10	9	2	10	42.9	20.7	19.7	5.0	22.2
10 largest conglomerates	672	241	1,359	518	98	77	34	420	38.1	7.2	5.7	2.5	30.9
All conglomerate	2,284	530	2,100	827	191	141	79	636	39.4	9.1	6.7	3.8	30.3
All sizes		3,520	5,002	1,923	1010	924	234	913	38.4	20.2	18.5	4.7	18.3

*Source: Calculated from raw data in the Employment Type Disclosure System of the Ministry of Employment and Labor, cited in Kim You Sun and Jong-yun Hong (2020).

Appendix 1. 7.71 Million Jobs (39.1%) in the Government Sector and Large Private Enterprises: Is “9988” True?

According to Statistics Korea’s Economically Active Population Survey, as of August 2020, 2.7 million workers (13.2%) were employed in establishments with 300 or more employees,

430,000 (15.9%) of which were on non-regular contracts. This has given birth to the newly coined term, "9988," which means that the majority of workers (88%) are employed in micro, small and medium-sized enterprises (MSMEs), which account for 99% of all enterprises, and has supported the argument that resolving the non-regular work issue is challenging because the majority of non-regular workers are predominantly employed in MSMEs where poor business circumstances prevail.

However, according to Statistics Korea's Employment Position Statistics, as of 2019, the government sector accounts for 10.3% (2.02 million) of the total of 19.7 million wage workers, and large private enterprises with 300 or more employees 28.9% (5.69 million). Combined, they employ 39.1%, or 7.71 million of all wage workers. The Ministry of Employment and Labor's Employment Type Disclosure System shows that, as of 2020, 5 million workers were employed by large enterprises in the private sector, 1.92 million of which (38.4%) were on non-regular contracts. The 1.92 million non-regular workers include 1.01 million (20.2% of the total of 5 million) directly employed on fixed-term and other contracts, and 910,000 (18.3%) indirectly employed on in-house subcontracting and other contracts.

The fact that the government and large enterprises in the private sector have as many as 7.71 million employees indicates that government labor policy and practices by large enterprises have a direct and widespread impact on the labor market, and thus, their efforts to reduce low-paid, non-regular work would effectively address the issue.

It is often assumed that an analysis by size of establishment and one by size of enterprise would produce the same results. They don't, however, and lead to different diagnoses of the reality, different policy implications and different prescriptions.

By size of establishment, the absolute majority of workers (17.75 million, or 86.8%) are employed by MSMEs. But, by size of enterprise, 4 in 10 workers are employed by the government and large enterprises (7.71 million, or 39.1%). For example, an employee at a sales branch of an automaker belongs to a large enterprise by size of enterprise, but to an MSME by size of establishment. The same goes for a bank teller in a bank branch. Teachers in public schools and public servants of community service centers are employees in the government sector, but belong to MSMEs by size of establishment.

The government has argued it is challenging to resolve the non-regular work issue because most MSMEs, who are the predominant employer of non-regular workers, operate under poor business conditions. However, by size of enterprise, half of all employees work for the government and large enterprises. Furthermore, considering the influence of large enterprises over MSMEs and in-house subcontractors, the government and large enterprises can substantially improve the labor market, including the non-regular work situation, by adopting labor policies to reduce low-paid, non-regular work.

Labor statistics in Korea have been produced largely based on size of establishment. Statistics based on size of enterprise need to be produced as well in order to avoid statistical illusions and gain an accurate diagnosis of and prescriptions for the reality.

Chapter 2. Income Inequality

1. Disconnect between Wage and Productive Growth Rates

At the height of the labor movement in the early 1990s, corporate Korea argued that wages shouldn't rise faster than productivity. In fact, even before the Asian Financial Crisis of 1997, real wage growth fell slightly short of productivity growth. After the crisis, the gap between real wage growth and productivity growth widened substantially because of the explosion in low-paid, non-regular work and wage growth trailing economic growth even for regular workers. In the aftermath of the Global Financial Crisis during the LEE Myung-bak administration (2008-2012), in particular, a "growth without wage increase" was observed with growing productivity and stagnant wages (See Figure 7).

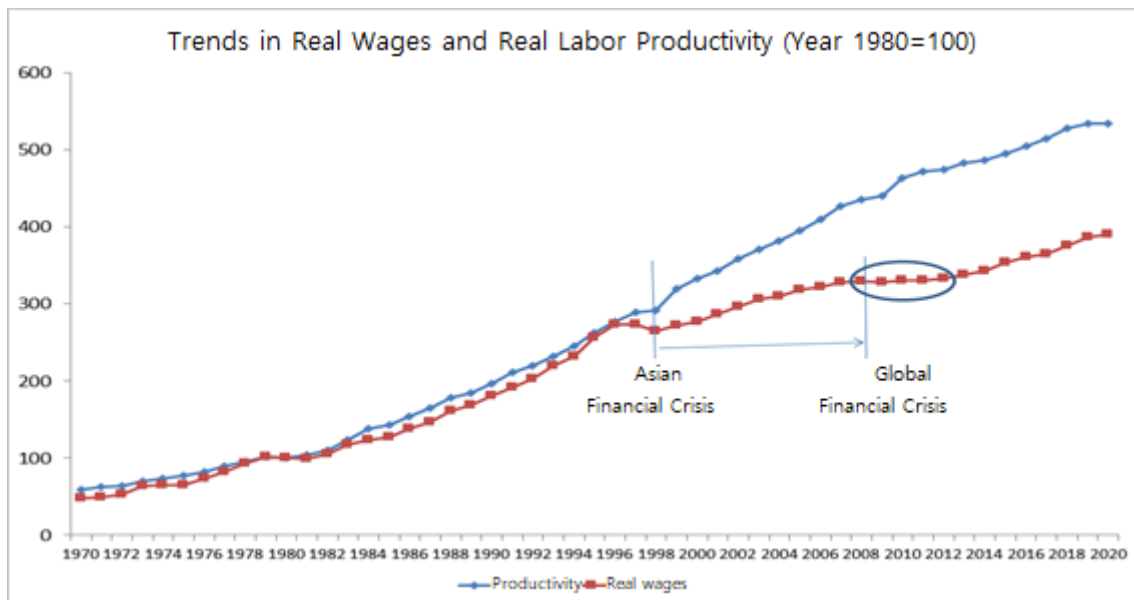


Figure 7. Disconnect between wage and productivity growth

*Source: Calculated based on National Accounts (Bank of Korea), Consumer Price Survey (Statistics Korea) and Economically Active Population Survey (Statistics Korea).

It can be argued that the disconnect between wage and productivity growth is not unique to Korea, but common to many other countries. Still, IMF statistics show that Korea has the largest gap between real wage and productivity growth rates (See Figure 8).



Figure 8. Real wage growth and productivity growth, by country

*Source: Dabla-Norris et al. (2015), "Causes and Consequences of Income Inequality: A Global Perspective", IMF.

The compound annual growth rate of the Korean economy between 2000 (shortly after the Asian Financial Crisis) and 2020 was 3.9%. According to the Ministry of Employment and Labor (MOEL), the real wage growth rate for permanent workers in establishments with 5 or more employees was 2.3%, and according to the National Accounts of Bank of Korea, the growth rate of per capita compensation for employees was 1.7% during the same period. This means that wage growth fell short of economic growth annually by 1.6%p (MOEL), or 2.2%p (Bank of Korea). Between 2000 and 2020, real wage growth was faster than economic growth for only 6 years (2002-2003, 2012, and 2018-2020) according to the MOEL, or for only 5 years (2003, 2015, and 2018-2020) according to the Bank of Korea. Not only did wage growth fail to keep up with economic growth for non-regular workers, it also failed to do so for regular

workers. Meanwhile, during the MOON Jae-in administration, real wages grew faster than the economy for three years in a row (See Table 4).

Table 4. Real Wage Growth Rates in 2000-2020 (% , KRW 1,000)

Year	Major economic indicators			Real wage (Per month, KRW 1,000, 2010=100)			Real wage growth (%)		
	Economic growth rate	Inflation	Economic growth rate + Inflation	No. of Permanent employee (MOEL)		Employee (Bank of Korea)	No. of Permanent employee (MOEL)		Employee (Bank of Korea)
				10+	5+	Compensation per capita	10+	5+	Compensation per capita
2000	9.1	2.3	11.3	2,594	2,506	2,538	5.7	5.6	1.7
2001	4.9	4.1	8.9	2,635	2,529	2,629	1.6	0.9	3.6
2002	7.7	2.8	10.5	2,860	2,736	2,715	8.5	8.2	3.3
2003	3.1	3.5	6.7	3,024	2,886	2,811	5.7	5.5	3.5
2004	5.2	3.6	8.8	3,109	2,954	2,844	2.8	2.3	1.2
2005	4.3	2.8	7.1	3,219	3,065	2,920	3.5	3.7	2.7
2006	5.3	2.2	7.5	3,325	3,169	2,955	3.3	3.4	1.2
2007	5.8	2.5	8.3	3,433	3,303	3,011	3.3	4.2	1.9
2008	3.0	4.7	7.7	3,415	3,255	3,023	-0.5	-1.4	0.4
2009	0.8	2.8	3.5	3,392	3,237	3,012	-0.7	-0.5	-0.3
2010	6.8	2.9	9.7	3,509	3,347	3,029	3.4	3.4	0.5
2011	3.7	4.0	7.7	3,353	3,187	3,032	-4.4	-4.8	0.1
2012	2.4	2.2	4.6	3,464	3,284	3,058	3.3	3.0	0.8
2013	3.2	1.3	4.5	3,546	3,364	3,100	2.4	2.5	1.4
2014	3.2	1.3	4.5	3,601	3,402	3,141	1.6	1.1	1.3
2015	2.8	0.7	3.5	3,693	3,490	3,249	2.5	2.6	3.5
2016	2.9	1.0	3.9	3,802	3,588	3,315	3.0	2.8	2.0
2017	3.2	1.9	5.1	3,791	3,601	3,343	-0.3	0.4	0.8
2018	2.9	1.5	4.4	3,924	3,729	3,444	3.5	3.5	3.0
2019	2.2	0.4	2.6	4,018	3,827	3,548	2.4	2.6	3.0
2020	-0.9	0.5	-0.3	3,999	3,816	3,585	-0.5	-0.3	1.0
Annual average	3.9	2.3	6.2	3,415	3,251	3,062	2.4	2.3	1.7
KIM	7.2	3.0	10.2	2,696	2,590	2,627	5.3	4.9	2.9
ROH	4.7	2.9	7.7	3,222	3,075	2,908	3.7	3.8	2.1
LEE	3.3	3.3	6.7	3,427	3,262	3,031	0.2	-0.1	0.3
PARK	3.0	1.1	4.1	3,660	3,461	3,201	2.4	2.2	2.0
MOON	1.9	1.1	3.0	3,933	3,743	3,480	1.3	1.6	2.0

*Source: *Labor Force Survey at Establishments*, Ministry of Employment and Labor, *KOSIS*, Statistics Korea, and *National Accounts*, Bank of Korea.

*KIM: KIM Dae-jung, ROH: ROH Moo-hyun, LEE: LEE Myung-bak, PARK: PARK Geun-hye, MOON: MOON Jae-in

2. Labor Income Share Rebounds in 2018, after Staying below Pre-Asian Financial Crisis Levels

For 20 years after the Asian Financial Crisis, labor income share stayed below pre-Asian Financial Crisis levels because of the explosion in low-paid, non-regular work and wage growth trailing economic growth even for regular workers. It was only in 2018 when it started to rebound.

First, labor income share, officially announced by the Bank of Korea as total compensation for employees, fluctuated between 58.1% and 62.6% during the same period, below the pre-crisis level of 62.8% in 1996. It started to rebound in 2018 at 63.5%, above pre-crisis levels, and continued to increase to 66.4% in 2019, and to 67.5% in 2020. However, this does not imply that the status of workers has improved. Rather, it is largely driven by the increase in the number of wage workers from 13.2 million in 1996 (63.3% of the employed) to 20.44 million in 2020 (75.4% of the employed). As the share of wage workers in the total employed rose by 12.1%p, their income share only increased by 4.7%p.

Second, the Bank of Korea calculation of labor income share does not reflect labor income of the self-employed. Adopting the OECD method based on the assumption that labor income of the self-employed is the same as worker wages, labor income share fell 16.0%p from 99.2% in 1996 to 83.2% in 2017, and recovered 6.6%p to reach 89.8% in 2020 (labor income share = total compensation for employees × the employed ÷ wage workers). Here, labor income

share, adjusted for the increase in share of workers in the total employed, indicates that the status of workers worsened.

Third, the OECD method overestimates labor income share, because labor income of the self-employed is actually lower than worker wages in Korea. Therefore, assuming that labor income of the self-employed equals household operating surplus multiplied by labor income share of wage workers, we arrive at a different number (adjusted labor income share = total compensation for employees + household operating surplus × labor income share). Here, the adjusted labor income share fell 8.1%p from 75.7% in 1996 to 67.6% in 2017, and recovered 5.1%p to reach 72.7% in 2020 (See Figure 9 and Table 5).

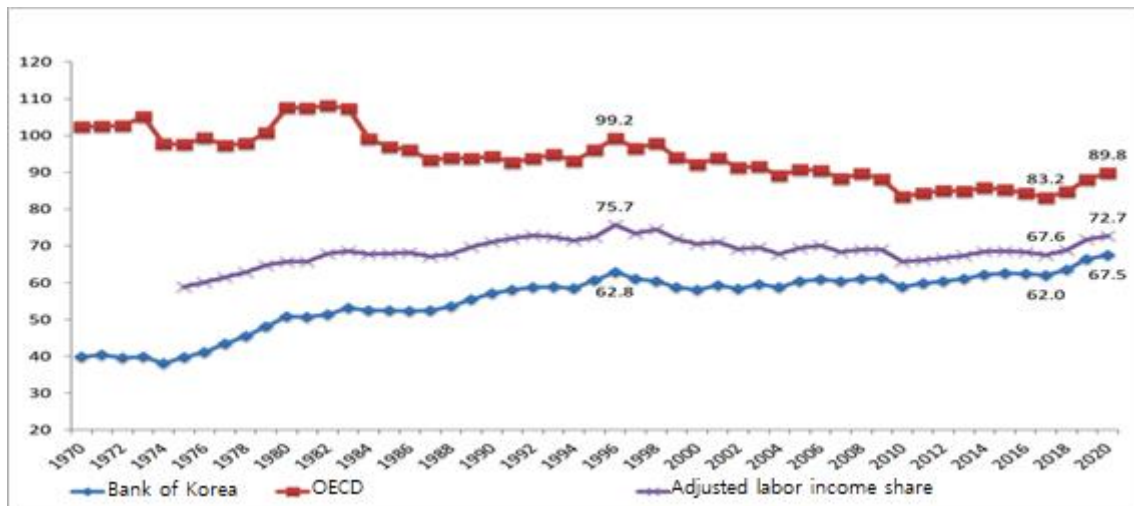


Figure 9. Trends in labor income share, 1970-2020 (%)

*Notes:

- 1) Bank of Korea: Compensation for employees
- 2) OECD: Total compensation for employees × the employed ÷ wage workers
- 3) Adjusted labor income share: Total compensation for employees + household operating surplus × labor income share

Table 5. Trends in Labor Income Share

Calculation	1996	2017	2020
Employee compensation (Bank of Korea)	62.8%	62.0%	67.5%
No. of workers (share of workers in the employed)	13.2 million (63.3%)	19.93 million (74.6%)	20.44 million (75.4%)
Employee compensation x the employed / workers (OECD)	99.2%	83.2%	89.8%
Employee compensation x (household operating surplus x labor income share)	75.7%	67.6%	72.7%

*Source: *National Accounts*, Bank of Korea, and *Economically Active Population Survey*, Statistics Korea.

3. Wage Inequality and Low-paid Workers

Aggravated labor income share leads to wider inequality among workers as well. Workers with bargaining power manage to protect their share to some extent, while those with little or no bargaining power suffer directly.

Measured by the OECD's P90/P10 ratio (ratio of the upper bound value of the ninth decile to that of the first decile), wage inequality in Korea was the 4th largest in 2010 (4.8), and the 5th largest in 2015 (4.6) among the 38 member states of the OECD. The ratio improved in 2019 (3.6) largely driven by the minimum wage rise, but it was still the 10th largest. In the OECD, wage inequality is largest in the US (P90/P10 = 5.0), and smallest in Sweden (P90/P10 = 2.1).

Meanwhile, the P90/P50 ratio (ratio of the upper bound value of the ninth decile to the median income) of Korea remained almost the same in 2010 (2.4, 9th largest), in 2015 (2.4, 8th largest) and in 2019 (2.3, 8th largest), whereas the P50/P10 ratio (ratio of the median income to the upper bound value of the first decile) substantially improved between 2010 (2.0, 4th largest), 2015 (1.9, 7th largest) and 2019 (1.6, 23rd largest). This indicates that the recent

decrease in wage inequality can largely be attributed to the minimum wage rise (See Table 6 and Figure 10).

Table 6. Comparison of Wage Inequality (Korea's ranking among 38 OECD member states)

	2010	2015	2019
P90/P10	4.77	4.59	3.63
	4 th largest	5 th largest	10 th largest
P90/P50	2.37	2.39	2.28
	9 th largest	8 th largest	8 th largest
P50/P10	2.01	1.92	1.59
	4 th largest	7 th largest	23 rd largest

*Source: OECD.Stat, accessed on Aug. 8, 2021.

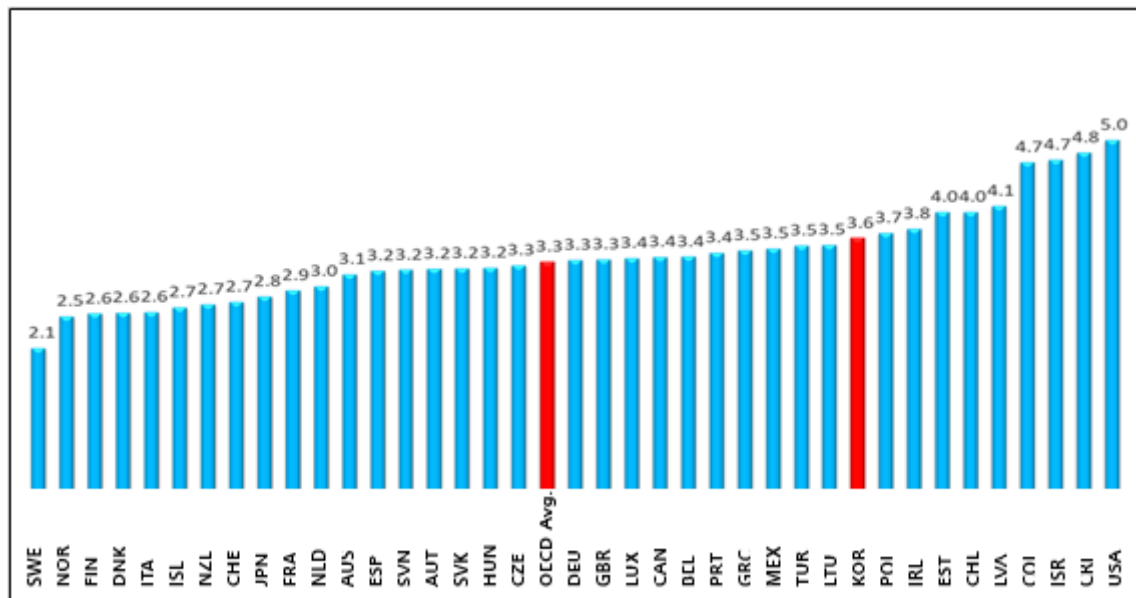


Figure 10. Wage inequality among OECD member states in 2019 (P90/P10 ratio)

*Source: OECD.Stat, accessed on August 8, 2021.

Wider inequality among workers means that more workers are paid less than before. OECD statistics show that the share of low-paid workers (workers earning less than two-thirds of median earnings) in Korea also improved between 2010 (24.7%, 2nd largest), 2015 (23.5%, 4th

largest) and 2019 (17.0%, 9th largest). Still, it is relatively high among the 22 member states that reported this share to the OECD. The share of low-paid workers is largest in the US at 23.4%, and smallest in Belgium at 5.5% (See Table 7).

Table 7. Comparison of the Share of Low-paid Workers (Korea’s ranking among 22 OECD member states)

	2010	2015	2019
Share of low-paid workers	24.7%	23.5%	17.0%
	2 nd largest	4 th largest	9 th largest

*Source: OECD.stat, accessed on Aug. 8, 2021.

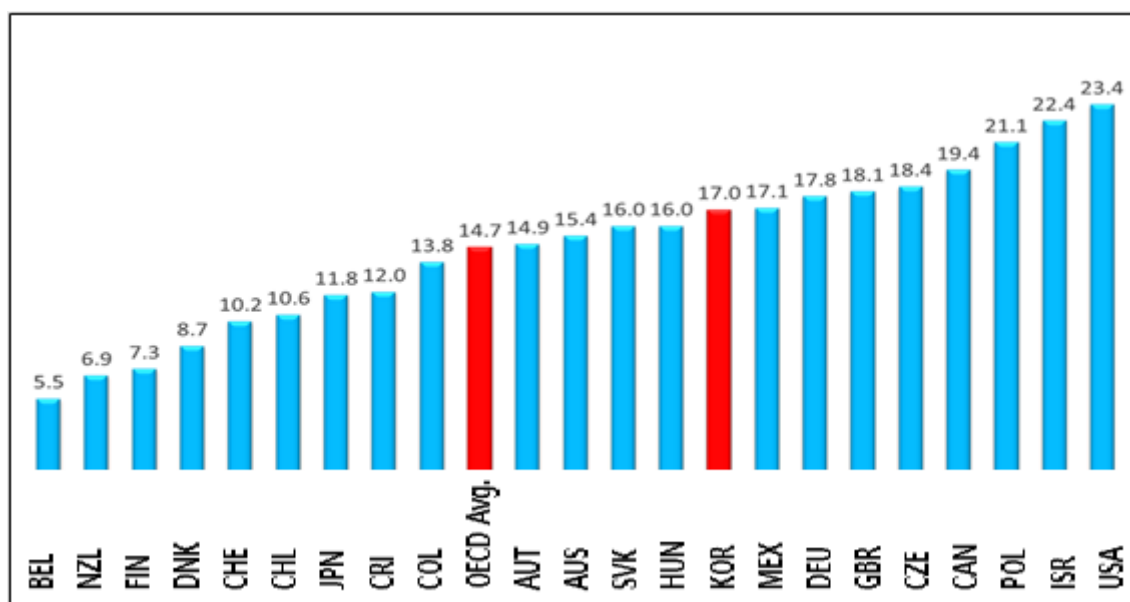


Figure 11. Share of low-paid workers in OECD member states in 2019 (%)

*Source: OECD.Stat, accessed on August 8, 2021.

4. Double Discrimination from Size of Establishment and Type of Employment

As of August 2020, in establishments with 300 or more employees, regular workers earned KRW 4.39 million per month and non-regular workers KRW 2.72 million per month on average. In establishments with fewer than 5 employees, regular workers earned KRW 2.58 million per

month and non-regular workers earned KRW 1.33 million. With regular worker earnings in establishments with 300 or more employees forming the base at 100, their non-regular peers earned 62, regular workers in establishments with fewer than 5 employees earned 58.8, and their non-regular peers earned 30.3.

There is a misconception in Korea that regular and non-regular workers are paid almost the same in MSMEs. However, the wage gap between regular and non-regular workers is huge even in establishments of the same size, with non-regular workers earning only 52-62% of what their regular worker counterparts do. This means that non-regular workers in MSMEs suffer double discrimination from size of establishment and type of employment compared to regular workers in large enterprises (See Table 8).

Table 8. Total Monthly Wages and Wage Gap by Size of Establishment and Type of Employment (August 2020)

No. of employees	Total monthly wage (KRW 10,000)			Wage gap I (%)		Wage gap II (%)	
				Regular worker, 300 or more employees = 100		Regular worker, each size = 100	
	Regular worker	Non-regular worker	Average for all workers	Regular worker	Non-regular worker	Regular worker	Non-regular worker
1-4	258	133	171	58.8	30.3	100.0	51.5
5-9	280	166	220	63.9	37.9	100.0	59.3
10-29	308	179	253	70.2	40.8	100.0	58.1
30-99	331	199	290	75.5	45.3	100.0	60.1
100-299	358	231	327	81.6	52.8	100.0	64.6
300+	439	272	412	100.0	62.0	100.0	62.0
All sizes	336	173	268	76.6	39.4	100.0	51.5

*Source: *Supplementary Results of the Economically Active Population Survey*, Statistics Korea (August 2020)

The subscription rate to the National Pension scheme is 94.2% for regular workers, and 35.5% for non-regular workers. The number is 98.6% for regular workers in establishments with 300

or more employees, 86.2% for regular workers in establishments with fewer than 5 employees, 71.4% for non-regular workers in establishments with 300 or more employees, and 16.7% for non-regular workers in establishments with fewer than 5 employees.

The unionization rate is 19.2% for regular workers, and 2.6% for non-regular workers. The number is 37.7% for regular workers in establishments with 300 or more employees, 2.1% for regular workers in establishments with fewer than 5 employees, 11.3% for non-regular workers in establishments with 300 or more employees, and 0.3% for non-regular workers in establishments with fewer than 5 employees.

This means that, compared to regular workers in large enterprises, non-regular workers in MSMEs suffer double discrimination—in wages and various working conditions, social insurance and the right to organize—due to size of establishment and type of employment (See Table 9).

Table 9. National Pension Scheme Subscription Rate and Unionization Rate, by Size of Establishment and Type of Employment (August 2020)

No. of employees	Pension subscription rate (%)			Unionization rate (%)		
	Regular worker	Non-regular worker	Average for all workers	Regular worker	Non-regular worker	Average for all workers
1-4	86.2	16.7	37.9	2.1	0.3	0.9
5-9	92.4	31.5	60.4	3.8	0.9	2.2
10-29	93.0	39.8	70.5	12.5	2.0	8.1
30-99	94.8	50.8	81.0	21.2	5.1	16.1
100-299	96.5	59.9	87.4	29.7	8.7	24.5
300+	98.6	71.4	94.3	37.7	11.3	33.5
All sizes	94.2	35.5	69.8	19.2	2.6	12.3

*Source: *Supplementary Results of the Economically Active Population Survey*, Statistics Korea (August 2020).

5. Rapid Increase in Income Inequality after the Asian Financial Crisis

The World Inequality Database, run by Thomas Piketty and others, shows that Korea's income inequality increased rapidly after the Asian Financial Crisis.

The share of the top 1% remained stable between 1980 (9.5%) and 1997 (9.7%), and, immediately after the crisis, increased rapidly between 1998 (7.8%) and 2010 (14.8%). It has then plateaued around 14.8% since 2010. The share of the top 2-10% continued to increase between 1976 (19.9%) and 2005 (31.8%), and remained stable between 2005 and 2019 (31.7%). The share of the top 10% continued to increase between 1976 (28.4%) and 2010 (46.6%), and remained stable between 2010 and 2019 (46.5%) (See Figure 12).

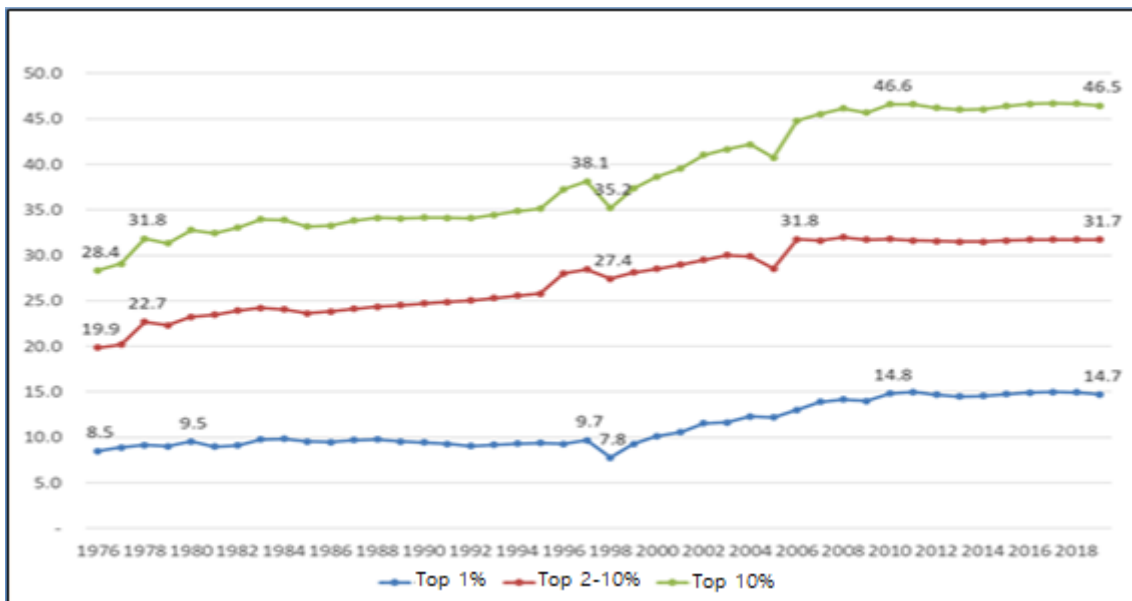


Figure 12. Shares of the top 1% and the top 10%, 1976-2019 (%)

*Source: WID.world

Rising shares of the top 1% and the top 10% mean a smaller share of the bottom 90%. The share of the top 10-50% remained stable between 1983 (43.6%) and 1997 (43.5%), and,

immediately after the crisis, soared 1.7%p in just one year to 45.2% in 1998. However, it continued to decline between 1999 and 2006 (38.4%), and remained stable between 2006 and 2019 (37.5%). The share of the bottom 50% continued to decline between 1976 (23.8%) and 2006 (16.8%), and remained stable between 2007 (16.3%) and 2019 (16.0%) (See Figure 13).

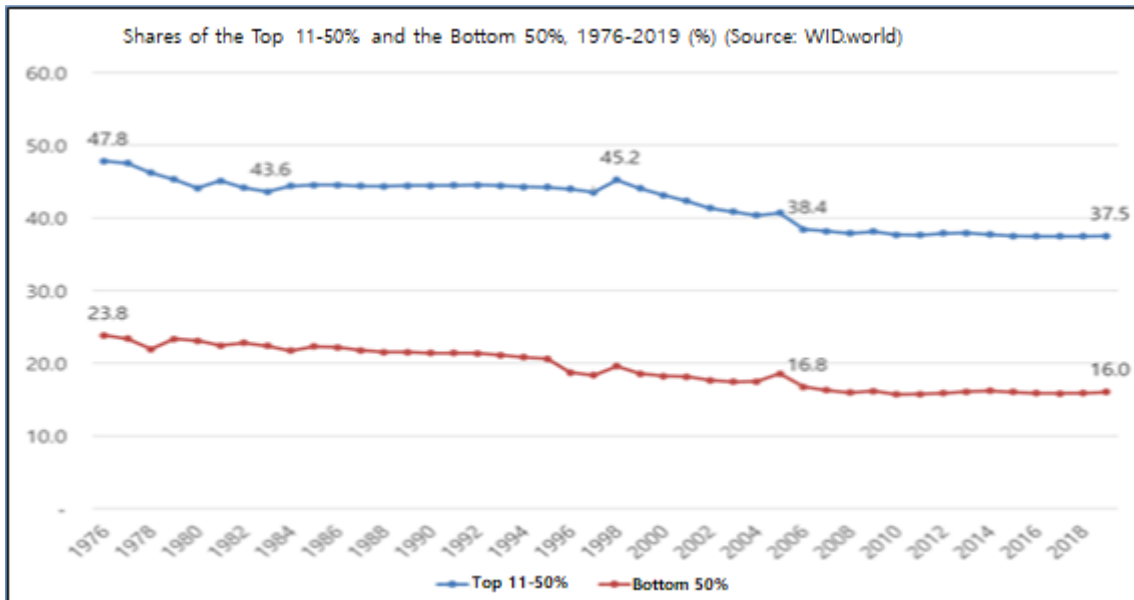


Figure 13. Share of the bottom 90%, 1976-2019 (%)

Comparing the share of the top 1% in Korea, the US, the UK, France, Germany, Japan and Sweden in 1980, it was the largest in Japan (10.9%), followed by the US (10.5%), Germany (9.8%), Korea (9.5%), France (8.6%), the UK (7.2%) and Sweden (7.1%). In 2019, however, the US (18.8%) and Korea (14.7%) had the largest top 1% shares, followed by Japan (13.1%), Germany (12.9%), the UK (12.6%) and Sweden (9.5%)

In 1980, the share of the top 2-10% was the largest in Japan (25.6%), followed by the US (23.7%), Korea (23.2%), France (23.0%), the UK (21.9%), Germany (18.8%) and Sweden (18.5%).

In 2019, however, Japan (31.8%) and Korea (31.7%) recorded the largest shares, followed by the US (26.7%), Germany (24.4%), the UK (23.0%), France (22.4%) and Sweden (20.1%).

In 1980, the share of the top 10% was the largest in Japan (36.5%), followed by the US (34.2%), Korea (32.8%), France (31.6%), the UK (29.0%), Germany (28.6%) and Sweden (25.6%). In 1999, however, Korea (46.5%) and the US (45.5%) had the largest shares, followed by Japan (44.9%), Germany (37.2%), the UK (35.6%), France (32.3%) and Sweden (29.6%) (See Table 10).

Table 10. Comparison of the Shares of the Top 1% and the Top 10% in 2019 (%)

		Republic of Korea	France	Germany	Japan	Sweden	UK	USA
1980	Top 1%	9.5	8.6	9.8	10.9	7.1	7.2	10.5
	Top 2-10%	23.2	23.0	18.8	25.6	18.5	21.9	23.7
	Top 10%	32.8	31.6	28.6	36.5	25.6	29.0	34.2
1999	Top 1%	14.7	9.9	12.9	13.1	9.5	12.6	18.8
	Top 2-10%	31.7	22.4	24.4	31.8	20.1	23.0	26.7
	Top 10%	46.5	32.3	37.2	44.9	29.6	35.6	45.5

*Source: WID.world, accessed on Sep. 15, 2021.

Chapter 3. Fragmented Industrial Relations

1. Unionization Rate and Collective Agreement Coverage

According to the National Labor Union Organizational Status based on the survey annually conducted at the end of December by the Ministry of Employment and Labor, there were 1.05 million union members with a unionization rate of 11.7% at the end of June 1987. Union membership peaked at the end of 1989 at 1.93 million (18.6%), fueled by the Great Workers' Struggle of 1987, and then fell to 1.4 million (11.4%) at the end of 1998 after the Asian Financial Crisis.

According to the Supplementary Results of the Economically Active Population Survey by Statistics Korea, which has tracked union membership since 2003, unionization rate (union membership) has steadily increased over the last 20 years from 1.62 million (11.2%) in 2003, to 1.95 million (11.4%) in 2010, and to 2.51 million (12.4%) in 2020 (See Figure 14).

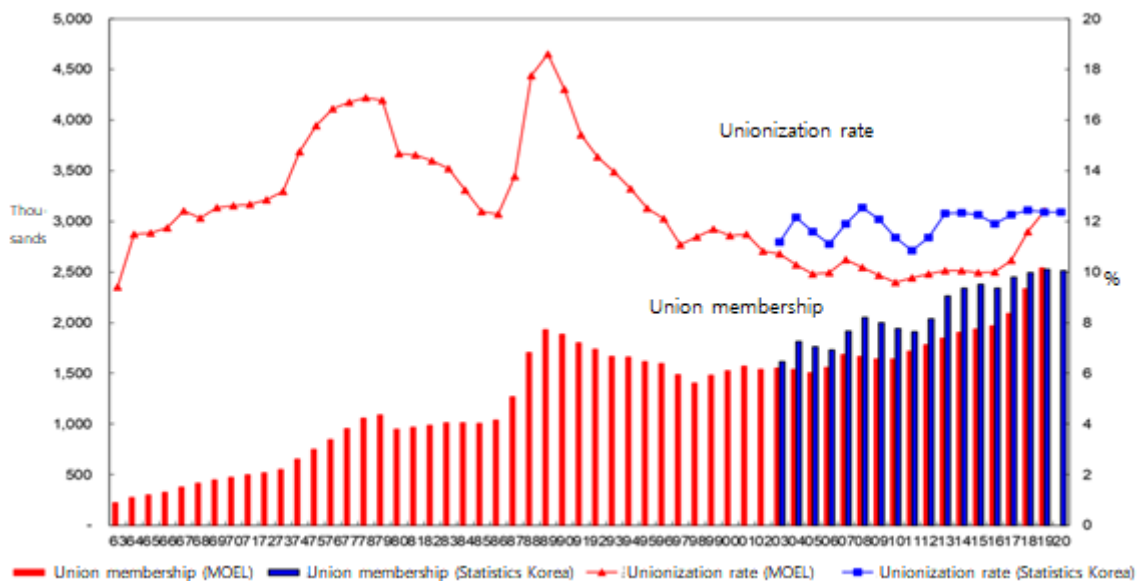


Figure 14. Trends in union membership and unionization rate (thousands, %)

The World Bank (2002), the OECD (2004) and the ILO (2004) made public almost the same empirical analyses at the same time. Their analyses commonly find that wage inequality is smaller when unionization rate is higher, collective agreement coverage is wider, or collective bargaining is centralized on the national or industrial levels and closely coordinated between union headquarters and affiliated unions.

Collective bargaining in Korea is decentralized on the enterprise level, and rarely coordinated between national, industrial and enterprise unions. The OECD (2004) categorizes Korea as a state with the lowest levels of collective bargaining centralization and coordination, along with the US, the UK, Poland, and others. Korea's unionization rate in 2018 reported to the OECD was the 28th highest among the 38 member states at 11.8%, and collective agreement coverage rate the 31st highest at 14.8%. Despite the lower unionization rate compared to Korea, France has virtually 100% collective agreement coverage, because the French government has a system where unorganized workers are also covered by collective agreements.

Although wage inequality in Korea can be attributed to the government's wage and industrial policy, it is also largely caused by low levels of unionization and collective agreement coverage, poor coordination between national, industrial and enterprise unions, and labor-management relations driven by enterprise-level bargaining (See Figure 15).

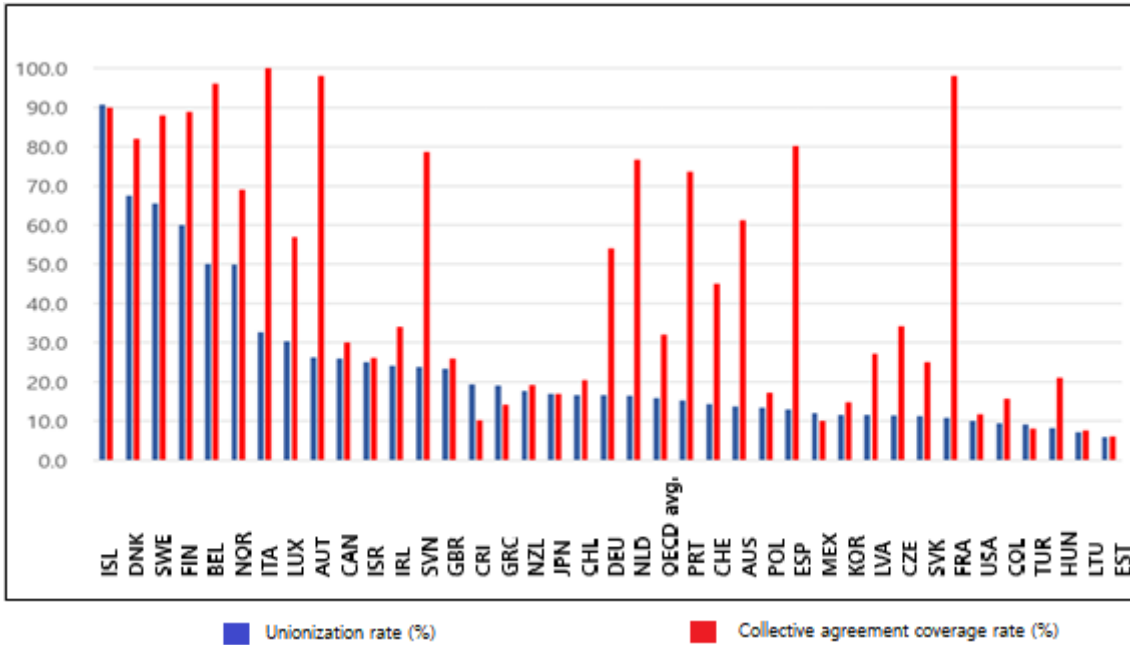


Figure 15. Unionization and collective agreement coverage rates, by country (%)

*Source: OECD.Stat, accessed on September 16, 2021.

2. A Decrease in Strikes, and a Surge in Unfair Labor Practices and Unfair Dismissal

Indicators of labor-management conflict include number of strikes, work days lost and work days lost per employee. In the early 1980s, the number of strikes per annum ranged between 100 and 200, and work days lost between 10,000 and 70,000. In 1987, there were 3,749 strikes and work days lost soared to 6.95 million. The explosion in the number of strikes continued in 1988 and 1989, while in the 1990s, both the number of strikes and work days lost fell substantially. This can be attributed to the institutionalization of labor-management relations as both sides restrained from unnecessary conflict or dispute with more experience in bargaining and strikes.

After the Asian Financial Crisis, strikes picked up again in terms of both the number of strikes and work days lost. This was driven by labor market conditions and industrial relations focused on enterprise levels getting worse with smaller labor income share and increasing unfair labor

practices (Kim Yoo Sun 2006). Recently, both the number of strikes and work days lost are decreasing largely due to substantially weaker trade unions.²

Examining the trend in unfair labor practices by management by the number of applications for remedy (first instance), it peaked in 1989 at 1,721 and decreased, and then turned upwards after the Asian Financial Crisis to 1,502 in 2001. After staying around 1,000 per annum for several years, the number of applications for remedy set a new record at 1,723 in 2010. Between 2011 and 2019, it ranged between 679 and 988.

With unionization and collective agreement coverage rates just above 10%, and dominance of management in industrial relations, collective labor-management relations have failed to resolve conflicts. As a result, workers have increasingly resorted to individual legal remedy. According to the National Labor Relations Commission, the number of applications for remedy for unfair dismissal continued to soar from 1,134 in 1990 to 1,578 in 1995, to 3,918 in 2000, to 5,119 in 2005, to 9,266 in 2010, and to a record-high of 10,369 in 2014. The number stayed below 10,000 between 2015 and 2018, and reached its all-time high of 11,422 in 2019 (See Figure 16).

² It is often believed that fewer strikes mean higher levels of labor-management cooperation and reduced conflict. However, an analysis of the data in the Panel Survey by the Korea Labor Institute (2005, 2007 and 2009) finds that the number of strikes decreased even as labor-management cooperation weakened and conflicts intensified.

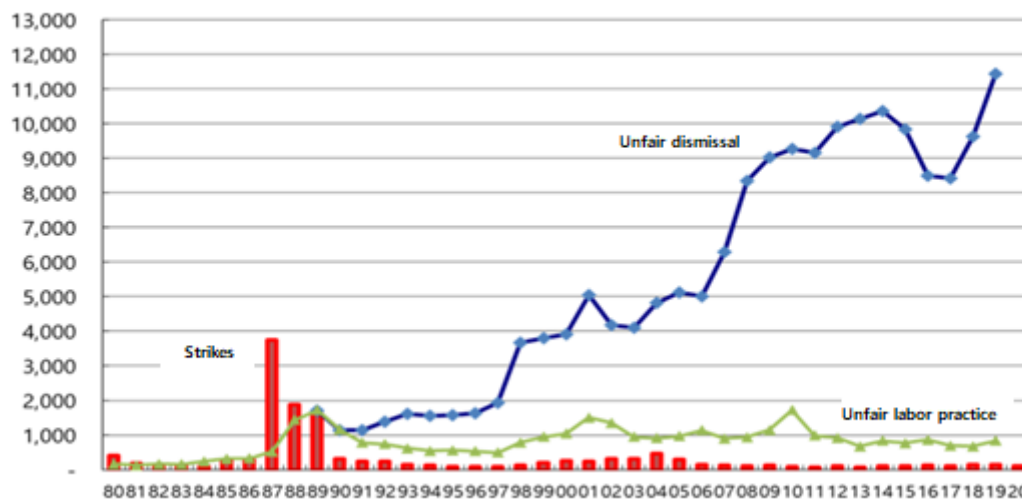


Figure 16. Trends in number of strikes, unfair labor practices and unfair dismissal

Measured by the ratio of applications for remedy for unfair labor practices to strikes, management’s attitude towards the former shows a clear difference depending on whether the government is liberal or conservative. It was 5.1 during the KIM Dae-jung administration (1998-2002), 4.9 during the ROH Moo-hyun administration (2003-2007), 12.4 during the LEE Myung-bak administration (2008-2012), 7.9 during the PARK Geun-hye administration (2013-2016), and 5.9 during the MOON Jae-in administration (2017-2019).

In particular, management was 20 times more aggressive in 2010 during the LEE Myung-bak administration, which coerced unions to leave the Korean Confederation of Trade Unions (KCTU), and “union busting consultancies” destroyed major unions affiliated with the KCTU through the scheme of provoking strikes - lockout - mobilizing paid strikebreakers - organizing a second union - marginalizing the existing union (See Figure 17).

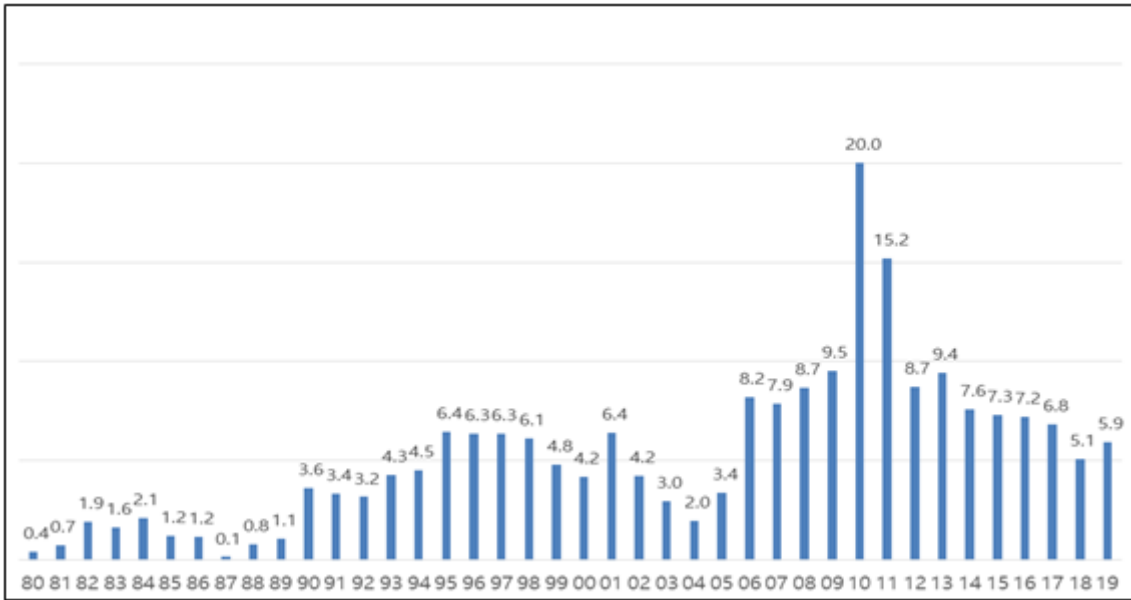


Figure 17. Ratio of applications for remedy for unfair labor practices to strikes

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