

# Multiple Dualization in labour market and problems of responding labour market and welfare reforms in Korea : challenges to transformation of the Korean welfare capitalism

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## ABSTRACT.

This paper aims to explore the transformation and challenges of the welfare capitalism in Korea by focusing on the current deepening trend of the multiple dualization and increasing inequalities in labor market and the limits of the reforms of the labor market and welfare system in coping with the problems. This paper assume that these trends and problems are historical and structural outcomes of the Korean welfare capitalism rather than temporal institutional problems or policy failures.

For this goal, this paper adopts a historical and configurational approach to explain the historical process of the institutional formation and change leading to their current features and problems from a 'varieties of capitalism' perspective, which can provide an analytical framework of a distinctive formation and changes of the welfare capitalism at the national level.

This paper finds that the distinctive features of the production regime that have been constructed and transformed from the early heavy chemical industrialization (HCI) until today have been the underlying cause of the current multiple dualization in the labor market and the limitations of the welfare regime to complement the deficiencies the labor market. These institutional features of the Korean welfare capitalism have been shaped through three historical conjunctures: HCI, democratization, and financial crisis. In this process the hegemonic power of the conservative ruling coalition and 'developmentalism' formed in the early industrialization process have critically mediated this transformation process and problems.

**Keywords:** Multiple Dualization, Labour Market, Production Regime, Welfare Regime, VOC, Institutional Complementarity, Korea.

## I. Introduction

In the past five decades, South Korea has experienced a remarkably successful transformation into a modernized country accomplishing an economy with advanced manufacturing industries, a political democratization, and a comprehensive and universalized social security system. In spite of this fast and successful modernization, the Korean welfare capitalism has today faced serious challenges to the sustainability of economic growth and social stabilities. Especially, the labor market in Korea is today undergoing deepening dualizations and inequalities in wages and welfare.

The dualization of labor market and the diversification of employment are today common trends even in the western industrialized welfare states where well-established welfare system or corporatist institutional arrangements had managed the problems of the labor market divides and inequalities due to the recent structural changes such as the transition to a service economy, demographic change, and the persistent global economic crisis (Emmenger et al. 2012). But in Korea, these trends have been more divided, multi-dimensional, and unequal among diverse groups of workers and employment types, creating serious problems to the sustaining economic growth and socio-political stabilities. Even the expanded and universalized social welfare system through the recent reforms could not reduce this dualization and paradoxically located at the center of this deepening dualization by actually excluding a large size of marginal workers and self-employed including most of non-standard workers in the labor market from the benefits.

What went wrong with the Korean economy, labor market, and welfare system today? How can we explain the current states and problems of the multiple dualization in the labor market and distributional issues? Why are not the government's labor market reforms and the expanded social welfare system effective for ameliorating the polarization of the labor market? This paper assumes that these trends of the multiple dualization and its problems cannot be explained by conventional comparative or quantitative analyses whose goal is to delineate generalizable key factors, sometimes one key factor posited to produce such changes. These institutional features and problems are historical and structural outcomes.

For a more substantial and historical explanation, we adopt a 'varieties of capitalism' perspective as a theoretical framework and a configurational approach with an analytic narrative analysis based on historical comparative perspective as a methodological one. The varieties of capitalism perspective allows us to understand the causal relationships among important institutional terrains of the welfare capitalism leading to economic performances and distributional outcomes. The configurational approach guides us to figure out a complex causal mechanism for the formation and change of major institutions and social changes in which the multiple, conjunctural causes are operating in the sequential time and space. Thus the timing and sequence of causes matter. Then the historical analysis tells us that these conjunctural causes have interacted differently, depending upon where they appeared in a sequence of causes and events. Finally, this historical process of the formation and change of relevant institutions is not functional, but a political process in which the power relations between institutions and actors, and the actors' ideas have contingently play a critical role.

Based on these theoretical and methodological framework, we will argue that the underlying cause of the current multiple dualization in the labor market and the limitations of the welfare regime to reduce the problems of the labor market—what is called as 'institutional complementarity'—was the production regime, which had been constructed by the early heavy chemical industrialization (HCI), and that the dualization had begun to be institutionalized from

this early formation of the production and welfare regimes innated in the early industrialization strategy.

In Korea, there were three major developmental stages that had shaped the current institutional features and problems of the welfare capitalism; the early developmental state-led industrialization, the democratization, and the financial crisis in the late 1990s. In the early development of the Korean welfare capitalism, the developmental state had constructed the production regime based on the previous institutional legacies and became a central coordinator of the production regime, labor relations and market, and the welfare system. Then the subsequent democratization and economic liberalization had transformed the state dominant production regime into a large business dominant one. This sequence of changes in the production regime, the labor relations and labor market, and the welfare system intensified the initially dualized labor market structure. Finally the extensive neo-liberal reforms since the financial crisis in the late 1990s with the globalization effects further tranformed the dualized labor market into multi-layered dualized labor market.

For this, this paper consists of the following four parts. First, it will discuss the theoretical and methodological issue for explaining this issue. In the next part, the historical formation and change of the distinctive production regime in Korea as an underlying driving force to the multiple dualization in Korea will be explained. Then, this paper will explain how the institutional features of the labor relations and labor market have been fomred and changed, being affected by the production regime, and then the specific structures and the distributional problems of the multiple dualization by focusing on the non-standard workers and the diversified employment patterns. The last part will explain how the welfare regime has also been developed as a dualized form and its institutional complementarities have been limited to meet the the problems of the labor market in spite of its unviersalized expansion.

## **II. Why multiple dualization in Korea?: theoretical framework**

### **1. Putting the Welfare Capitalism in the East Asian Context**

The perspectives of Varieties of Capitalism (VOC), which have recently attracted much attention from many scholars in the field of comparative political economy, seem to provide a useful analytical framework for explaining the distinctive institutional features of national economy (welfare capitalism) in each country and their continuities and changes under recent environmental shift such as globalization, the changes in industrial structure, and the demographic change.

By taking a methodological view at the institutional level, the VOC approaches adopt various theoretical perspectives from Polanyi's view of the great transformation of modern capitalism to an analytical idea of the French regulation theory (Thelen, 2014: 6; Streeck, 2009; Hollingworth and Boyer 1997; Kitschelt, Lange, Marks, Stephen 1999; Hall and Soskice 2001; Amable, 2003). It then focuses on a social system of production as the center of the analysis of capitalism, and examines 'the production regime' by emphasizing a business-centered relationship with other related production subsystems (e.g., industrial policies, macro-economic management, financial system, industrial relations, corporate governance, skill systems). This view argues that each national production system has developed through its own historical process, in which major historical actors (business/capital, labor, and state) interact under given international and domestic institutional conditions and the distinctive type of the 'institutional complementarity'

between the subsystems of the national production system have co-evolved with certain economic performances.<sup>1</sup>

The recent scholarship from the VOC began to broaden its analytical view and research questions to find a core ‘mode of coordination’ and identify the ‘institutional complementarities’ among the major subsystems or institutions in the areas of production, labor market, and welfare (e.g., financing system and pension system, corporate governance and employment practice, skill system and unemployment insurance) and further explore the ‘elective affinity’ between different types of production and welfare regimes (Huber and Stephens 2000; Hall and Soskice, 2001; Manow and Ebbinghaus, 2001, Mares 2001; Swenson 2002; Iversen, 2005). By doing so, this field of scholarship tries to find the relationships among institutional competitiveness, distributional consequences, and political institutions and ruling coalitions.

Those scholars tend to criticize the limitations of the previous Esping-Andersen’s theory of welfare capitalism in the sense that it focuses too much on the Keynesian aspects of capitalism, that is, the labor side of power relation as a coalitional basis and the distributional consequences of welfare. In fact, they emphasize that the accounts for more sophisticated relationships between production, labor market structure, and social protection are very important when attempting to understand modern welfare capitalism by incorporating business-centered political coalitions and the production side of welfare. This production-side view of welfare can explain why countries with high taxes and social spending do not necessarily race to the bottom in spite of the decrease in their labor strength, why they are able to maintain competitive economic growth under the pressures of globalization, and the business/capital’s role in making welfare regime (Iversen, 2005).

These VOC perspectives also prove to be very useful in explaining some distinctive historical developmental pathways and institutional features of welfare capitalism in some East Asian countries, in which developmental states based on the state-business coalition (with the exclusion of labor) had played a major role in the formation and implementation of social welfare policies as well as the production system, especially in the early time of industrialization. The previous explanations of developmental states had focused mainly on the state’s role in economic policy-making, but had been relatively less concerned with their role in social policy-making and the formation of the welfare regime. However—if we conduct specific case studies based on a comparative perspective or comparative studies focusing on a few of the countries—the VOC perspectives incorporating the production and welfare regimes, with an emphasis on the mediating role of the political institutions and ruling coalition, seem to be very useful in explaining how welfare capitalism in this region has historically evolved and then changed during recent globalization and democratization.

At this point, we need to raise a methodological issue for the specification of the production-labor market-welfare nexus. I suggest a configurational approach whose ontological view is that historical events or outcomes are the result of more than one cause, that is, the result of a complex causal mechanism in which the configuration or conjuncture of multiple causes are interacting in time and sequence (Katznelson, 1997; Ragin, 1989). This approach can explain how various institutions and actors within them interact at critical junctures of given historical time and space, before a certain form of the regime emerges and shapes its developmental pathway. Historical institutionalism as a variant of new institutionalism will be helpful in explaining the formation and change of various regimes from this con.

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<sup>1</sup> The conceptualization and the theoretical functions of the institutional complementarities in explaining institutional continuity and change are now becoming the object of intense debates among the scholars in the VOCs. The example literatures are Amable, Ernst, Palombarini (2005), Höpner (2005a and b), Crouch et al. (2005a), Deeg (2005), and Streeck and Thelen (2005).

The recent comparative studies attempting to explain similarities and differences between Germany and Japan as non-liberal capitalist economies are very illuminating for this line of research questioning (Streeck and Yamanuma, 2001 and 2003). According to the perspective of the VOC, Korea (as well as other East Asian neighbor countries, such as Japan and Taiwan) had clearly been a non-liberal coordinated market economy in which the developmental state played a crucial role in its rapid industrialization and shaping its welfare capitalism from a broad sense. In particular, it has also been assumed that both the Japanese and Korean economies could have similar large-business coordinated market economies, although there would be significant differences in the specific coordinating mechanisms and consequences between them (Soskice, 1999). However, there has not yet been an agreement upon what kind of non-liberal coordinated market economies they were and how they are transforming today, compared to other western advanced industrialized countries. More historical and specific researches are required to identify detailed institutional features and coordinating mechanisms of these East Asian production and welfare regimes and their institutional complementarities and elective affinities.

## **2. Historical and Political Nature of Institutions: Time, Legacies, and Politics in Institutional Formation and Change**

The VOC perspectives are implicitly or explicitly based on a theory of institution. We argue that the historical and political nature of institutional formation and change allow us to understand how institutions in a given country's context were emerged, evolved, and transformed from a more open historical way. Scholars whose methodological perspectives are largely based on historical institutionalism such as Streeck and Thelen basically define institutions as power relations or political equilibriums that correspond to a compromise between conflicting social actors (Streeck and Thelen, 2005). Political equilibriums are not static, but maintain temporal stability within on-going political struggles. Therefore, rather than directly linking institutions and institutional change to economic functions and rationalities, one should analyze institutions with respect to the establishment and evolution of social compromises. This is called as 'continuing negotiation and renegotiation among major historical actors' (Thelen, 2003). Therefore, institutional formation and changes have historical contingencies, often unintended consequences, and the results of innovative human actions. In this context, Crouch emphasizes that complementarities originally do not have logical relationship, but they are formed as the fortuitous consequences of human creativity (Crouch, 2005c).

In this context, it would be plausible idea if open perspective of the institutional complementarities and further differentiation of modes of coordination will help us to understanding distinctive or similar developmental patterns of the national capitalism in East Asian countries. As Ebbinghaus and Manow argues, it is important to understand that institutional elements are only "loosely coupled", displaying functional interdependency but also varying degrees of inconsistency. Therefore, while different institutional elements of national models are separately governed, the elements are "mutually-supporting and dependent of each other" (2001: 16).

### **III. Transformation of Korea's production regime into a large business-based export-oriented industrialization(LBEOI): driving force of dualization**

#### ***3.1 Origin of large business-based export-oriented industrialization: heavy chemical industrialization (HCI) led by the developmental state***

The rise of EOI as Korea's main industrialization strategy came out after the poor performance and the exhaustion of the early import-substitute industrialization (ISI) based on US aids during the previous Rhee Seung-man and Chang Myon regimes (1955-1960). The subsequent Park Chung-hee regime turned the growth model into an export-oriented industrialization (EOI) by taking advantage of cheap abundant labor, allocating financial resources to strategic industries, and protecting embryonic industries from foreign competition. This early EOI had been led by a strong developmental state which had been formed by the military government with implementation of comprehensive reforms in the areas of state apparatus, politics, and society under the name of 'modernization of Korea'.

Then the EOI since early 1960s became a main national growth strategy in Korea. This state-led industrialization is very similar to that of Japanese one; tight state control of the financial sector, large conglomerate-based industrialization, and the role of the super pilot-economic agency (the Economic Planning Board in Korea and the MITI in Japan) in planning and coordinating the industrialization process (Chang, 1992; Johnson, 1982, Woo-Cumings, 1998; Wade, 1990).<sup>2</sup> The major transformation of the Korean economy started with the heavy chemical industrialization (HCI) during the 1970s under the auspice of the authoritarian developmental state, the *Yushin* regime, which President Park took power again by amending the constitution.<sup>3</sup> In this industrialization in Korea the state-business coalition had been strong with the upper-handed position of the state because the business sector did not have capital and technologies to compete in the world market at the time. The labor organizations and movements had been strictly controlled by the state. In this sense, the state was a main coordinator in the early industrialization.

#### ***3.2 Production strategy, skill formation, and hierarchical sub-contract system: underlying cause of dualization***

The most important institutional spheres in the production regime that critically shape the welfare system and supposedly have significant institutional complementarities are the relationship among skill formation (vocational and education system), labor market structure, industrial relations, and corporate governance (Hall and Soskice, 2001; Estebez- Abe, Iversen, and Soskice, 2001; Mares, 2001; Iversen, 2005).

When Korea started its active HCI industrialization during the 1970s, the production technology and system had already been based on the Fordist mass production. The world market situation and the production technology were different from those of the previous late industrialized countries such as German and Japan. They developed skill formation system based either on the organized craftsmanship with the dual training system in Germany or on the company-based training system as in Japan (Thelen, 2004). However, due to its later

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<sup>2</sup> For example, the EPB(Economic Planning Board) in Korea, the MITI(Ministry of International Trade and Industry) in Japan, and the CEDP (Council for Economic Planning and Development in Taiwan).

<sup>3</sup> Research on the details of the industrialization process in Korea is extensive; particularly see (Amsden, 1987), (Woo, 1991), and (Chang, 1993) for the role of the developmental state.

industrialization, Korea could not form a politically influential group of craft artisans, which played a critical role in the formation of the modern skill regime in CMEs.

Given the absence of the original technologies of the products and the high-skilled craftsmanship workers, Korea had adopted a ‘technology learning strategy’ to penetrate the world market in a short time (Amsden, 1979; Kim, 1997). First, the Korean developmental state opted for creating diversified large business groups (*Chaebols*) rather than inducing the foreign direct investment. Then the production strategy that Korean manufacturers adopted was to construct the efficient assembly lines of the final products by borrowing and learning the foreign production technologies. In order to supply the skilled workers necessary for the HCI during the 1970s, the state quickly established the vocational high schools and the public vocational and training institutions (Chung, 2014). This production strategy was effective with a strong support of the developmental state. At the same time, the rapid expansion of higher education in Korea could supply high-educated engineers and they played a very crucial role in meeting the skill needs from the assembly line. The engineers were placed to the shop level to train the workers at the shop floor level. By assigning high-quality managers to the shop floor and inspire initiatives on the part of such managers to develop the skills of the work force and to improve process performance.

During the heightened HCI the leading large business sector had strong incentives to preempt the high-educated or skilled labor to learn and apply the imported technologies by protecting their employment (Amsden, 1990). As <Table 1> and <Figure 1> indirectly show, during the HCI the wages in production workers increased higher than other professional and managerial workers and wage growth rate was higher than labor productivity growth rate. And large business companies invested the education and training programs with regulation and support from the state for acquiring firm-specific or industry-specific skills and provided corporate welfare as a paternalistic form (Amsden, 1990, Chung, 2014). From the middle of 1970s when the HCI reached at a certain stage, the labor market became tightened for the high-skilled workers. Therefore, we can assume that the dualization of the labor market began to form in Korea from this early industrialization period.

Another important production strategy was to utilize a subcontract system for enhancing efficiency for the competition in the world market. As mentioned above, the competitive advantage of the production system in Korea lies in the efficient manufacturing of innovative final products with low price. Late industrialization requires sufficient output volumes by prime contractors to enable suppliers to specialize inputs. For example, in the automobile industry in Korea, the condition began to take hold in the 1980s, and a subcontracting system arose that was a microcosm of Korea’s industrial sector. But the system was very hierarchical, not more or less horizontal like that in other advanced industrialized CMEs.

The state’s industrial policy also emphasized this point. The major piece of legislation from the government to stimulate subcontracting came out in 1982, when global economic depression intensified competition from Japan. The Small and Medium-Industry Systemization Law appealed to the big businesses by empowering the Minister of Commerce and Industry to reserve certain industrial spheres for small- and medium-size subcontractors (Amsden, 1989; Park, 2007). The law also forbade prime contractors from swallowing up subcontractors through stock ownership. Additionally, the government undertook responsibility to provide more financial and tax incentives to enable subcontractors to modernize their factories and to acquire technical assistance. It introduced a scheme to reduce the risks they faced in commercializing new technologies. Finally, it provided guidelines on fair trade practices, for example, on the frequency of payments and the length of subcontracting contracts. These guidelines were enforced by a

large bureaucracy in the Economic Planning Board. Subcontracting surged ahead after 1982. In terms of growth and efficiency, Korea's subcontracting system has been an efficient vehicle by which to spread the progressive practices of the modern industrial enterprise to the remainder of the productive economy. However, there has been a big gap between the formal policy guideline for protecting the subcontractors and the actual relationship between the large business and the subcontractors in the SME sector. The SME sector became gradually subordinated to the large business sector.

As we have seen in <Figure 2>, during the HCI Korean economy achieved high economic growth rate around 10%, although there was a deep recession due to the overinvestment and the second oil crisis at the end of the 1970s. As we will see later, this industrialization and production strategies Korea had adopted became an underlying cause of dualization in those areas of production, labor market, and welfare system. The subsequent liberalization process of the Korean economy after democratization has also critically shaped the labor market structure and the development of the welfare system until today and became underlying causes of the dualization of the labor market and welfare system.

### ***3.3 Liberalizing the Korean Economy and Transformation of Korea's Production Regime: Dismantling of Developmental State and Dominant Role of Large-businesses in Korean economy***

#### ***3.3.1 Early liberalization and democratization***

In Korea, economic liberalization had started under the end of the *Yushin* regime prior to the democratization which led to the gradual dismantling of the developmental state and the transformation of the Korean economy into a large-business dominant one. The HCI drive during 1973-1977 resulted in the excessive investments in the major manufacturing areas and faced the economic crisis of 1979-1980 during the 2<sup>nd</sup> oil crisis (See, <Figure 2>).<sup>4</sup> The subsequent Chun Doo Hwan regime allied itself with neo-liberal bureaucrats following the IMF loan agreements and implemented structural adjustment policies, which were strong austerity programs aimed primarily at inflation (Woo, 1991). Thus the demands of the popular classes were managed with the state's harsh repression. This structural adjustment process along with the rise of liberal bureaucrats within the economic bureaucracy initiated a series of institutional changes that signaled the start of a neo-liberal offensive against the developmental state.

Democratization since the mid-1980s gradually liberalized the Korean economy and dismantled the developmental state. Then the production regime led by the developmental state had transformed into a large-business dominant one. Especially, the Kim Young Sam government, the first civilian government since the 1960s that began a policy of accelerated economic liberalization under the name of 'globalization strategy' with far reaching implications for the future. The Kim Young Sam government reorganized the economic bureaucracy in 1994. The EPB was merged with the MOF and formed the Ministry of Finance and Economy (the MOFE) in order to be 'suited for the pursuit of globalization strategies'. This resulted in a virtual abandonment of the state's planning and coordination function that had long been a powerful instrument of the Korea's economic development. At the same time, the Kim Young Sam

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<sup>4</sup> The initiative for economic liberalization had already begun to emerge from the "liberal" faction in the powerful economic bureaucracy (the EPB) from the late 1970s (Choi, 1987).



government gave up the traditional industrial policy, which regulated the investments of the major industries of the national economy. The government also radically deregulated the financial sector by the join of the OECD membership. This entailed external opening to more direct inflow of foreign capital, as well as a general reorganization of financial services. The merchant banks were increasingly licensed, but the government could not monitor the foreign borrowings through these merchant banks. In addition, exchange rate management failed miserably.

The *chaebols* became more and more independent of the government, as they gained direct access to the international capital market and acquired controlling stakes in certain minor regional banks (ownership of large national banks were subject to strict ceilings) and non-bank financial institutions such as merchant banks. With their increasing financial independence, the *chaebols* had become more aggressive recently even calling for withdrawal of government from the business sector.<sup>5</sup> With its power to coordinate business investments undermined, the state could not maintain its capacity to carry out economic readjustment programs. In fact, the underlying cause of the financial crisis was the radical financial liberalization and abolition of industrial policy, in which the state controlled industrial investments and capital flows.

In sum, the democratization under the liberal-oriented conservative ruling coalition reduced the autonomy of the state from society, or more concretely, it failed to insulate the state from social influences. In other words, this was the dismantlement of the institutional mechanism of the developmental state by losing the coordinating role of the state in the economy and empowering to the large business sector.

### **3.3.2 Neo-liberal economic reforms since the financial crisis in 1997: deepening dual industrial structure and the large business sector's hierarchically coordinating economy**

The financial crisis of 1997 became a major challenge to the Korean economy, politics, and the welfare system. First of all, the shocks of the financial crisis and the consequences of the neo-liberal reforms directed by IMF implied direct impacts of the globalization on the Korean political economy. While the previous liberalization had been conducted by the conservative ruling coalition, the neo-liberal reforms during the financial crisis were implemented by the newly elected Kim Dae-jung government with a political change toward a populist and progressive ruling coalition (Chung 2001). First of all, the economic crisis temporally enhanced state autonomy for the progressive Kim Dae-Jung government and the weakening of the *chaebols*. Thus, this political change was an interesting testimony of whether the Kim Dae-Jung government would exercise real autonomy against the pressure from the outside force, the IMF, and the historically long-maintained conservative coalition inside. As we will see later, the crisis management of the Kim Dae-jung government was the state-led liberalization under the pressure of the IMF and the neo-liberal hegemony of globalization at the time, although it tried to establish a more or less consensus-based corporatist mode of coordination in the reforms of labor market and welfare expansion.

The extensive neo-liberal economic reforms since the financial crisis have now transformed the production regime into being formally much closer to the neo-liberal model. The Korean economy became almost completely open to the world and is now operating in response to market signals more than ever before. In particular, the reforms of the financial and corporate

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<sup>5</sup> For example, some *chaebols* began the overinvestment again in certain manufacturing industries without carefully considering long-run viability. The best examples were Samsung's entry into the auto manufacturing industry and the *Hanbo's* entry into the steel industry.

sectors took away a powerful instrument from the state in controlling the financial sector and thus guiding business investments. Economic volatilities have intensified, and business investment patterns have become passive and very sensitive to the market's short-term signals.

The corporate reforms implemented by the Kim Dae Jung government right after the financial crisis had two directions and critically affected the dualization of the labor market: one aimed at reducing over-capacity of the major industries, the other to reform the corporate governance system by strengthening the accountability of controlling shareholders and management. After these corporate reforms, the large business groups became important key players in the competitiveness of national economy and played a dominant role in coordinating the various areas of the economy, deepening the dual industrial structure between a few monopolized and competitive large businesses and a large sector of less competitive and subordinate SME sector.

The problematic issue of the family-owned corporate governance over the economy was raised after the IMF financial crisis because the main cause of the financial crisis was the *chaebols*' over-investments without either inside or outside monitoring mechanism. As a result of the reforms of the high-debt and overinvested businesses, nearly half of the 30 largest business groups or *chaebols* have disappeared since the crisis, suggesting that "too big to fail" is no longer valid. For the manufacturing sector as a whole, the average debt to equity ratio has fallen from almost 400% in 1997 to around 100% today (OECD, 2005). Consequently, the remaining *chaebols* have significantly improved their balance sheets in the context of an improved corporate governance framework.

There are three implications as a result of the corporate sector reforms since the financial crisis. Today, the *chaebols* no longer rely heavily on the banking sector as a capital financing source since the debt ratio significantly reduced. They increasingly resort to the stock and bond markets with a high level of cash holding (see <Figure 3>). The Korean economy in terms of corporate governance perspective is now transforming into a stock market economy, but the family-owned governance still remains as controversial issue. Second, in the past Korea achieved fast economic growth through the stable provision of finance/capital to targeted business groups and industries with high debt ratios. However, since the crisis, this is no longer possible. Although businesses generally have become financially healthy, the capital investment rate by businesses is now conspicuously low due to the increased uncertainties of the domestic and international economies, which implies a low growth rate with less job creation and lower domestic consumption (Cho, 2006, Chang, 2006). As we can see in <Figure 4>, the internal cash reserve ratio to real investment for 10 largest firms is so high today. On the other hand, . It means that the distributional flow of the labor market Third, in response to the increased market uncertainties, business investments are becoming more short-term based and the number of non-standard(irregular) workers is rapidly increasing, as we will see in the next part. Thus, there is now no direct controlling instrument for the state to direct their investments.

The extensive neo-liberal reforms made the industrial structure of the Korean economy further dualized between a few of the large businesses and the remaining large-size SME sector. While the *chaebols* took a large part in the asset value and production volume, the SME sector accounts for 99.8% of firms and 87% of employment, nearly 50% of manufacturing output and 40% of industrial exports in 2003 right after neo-liberal economic reforms.<sup>6</sup> However, most of the SMEs in the manufacturing sector depended upon the subcontract relationship with large

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<sup>6</sup> The definition of SMEs varies between sectors. In manufacturing, it includes firms with less than 300 employees and no more than 8 billion won in paid-in capital. In the service sector, the employment threshold varies between 30 and 300 employees, and between 2 and 30 billion won in annual sales. The average number of employees per SME is only 3.5 in Korea, compared to between 6 to 7 Japan and Taiwan.

businesses, resulting in vulnerability to big contractors' unfair or exploitive trading practices (See <Table 2>). And most SMEs are labor-intensive, low-skilled, and low-wage, while large businesses are high-tech and capital-intensive with less job creation. As many less competitive SMEs began to move their factories to less developed countries since the 1990s, the Korean manufacturing sector has been declining in terms of its size of the production and employment.

Another important change in the Korean economy is that it has been experiencing a rapid transition to a service economy from the 1990s, before the financial crisis, as seen in <Figure 5>. But the transition is occurring on top of an unbalanced industrial structure and regional development built in the previous state-led industrialization. Aside from the effects of the neo-liberal reforms since the financial crisis, these unbalanced structural gaps became underlying structural causes for aggravating the recent polarization in the labor market, income, and social stratifications (Bang and Chung, 1998). And the financial crisis has aggravated this trend with the neo-liberal reforms. The jobs being created in the service sector are mostly low-productivity and low-wage.

In spite of the weakened state's role in the economy and the enhanced power of the *chaebols* in Korean economy as a result of the continuous liberalization, the institutional legacies of the developmental state orchestrating the economy still partially remain at the policy practice level. Aiming at overcoming the limits of the job creation and sustaining growth of the Korean economy, the government is still implementing various indirect and general industrial policies, although they are now much different from the previous more direct and selective ones. Especially, the governments played an active role in promoting high-tech industries, especially high-tech areas including IT industry by building infrastructure and increasing the public R&D. The Roh Moo-hyun government selected ten new growth-driven industries for the future growth of the Korean economy. After the return to the conservative ruling coalition, the former Lee Myung-bak government initiated 'green growth' and the current Park Geun-hye government emphasized 'creative economy' as a new growth strategy. Although all aimed at upgrading the Korean economy into a more innovative knowledge-based economy, the question is that their performances are not so effective.

Now the Korean production regime was far liberalized, compared with the past one. But the Korean economy is now actually coordinated by the large business' interests and power. The large business sector not only takes most advantage of government regulations and supports, but also in the production and distribution markets, due to its hierarchical market power. In other words, the Korea's production regime is not exactly liberal. It is more like a hybrid form of liberal and developmentalism in which the large-business sector is dominantly and hierarchically coordinating the economy with a close alliance with the state. While this helps enhancing the competitiveness of the exporting large business sector in the world market, but is creating inherent contradictory problems of the sustained growth of the Korean economy as a whole.

#### **IV. Multiple dualization in labor market in transition**

##### ***4.1 Emergence of dual labor market during HCI and democratization: production strategy and limits of wage coordination***

The labor market structure and labor relations are crucial institutional domains in welfare capitalism by link production and welfare regimes more directly than any other institutions in the production regime. Their formation and change also have political components. The western

democratic corporatist countries with open economies have been able to coordinate the economy with wage moderations through consensus between business and labor for the stabilization of the macro-economy and their industries' competitiveness in the world market (Iversen, Pontusson, and Soskice, 2000). These coordinated institutional arrangements are now much weakened and changed toward a liberal way, but still working in coordinating among different interests for the national economy (Thelen, 2014).

What kind of coordination mechanism in labor relations and the wage-setting system has Korea developed? As seen above, the HCI of the 1970s based on 'technology learning strategy' produced a high demand for skilled male labor, but saturated it quickly due to high economic growth. At the same time, the Middle East construction boon, which had quickly absorbed the male skilled workers, also contributed to the tightening of the labor market for skilled workers. This resulted in gaps in wages and corporate welfare between the large-business and the small and medium enterprise (SME) sectors and between the organized and non-organized sectors (Amsden, 1990). In this context, the dual labor market structure gradually began to emerge from the 1970s.

The labor organizations during the HCI were industry-based. But it was not like those in European CMEs. The military government during the period from 1960 to 1963 regulated the industry-based labor unions, easily controlling the labor by coopting union leaders on to the government side. Outside of the state corporatist control, democratic labor movements grew since HCI, but were harshly repressed by the authoritarian state. In the early 1980s, the Chun Doo-whan government used harsh repression to implement the austerity programs and changed the regulation of the union organizational form into corporate unionism from the previous industrial unionism as a controlling strategy of labor movement and labor unions.

Democratization was also a historical conjuncture in shaping the current labor relations. It reinforced the corporate unionism, undermining the encompassing labor movement and resulting in a further decentralized, fragmented, and atomized movement. And the changed labor relations, in return, affected the businesses' production strategy and skill formation and consequently labor market structure. As we can see <Figure 6>, the labor disputes right after democratization in 1987 rapidly increased and then gradually demised. To avoid the harsh confrontation with the organized labor, the Korean manufacturers adopted high level of automation strategy in order to reduce the employment and improve the labor productivity. They raised R&D expenditures for the automation for efficient production line based on the learning technology and neo-Fordist production.

The labor movement in Korea has been mainly led by the trade unions in the large-business sector. Immediately after the democratization, the trade union rate rose again, near to 20% in 1989, we can see in <Figure 7>. However, since then the union rate has gradually declined to 10% by today. Especially, the SME sectors' unions continued to decline and were replaced with workers councils as concertation organizations between workers and employers. The government also encouraged this replacement and most workers in the SMEs mainly with less than 100 employees are not organized today. This low union rate is result of both the labor movement based on the fragmented corporate unionism and the continuous businesses' strategy for building an employment and skill saving system in the production regime. In spite of the low organization rate, the impacts of the labor movement on the wage determination and corporate welfare, especially to the large business sector, have been very strong because the centralized national organizations based on a few large-business groups were taking in important manufacturing sectors in Korean economy such as automobile, machinery, and ship-building (wage and corporate welfare gap, see <Figure 8>).

Due to the lack of the corporatist wage moderation mechanism as in typical CMEs, the wage control in Korea was instituted through a combination of state regulation and market mechanism. Although the state annually suggested wage guidelines for business and labor; the wages in the large business sector mainly led the wage determination as a wage pattern-setter (Park, 2005). As we can see in <Figure 1>, during the HCI period, the saturated labor market pushed wages up so that they were significantly above the productivity. Then, during the structural adjustment period in the first half of the 1980s, the state repressed wages below the productivity. Right after the democratization, wages increased rapidly during the heightened disputes.

#### ***4.2 Labor market flexibility since the financial crisis in 1997: deepening multiple dualization of labor market***

Under the institutional legacies formed during the HCI and democratization, the neo-liberal reforms on the labor market since the financial crisis became another important critical conjuncture in the changes in the labor market and labor relations in Korea. The basic goal of the labor market reform by the Kim Dae Jung government was to increase the labor market flexibility for the swift economic structural adjustment. Instead, it attempted to compensate the flexibility with the expanded welfare reforms like a flexicurity strategy. Thus the Kim Dae Jung government, being supported by the organized labor, legalized the new national trade union (Korea Confederation of Trade Union, KCTU) and opted for a corporatist strategy to legalize the layoff by establishing tri-partite committee.

However, during the early crisis, trade unions and employers agreed on an important economic and social reform program. But now the radical national trade union, the KCTU, has left the tripartite committee and gone to the street. Also, business, once the lay-off was legalized, has no serious interest in participating in the committee. The Kim Dae Jung government, despite of its left-leaning image, does not directly represent and protect the interests of labor and sometimes exercises repressive means to solve labor disputes. This tri-partite system has been crippled until now. This could have been a crucial institutional change if it was successfully institutionalized.

The increased economic volatilities caused by the neo-liberal economic reforms and the globalized economy have led businesses to favor the short-term profits rather than long-term growth. This subsequently caused a rapid rise in non-standard workers and the change in employment practices from a relatively life-long employment with job security to short-term and career based employment resulting in high job insecurity in the labor market. By doing so, the non-standard workers increased as various forms of employment.

#### ***4.3 Structure, size, and problems of diversification of jobs and multiple dualization of labor market***

Since the financial crisis and the neo-liberal reforms, the Korean labor market became further dualized in various dimensions, which is called 'multiple dualization' in labor market: between standard and non-standard workers, direct and indirect employments, various types of atypical workers and so on. These divides are also dualized between the large-business and SME sectors as well as within each sector. Those divides also appeared between genders as well as between insiders and outsiders of labor unions. These complex and multiple or multi-layered divisions of labor market consequently increased inequalities among various forms of workers and groups in

different business sectors. Consequently, this multiple dualization created a large size of low wage workers and became serious barriers to social integration and sustained economic growth by decreasing domestic demands.

In Korea, the size and structure of non-standard workers by employment type is summarized in <Table 3>. The government's official estimation ranges from 27.4 to 32% (2002-2014) of the total wage workers (See <Figure9>). The government regards in-house subcontracted workers as standard workers and count special type workers as self-employers; thus both of in-house subcontracted and special type workers are excluded from the category of non-standard workers. However, the labor unions and labor-side academics argue that the actual range is up and down around 50% of total wage workers. According to them, most of in-house subcontracted workers and special type workers are in fact non-standard workers. Even following the government's estimation, the size of non-standard workers in Korea is big compared with OECD countries.

Most common forms of the non-standard workers are fixed-term and part-time workers in the OECD countries. However, in Korea, job types are further diversified within the non-standard employment and indirect employment is taking a significant part of non-standard workers. A noticeable fact in employment forms is fairly a large size of atypical workers, nearly half of the non-standard workers, with more diversified forms of jobs such as dispatch, contract company workers, special type, on-call, and so on. They are not only suffering from job instabilities and low wages compared with standard workers, but also easily excluded from the benefits of social insurance programs as well as corporate welfare. Especially the emergence of special type workers is significant problematic employment type.<sup>7</sup> However, the government still denies them as workers who should have been protected by the labor law entitling basic rights because they look like having a feature of half of self-employer and half of worker.

The increase in non-standard workers and the diversification of jobs are more or less a common trend at the global level. But this trend in Korea has been more conspicuous and in particular, the inequalities and discrimination against standard workers are very high. The increasing size in non-standard workers and diversified work types is now a global trend. But the question is their relative size and the discriminations against the standard workers in wages, company welfare, working conditions, and the exclusion from the public social protection, which make them very vulnerable to various social risks. <Table 4> shows the wage gaps by employment types. Non-standard workers in average receive around half of wages of standard workers.

Another noticeable change and problem in Korea's labor market is a rapid increase in in-house subcontracted workers mainly in large firms in the exporting manufacturing sector. As <Table 5> shows, the average employment rate of the in-house subcontracted workers in the large manufacturing firms in 2012 is 32.6% of the subcontractors' workers, although the rates are wide depending upon the industries. For example, shipbuilding industry which has a long and complex assembly line has the highest subcontracted rate, which is 158.7% of the regular workers in subcontractors, while electricity and electronic industry has 16.4%. This form of employment is a peculiar form which is found in the East Asian countries. Those subcontracted workers are in many cases found as ill-legal dispatch workers because they are usually doing the same jobs in the

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<sup>7</sup> In Korea, 'workers in special types of employment' can be defined as the persons who are integrated into the business owner, who is provided with the labor, either directly or indirectly, and the person who provides labor on a constant basis in exchange for wage(objectivity) despite the ostensible form of self-employment. Those who come under the category of the 'workers in special types of employment' are widely spread in service sectors such as the owner drivers in freight transportation services, caddies at golf courses, home-study teachers, insurance agent, telemarketers, couriers, quick service deliverer, substitute drivers, caregivers for the sick, etc.

same assembly line together with the regular workers in the subcontracting firms, but there are serious inequalities between two types of workers in terms of wage level, job securities, and company welfares. The government counts them as standard workers and implicitly tolerate this unjust employment pattern, although the courts often verdict it illegal. Other dimensions of dualization in the labor market are gender and the trade unions.

This pattern of diversification of jobs and the increases in non-standard workers in the labor market transformation are due to the production strategy of the firms in Korea as a underlying cause that drove to reduce the cost of labor and enhance the labor market flexibility for coping with the volatile global market. Especially, the firms' experiences of the financial crisis in 1997 and the subsequent extensive neo-liberal structural adjustment against the business sector became a trauma to the firms and gave them a learning effect that market volatilities at the globalized world would come suddenly and that they need some buffer zone in face of the plausible abrupt change of economic business cycles in the future. Especially the large businesses in the export sector need to enhance the cost competitiveness with the high or medium quality of their final goods for taking over their niche market in the world market. Their production strategy in regarding the labor market is the reduction of the labor cost and the flexibilization of employment by increasing the portion of various forms of non-standard workers.

However, these structural causes do not directly determine the employment practices to all the firms. The increasing pattern of this employment was also an isomorphism effect and became a norm of employment practice throughout the business sector. The balance of political power and the institutional arrangement between the business, labor, and the state critically can make divergent paths to solve the problems of labor market flexibilization. Thus, the government policies as well as the politics of labor relations between business and labor are also important factors to reduce or limit this tendency. However, in Korea, as we have seen above, the institutional legacies and arrangement of the labor organizations and relations were not favorable for solving these problems.

In 2006, the Roh Moo-hyun government enacted the Law on Protection of Non-standard workers with an aim of preventing the business's overuse of non-standard workers and reducing discriminations. This law came out a long process of negotiations among the business, labor, and government. However, the actual content of this law was very mild, taking into more account of the business' position that the strong regulations on the flexible employments and the high protection of the non-standard workers might affect the shrinking of employment and the economy. Thus the effects of this law on reducing the increasing size of the non-standard workers and the discriminations were very limited. Nonetheless, this law contributed to holding the size of the non-standard workers; reaching at 35.9 % of all workers as a peak in 2007, the increasing rate of non-standard workers was stagnated and slightly reduced.

However, the subsequent conservative Lee Myung-bak government changed the policy and liberalized it. Due to the increasing youth unemployment and the limitations of the increasing regular jobs in spite of all of the government efforts, the Lee government amended the law and loosened the regulation on overusing non-standard workers and encouraged the firms to hire more part-time workers with the government subsidies for reducing the youth unemployment, while the size of the fixed-term workers are slightly stagnated sine the implementation of the law in 2007 (see <Figure 10> and <Figure 11>), although there was another reason that the size of non-standard workers stagnated was due to the global financial crisis in 2008, which basically reduced the number of jobs. However, the gaps in wages, company welfare, working conditions and hours were not improved.

## V. Dualization in Korean developmental welfare regime: problem of institutional compatibility with changing labor market and production regime

As we have explained above, the distinctive formation and changes of the production regime became an underlying cause for the deepened multiple dualization in the labor market in Korea. Then the next question is to explain how the welfare regime in Korea has co-evolved, interacting with the changing production regime and labor market, and coordinated and complemented the deficiencies and the problems of the production regime and labor market as an important institutional terrain in the welfare capitalism.

### 5.1 The State-Business Ruling Coalition and the Emergence of Minimalist 'Bismarkian' Developmental Welfare Regime

The EOI during the 1960s led by the developmental state was based on labor-intensive and light industries, particularly those employing low-paid women workers migrated from rural areas. Wages remained low, but the rapid economic growth had created enough jobs to absorb the excess labor supply. The initiation of social welfare programs in this early stage of industrialization was, in essence, not an economic necessity, but a political response by the military elites as they sought legitimacy during the process of transition to civilian rule.

Nonetheless, the basic ideas and framework of the welfare system that the military government established guided the subsequent development of the social security system. The Basic Law of Social Security System in 1963 specified 'self-help', 'work incentives', and a 'minimal level' of government involvement in social welfare, all of which became symbolic manifestations of 'developmentalism' in the Korean welfare system. the developmental state's primary goal was to mobilize the national resources for the rapid industrialization and thus it was very reluctant to initiate and implement social welfare programs, unless they were at least necessary. At this time, two insurance programs (medical and work injury) were proposed in 1963, but only the work injury insurance program was implemented by covering the selected large industrial manufacturers. The priority of work injury rather than health insurance program also revealed that it was as a preemptory strategy for upcoming industrialization.<sup>8</sup>

The main frame of the Korean social security system came out during the *Yushin* government which had initiated the HCI. The national welfare pension program during the early period of HCI and enacted the law in 1973. The official claim for the introduction of the pension program was the enhancement of the welfare for the old-aged, but the hidden intention behind it was the mobilization of domestic capital by channeling the pension fund into HCI investment due to the lack of domestic capital for the HCI. However, its implementation was postponed due to the economic recession caused by the oil crisis in the early 1970s. The government's intention, although it failed, clearly showed how the social welfare program was connected to industrialization. These events in Korea were very reminiscent of the prewar origin of the Japanese pension program (Manow, 2001).

In response to the demise of the authoritarian *Yushin* regime's political legitimacy in the mid-1970s, the medical insurance was implemented from 1977. But behind this political reason, there was an underlying economic reason to shape the program. During the big push of the HCI

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<sup>8</sup> The military government then went on to implement the military pension program in 1963 and the teachers' pension program in 1973. These protection schemes of the public sector employees are commonly seen in the nation-building process.



in the mid-1970s when skilled male workers were quickly exhausted, wages and health costs for workers sharply increased. Up to that time the health care services for the general people in the urban areas had been provided by the private market. The government persuaded business and finally implemented the program in 1977 by revising the 1963 law, which was enacted as a voluntary program (Chung, 1992). During this period, organized labor was not active in initiating social welfare programs. Rather, the labor movement had mainly been concentrating on claiming labor rights and wage increases. Medical insurance only covering partial medical cost without sickness benefit was implemented on the basis of a close coalition between the state and the large business sector, initiated by the state. The program began to cover manufacturers with more than 500 employees, and the large business firms became the organizing units for insurance funds. This way of organizing the insurance funds was very similar with a typical corporatist way as in the German and Japanese systems during their early periods of development. Thus, the developmental pattern of the social insurance system in Korea was much like a Bismarkian one.

From the middle of 1970s when the HCI reached at a certain stage, the labor market became tightened for the high-skilled workers. The large business firms needed high-skilled workers at the factory level to compete with other firms. They have strong incentives to preempt the high-educated or skilled labor by protecting their employment and to invest their education and training for acquiring either firm-specific or industry-specific skills. Then the dual labor market structure began to form in Korea. The employers began to provide corporate welfare as a paternalistic form to keep the firm-specific high-skilled workers, as skilled labor in the labor market became saturated at that time.

However, the development of corporate welfare in Korea was not purely a result of the employers' voluntaristic response to the labor market. The state also encouraged the business to provide the corporate welfare and often regulated it by law because the state's had no intention to increase the state welfare unless necessary (Choi, 1992; Song, 1992). Instead, the state intentionally induced the employers to provide corporate welfare for the control of labor by giving them some incentives such as tax concessions and subsidies. In a sense, the developmental pattern of corporate welfare in Korea was similar with that in the early period of Japan (Shinkawa and Pempel, 1996). However the skill formation system, the lifelong employment, and the level of corporate welfare in Korea were not so much sophisticated and highly developed as those in Japan.<sup>9</sup>

Another critical timing of the expansion of social welfare policies happened with the democratization from the later part of the 1980s. The newly elected Rho Tae-woo government after the collapse of the authoritarian Chun Doo-whan government implemented the minimum wage law in 1987, the pension program (with coverage for firms with more than five employees) in 1988, and the expansion of health insurance coverage for the urban self-employed in 1989. In this way, medical insurance became the first universal social insurance program in Korea. Expecting the labor market problems in the future due to the tightened labor market and the transition to a service economy during the 1990s, the government implemented the employment insurance program in 1995, with coverage for firms with more than 30 employees. The policy-making process and the program structure of the employment insurance still consistently revealed the developmentalist nature of other insurance programs; state bureaucrats and a small group of professionals dominated policy-making; workers in relatively stable work places who possessed contribution abilities were covered, and the large business firms' employers and

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<sup>9</sup> It is very difficult to obtain the specific comparative analysis about labor markets and skill formation in East Asian countries. Some research show that the job stability in Korea based on the average employment duration rate of the countries is quite low compared with that of Japan and even USA. The life-long employment in Korea is not fully institutionalized as in Japan (Jung and Cheon, 2004).

workers were able to receive the benefits of the training programs (Chung, 2006 and 2007). In a sense this active labor market component of the insurance program is a cross-class coalition between business and insiders in the labor market. The unemployed and the self-employed outside of the formal labor market were excluded in the benefits of training.

Until the mid-1990s, just before the financial crisis struck in 1997, Korea had formally equipped four major insurance programs. However, the government had paid far less attention to upgrading other social welfare programs. The public assistance program aided only people deemed unable to work by a very strict means test. Social service programs were far less developed. The government only subsidized the non-profit welfare service organizations providing the minimum level of protection for the poor under the tight regulation of provisions. It did not try to build its own public infrastructures of social services to provide comprehensive and high-quality social services. This unbalanced structure of social welfare programs leaning on social insurance programs was a typical feature of a developmental welfare regime in Korea.

In Korea the development of the social insurance-based developmental welfare regime was not driven by the labor movement, but as a consequence of the developmental state's strategic policy in an implicit close coalition with the large business sector and a tacit incorporation of the workers in the large industrial sector, given the prioritization of mobilizing economic resources for the growth-first strategy and conservative fiscal structure toward social welfare.

## **5.2 Welfare reforms since the financial crisis in 1997: path dependency of the developmental regime and the problem of complementarity with liberalized labor market and large business-coordinated production regime**

The financial crisis during the late 1990s in Korea became another turning point in the development of the Korean welfare system from the perspective of the impact of globalization on social protection (Chung, 2001).<sup>10</sup> The newly elected Kim Dae Jung government, a progressive one based on more popular sector's political support, implemented a wide range of welfare reform with emphasizing on more protection of the previously excluded marginal sector under the name of 'productive welfare', implying the continuous emphasis on the production side of the economy, although it had undertaken a wide range of neo-liberal structural adjustment and economic reforms required by the IMF.

The productive welfare reforms achieved a universalization of social insurance system; the national pension program began to cover the entire public, including the urban poor and the self-employed, in 1999; the employment insurance and the work injury insurance programs also finally covered all employees each in 1999 and 2000; health insurance program, which had already covered the entire population since 1989, reformed as an unified insurance system from the fragmented corporative system in 2000 (See <Table 6> for the developmental process of social insurance and social expenditure <Figure 12>). Another significant reform under productive welfare was the public assistance program, which was enacted to provide poor people with a minimal level of income as a right, regardless of whether they have the ability to work.

However, the actual outcome of the legal coverage expansion of the social insurance programs to the entire population was very limited, revealing the institutional complementarity problem with the dualized labor market. In fact, except for health insurance, only around half of the eligible workers and self-employed were actually able to receive the benefits of the social

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<sup>10</sup> For the detailed analysis of the Kim Dae Jung's government reforms, see Chung, 2001.

insurance programs. This was because neither low-paid non-standard workers nor self-employers in the low value-added sectors could afford to pay their share of contributions (Chung 2002). The granted formal legal right of this new public assistance program to the all the poor under the official minimum living cost also did not guarantee the minimum income protection for all needy individuals. In the actual implementation, many low-income individuals remained unprotected, because the benefit entitlement at the regulatory level of implementation was subject to strict income and wealth criteria and the availability of family supporters.

In fact, there were big gaps between the legal rights and the actual benefits in spite of all these limitations of the welfare reforms. There is no doubt that the welfare reforms aided a large proportion of the unemployed and the poor who were created as a result of drastic neo-liberal economic structural adjustment during and after the economic crisis, and contributed to political and social stability. By expanding the mere coverage without considering the expected loophole of the exclusion to the main features of the 'productive welfare' reforms still maintained a high level of commodification and other features similar to the past developmental welfare regime including neo-liberal conceptions of workfare. Thus, the 'productive welfare' was an updated version of the previous 'developmental welfare' strategy, which had dominated the state elite driving industrialization in Korea.

The election of Roh Moo-hyun as president was another important historical event in the developmental process of Korea's growth strategy and social policy. With a marginal victory in spite of the revival of the conservative forces in the later part of the Kim Dae Jung government, progressive forces have barely held on to political power and been able to succeed to the major reform policies, including the pro-welfare line of the productive welfare. In addition to the polarization of the labor market and income distribution as a consequence of the extensive neo-liberal economic structural adjustment carried out by the previous Kim Dae Jung government, Korea faced two other serious social challenges affecting the future of the Korean economy and social welfare. These factors began to critically affect the reform politics and the design of the upcoming growth strategy and welfare regime in Korea. First, Korea has suddenly become a rapidly ageing society. According to demographers, Korea will age much faster than other OECD countries. The second serious challenge was vulnerability to new social risks rapidly emerging as a result of the changes in the industrial and demographic structures, combined with deepened labor market flexibility and dualism.

Being aware of its belated drive for welfare reform and the significant demographic problems and the rapid rise of new social risks, which could jeopardize the growth potential of the Korean economy, the Roh Moo-hyun government initiated a comprehensive reform plan with the long-term aim of gradually improving the existing social programs, while introducing new ones. The government announced Vision 2030 in August 2006. Projecting the status of Korea's economy and society in 2030, it is a comprehensive long-range development plan. The political rhetoric behind the initiative is that Korea is shifting its growth strategy to be more balanced and equitable by putting greater emphasis on investment in human resources and the buildup of an advanced social welfare system to better cope with new challenges in the twenty-first century. Roh Moo-hyun government also invented a new vision of the state, called the "Social Investment State," concentrating on human resource development as the future paradigm of social welfare. This terminology and idea of social investment originated from Anthony Giddens' "The Third Way" under the Blair government in the United Kingdom, in which the future model of the welfare state is placed between the traditional Keynesian social democratic model and the workfare-oriented liberal model (Giddens, 1993).

However, this vision and the idea of the social investment state did not attract much

attention from the public and thus political support from the majority of the people. The conservative parties and elite groups criticized the plan as radical and unfeasible, but the leftist sides as still neo-liberal. Furthermore, the conservative mass media intentionally downgraded and disparaged the values of the plan and the concept of the social investment state. The Roh Moo-hyun administration's long-term and comprehensive welfare initiative with Vision 2030 failed. Instead, it began to improve some existing social welfare programs and create new programs such as pension reform, the implementation of the old-age long-term care insurance, and the expansion of the coverage of child care benefits with voucher system.

The subsequent conservative governments led by Lee Myung-bak and Park Geun-hye continued to expand the previous social investment policies as well as the conventional social protection policies for the old social risks because the structural pressures deepened the polarization and demand increasing welfare for social and political stabilities. However, their ways of the reforms of social welfare have been inclined to be liberal and market-friendly with an emphasis on efficiency. Thus it is questionable of the future direction of the Korean welfare system in the future.

As we have seen, universal social insurance programs have been crippled by institutional tensions within the labor market and liberalized economic system. Insurance-based social protection with a strict contribution rule regarding benefit cannot protect against the increasingly widespread new poverty problems of the working poor. As we will see in the next, they are mainly non-standard workers and people in the marginal sector. There is also a rapidly increasing demand for care services. However, these problems have not yet been significantly resolved.

In sum, the developmental path of the Korean welfare system has a strong path-dependency of the principles of developmentalism embedded in the early industrialization process such as minimal state intervention in terms of the protection level and the state's fiscal contribution to the welfare regime, work-incentive, and so on. During the high growth period of the early industrialization, which had increased continuously jobs, the minimal protection for the core industrial workers had worked. However, as the production regime has gradually liberalized and dominated by the export-oriented large business sector, the labor market became intensively dualized, the mere expansion of the social insurance program during the democratization and the financial crisis could not cope with the problems of the deepening multiple dualization in the labor market. Although the pro-welfare governments such as Kim Dae-jung and Roh Moo-hyun governments' implemented the expansionist welfare reforms, but they were limited because the production regime was transformed into a large-business dominant one and the power of the economic coordination has shifted from the state to the large business sector. The reformers' ideas and political power were also confined by the hegemonic idea of developmentalism and power of the conservative ruling bloc. Thus the expansionist welfare reforms based on the minimal Bismarkian model could not solve the problems of the dualized labor markets. This caused the problem of institutional complementarity with the production regime and labor market. It means the institutional tensions and pressures to continuous institutional changes in the welfare regime.

### **5.3 Dualization in developmental welfare regime**

#### **5.3.1 Dualization in public welfare; universal social insurance, but a large size of the unprotected sector**

As we have seen the historical developmental pattern of developmental social welfare regime, the

universalized social welfare system paradoxically has inherent dualized nature in the actual protection due to the institutional incompatibility with the labor market structure.

First, the social insurance programs' actual coverage has a serious deficiency in spite of its formal universalization. <Table 7> shows the slightly increasing actual coverage rate calculated with the percentage of paying contributions to each insurance program. It means that a large portion of the Korean population is not yet protected by the social insurance programs except the health insurance program. The national pension program started later and thus has not yet been matured. Now, only around 60% of the people are paying contributions to the pension funds. As of 2013, the percentage of the actual public pension beneficiaries of the old-aged above 65 was 36%. This is a main reason why Korea's old-aged poverty rate is today highest in OECD countries. However, the problem is that due to the dualized labor market, we cannot expect the the actual beneficiaries will increase in the future. It is roughly estimated that only around 60% of the workers are covered by work injury insurance program and around 50% employment insurance programs. The excluded workers are mostly non-standard workers or the self-employees in the marginal sector.

Second, as we have seen in the labor market structure, a large scale of the non-standard workers cannot be protected from the social insurance programs. As <Table 8> shows, only half of the non-standard workers with a little variation in programs are in general the actually covered workers. And <Table 9> shows the coverage rate of social insurance programs by the firm size. The standard workers in the larger size firms are mostly covered by these insurance programs, but the most of non-standard workers in the small firms are excluded. This means that the public welfare regime institutionally intensify the dualization of the labor market.

### 5.3.2 Dualization in corporate welfare

In Korea, corporate welfare also had developed as an important part of the welfare regime, although corporate welfare is basically regarded as in the domain of the voluntaristic private sector. However, as we have seen above, the corporate welfare in Korea was not purely voluntaristic welfare initiated by the business sector. The state strategically encouraged the corporate welfare during the HCI for managing the labor relations and supplementing the low level of the public welfare. The government often regulated by law instead of the state's low welfare. At the same time, the state intentionally induced the employers to utilize the labor control via the regulated corporate welfare. This is very similar pattern with that in Japan, although the skill formation, the lifelong employment system, and the level of corporate welfare are not so sophisticated as those in Japanese business sector.

<Figure 10> reveals the relative size of the welfare expenditure between public and private one in the early period of the welfare expenditure. The corporate welfare expenditure (mandatory+voluntary) was not so low, compared with the social insurance expenditure. Since the financial crisis, the social insurance expenditure has been rapidly increased, while corporate welfare has been stagnated.

<Table 10> show the gaps in corporate welfare in terms of retiring allowances and paid leave between standard and non-standard workers and between the large firms and SMEs. The non-standard workers receives around half of the benefits of standard workers. Then there are again big differences between the firm sizes. The non-standard workers in small firms are the most excluded group from the corporate welfare.

As well known, the expansion of corporate welfare exacerbates the dualism in welfare regime. While the large business sector can maintain productivity and competitiveness, its cost

turns to the unorganized sector of labor market by increasing low-wage irregular workers and the subcontracted small and medium firms. Thus, the workers of large business sector receive higher benefits from both public and private workers, but the workers in small and medium business and the urban marginal sector get less low public benefits with poor corporate welfare, if any. Then these inequalities appear again between standard and non-standard workers. If this dualism is widened, the sustainability and competitiveness of corporate welfare become suspected from a long-term perspective.

## **VI. Conclusion and Discussion**

We have examined why the labor market in Korea has been intensively dualized with the multi-layered and multi-dimensional forms through the historical analysis of the formation and changes of the production regime, labor market, and the welfare regime from a 'varieties of capitalism' perspective.

As we have seen, the multiple dualization in Korea today cannot be explained by any single factor or generalizable variable, or temporal institutional problems. It is a historically accumulated result of the dynamic interactions among the production regime, labor market, and welfare regime. Until today, three major developmental stages had shaped the current institutional features and problems of the welfare capitalism: i) the developmental state-led HCI during the 1970s and the early 1980s, ii) the democratization since the mid-1980s, and iii) the financial crisis and the neo-liberal reforms since the late 1990s. In this process, the power relations and ruling coalitions among the major actors and institutional have critically affect the continuities and changes of the institutions. The historical and configurational analysis focusing on conjunctural causes in historical time and sequence shows that the underlying cause of the current multiple dualization in the labor market has been the dynamic formation and change of the production regime since it had been constructed by the early heavy chemical industrialization (HCI).

In the early development of the Korean welfare capitalism, the developmental state had constructed the production regime under its large business-based EOI and became a central coordinator of the production regime, labor relations and market, and the welfare system. The dualization of the labor market formed as a result of the technology learning strategy and its skill formation during the HCI. The large businesses with the state's guidance and support opted for borrowing and learning the foreign technology to build the efficient assembly lines in order to penetrate the world market. In this process, the leading large businesses in the exporting sector needed to secure skilled workers by paying them much higher wages and corporate welfare than other sectors. And another important production strategy that affected the dualized labor market was to construct hierarchical multi-layered subcontract system with SMEs for efficient production line for the final products. These production and skill formation strategies created the dualized labor market during the HCI. As it has been commonly argued, the dualization in Korea was not as a result of the recent globalization or the neo-liberal reforms since the financial crisis, but was inherently institutionalized in the early industrialization strategy.

Then the subsequent democratization and economic liberalization had transformed the state dominant production regime into a large business dominant one and intensified the dualized labor market. The democratization was an important historical conjuncture in the sense of how it had reshaped the power relations and ruling coalitions formed in the HCI period. Thus, democratization could have affected the changes in the production regime, labor market, and the

welfare system. The transition to democratization in Korea had been conducted by the same conservative ruling coalition formed in the HCI drive. Thus the democratization which lifted the the previous state repressions on the labor movement intensified the confrontations between the labor and the business and failed to construct a consensual corporatist coordination mechanism in the labor relations. The sudden uprisings of labor disputes and labor organizations had pushed the business sectors to drive further automation and skill saving strategy by reducing employment and utilizing non-standard workers. Thus the labor market further dualized along the line of organized and non-organized labors and the large business and the SME sectors. Then the globalization pressure and the neo-liberal reforms since the financial crisis in 1997 led the current intensified multiple dualization, creating more problems and tensions in social stabilities and the sustainability of the Korean economy as a whole.

On the other hand, as we have seen, the development process of the welfare regime in Korea has been impressive in the sense that now it has a comprehensive and universalized insurance system. But this minimalist Bismarkian model based on the idea of developmentalism as a late industrializer could not function well for protecting a large size of the marginalized workers caused by the intensive dualization of the labor market. The Korean welfare regime had been initially constructed by the developmental state with a tacit coalition with the business sector. Its institutional frame has been affected by the developmentalism emphasizing the state's minimal protection, workfare, and fiscal conservatism. The democratization based on the conservative ruling coalition contributed to the expansion of the coverage of the social insurance system with a continuity of the developmental welfare regime. The power shift to the progressive governments since the financial crisis have driven the welfare regime toward a universal social insurance and the paradigm shift toward social investment. But, the power shift was limited due to the strong hegemonic power of the previous conservative ruling coalitions and the globalization effects. The Korean developmental welfare regime embedded in a minimalist Bismarkian model could not meet the problems of the labor market.

In spite of all of these problems and difficulties in the transformation to meet new environments, today, Korea is experiencing a critical historical juncture where the old institutional features and ideas are being dismantled or readapted, and new ideas and institutions are being shaped by the innate contradictions of institutions and the rapid environmental changes. At this time the institutional arrangement in Korea looks like a 'hybridization' in which the old and newly emerging institutions are contradictorily intermingled. Thus, this hybridization of odd-coupled institutions and the problems of institutional complementarities among them are now again driving force for the institutional changes searching for new institutional complementarities. The direction of the institutional change will depend on the politics and hegemonic power over the specific ideas of the production regime and the competing ruling coalitions.

In particular, a consensus based coordination of the economic and distribution of welfare is now more critical for economic performance under the globalization pressure. For this, the modernization of political society toward more participatory and consensus-based institutions is highly important in the Korean context. In this sense, the final conclusion is that politics matters.

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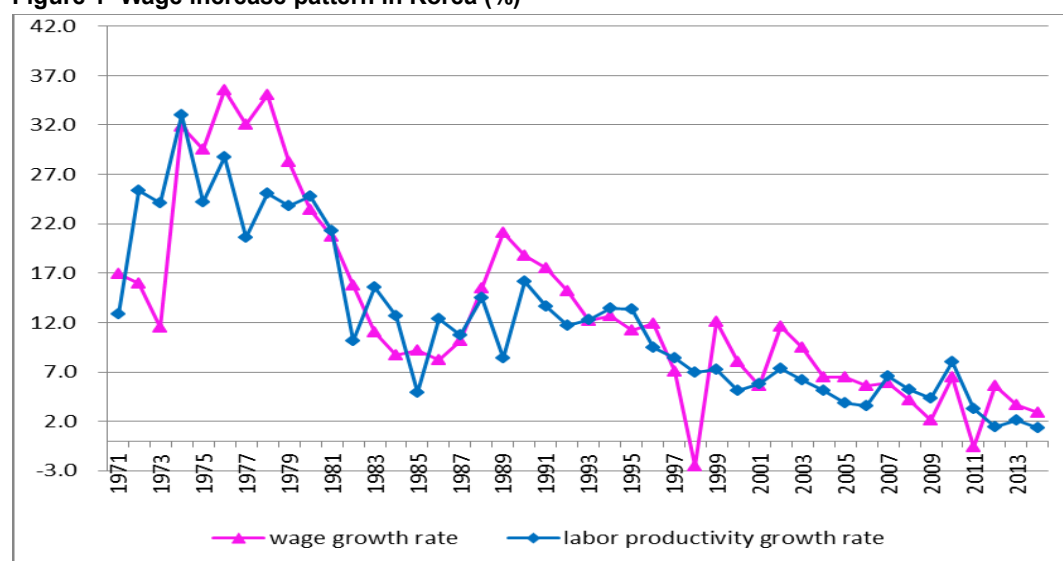
**Table 1 Changes in Wage Rages Between Production and Professional, Technical, and Managerial Workers**

Year	Production Workers	Professional, technical, and managerial workers
1965-1970	12.8	6.6
1971-1974	7.1	6.1
1975-1979	16.8	15.3
1980-1984	5.3	2.5

Source: 1965-1979, Bai(1982); 1980-1984, MOL (Korean Ministry of Labor).

Recited from Amsden (1990: 83).

**Figure 1 Wage increase pattern in Korea (%)**



Source: Labor statistics, various years. Korea Labor Institute

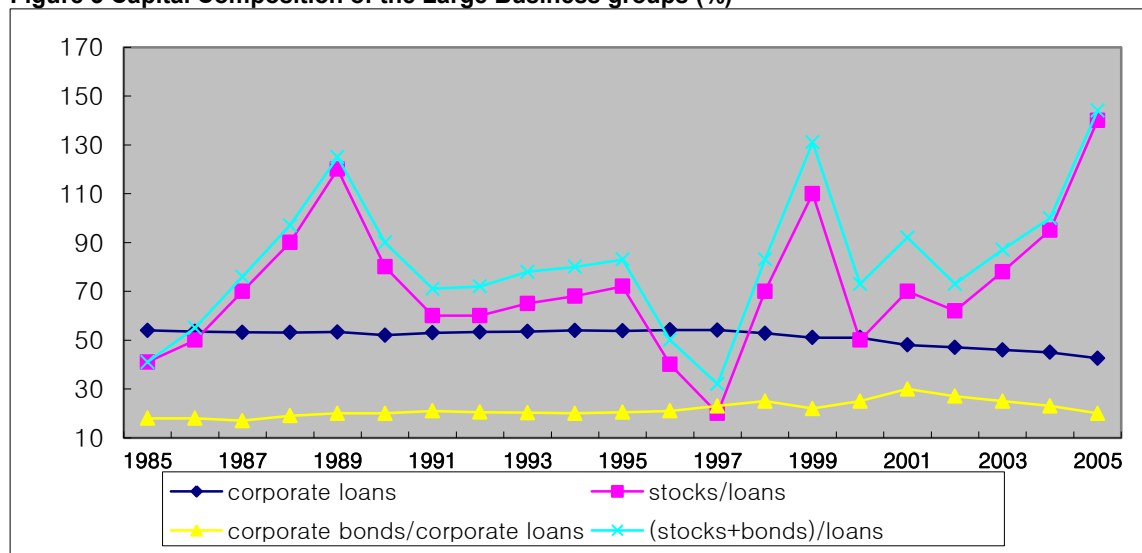
**Figure 2 The Real GDP growth rate and gross social expenditure**



Source: For real GDP, kosis.kr, Korean Statistical Information Service. For social expenditure, SOCX. OECD

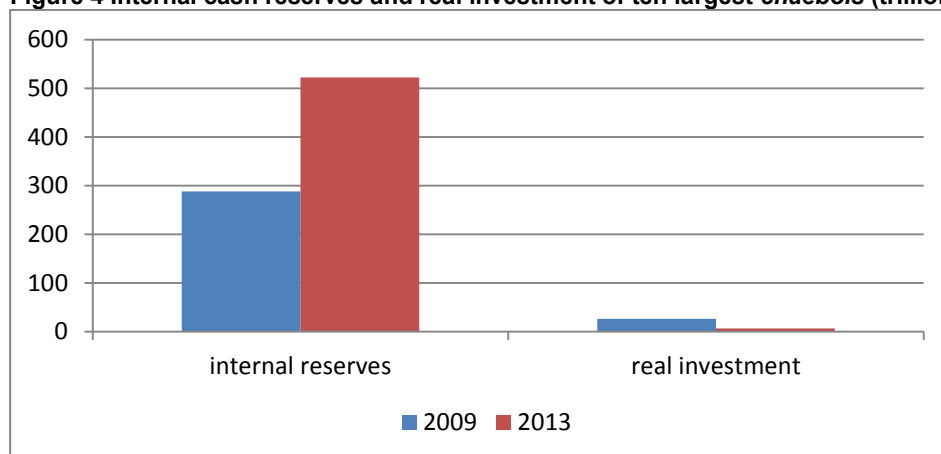
JH: Park Chung-Hee. DH: Chun Doo-whan, TW: Roh Tae-woo, YS: Kim Young-sam, DJ: Kim Dae-jung, MH: Roh Moo-hyun, MB: Lee Myung-bak government.

**Figure 3 Capital Composition of the Large Business groups (%)**



Source: Lee (2005).

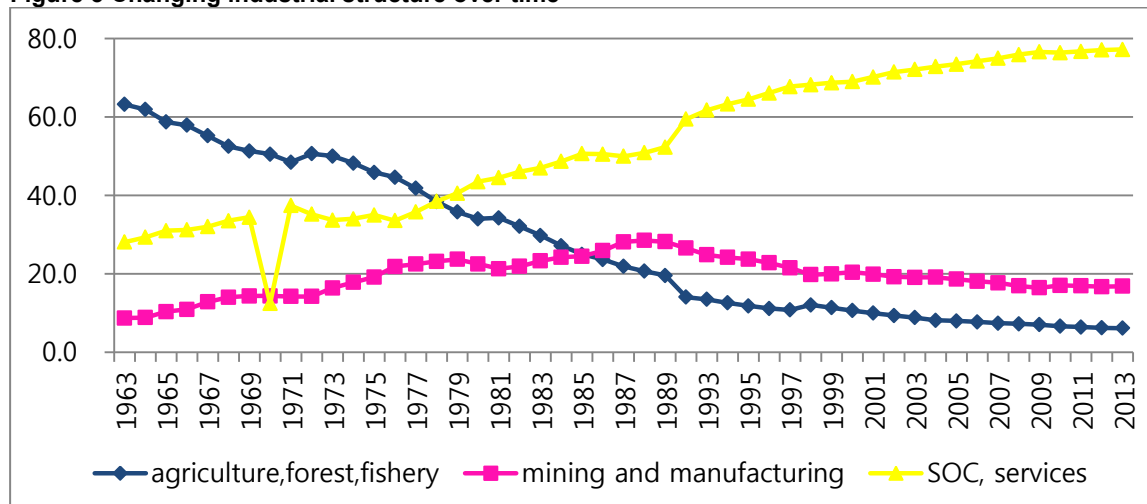
**Figure 4 Internal cash reserves and real investment of ten largest *chaebols* (trillion won)**



Source: Kim, 2014.

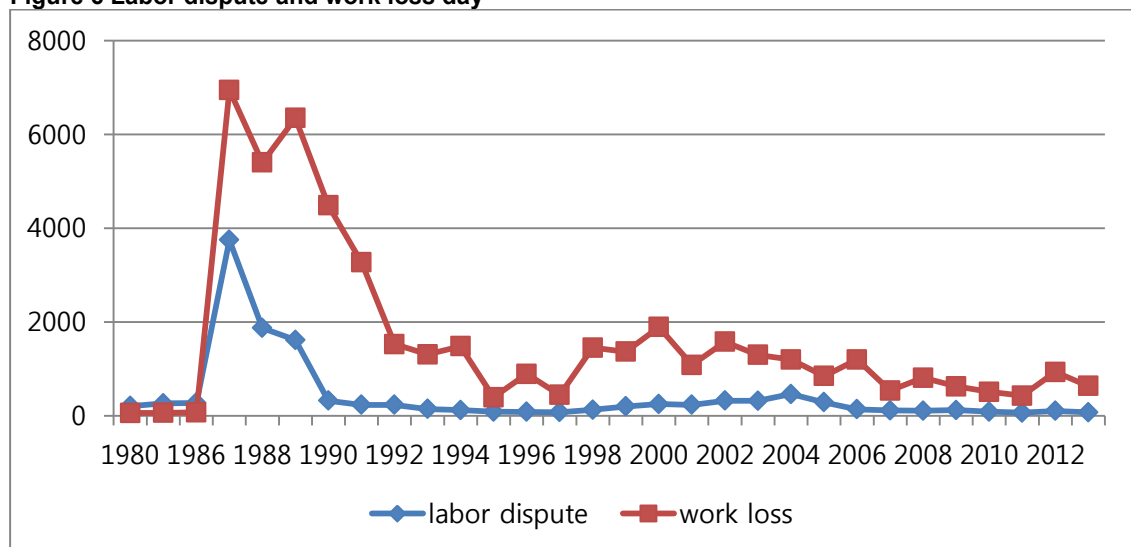
Table 2 Trend of subcontracting within SMEs in Korea			
Small-size enterprise (less than 50 employees)	1st subcontractors(%)	2 <sup>nd</sup> subcontractors (%)	3 <sup>rd</sup> subcontractors (%)
1995	71.4	24.2	4.1
1997	72.2	22.2	5.5
1999	71.2	26.2	2.5
2001	61.7	35.9	2.4
2003	59.6	34.9	5.5
2005	56.8	37	6.2
2007	59	34.6	6.4
Medium size enterprise (51~299employees)	1st subcontractors (%)	2 <sup>nd</sup> subcontractors (%)	3 <sup>rd</sup> subcontractors (%)
1995	86.1	13	0.9
1997	80.6	17.2	2.2
1999	87.7	12	0.3
2001	82	17.3	0.7
2003	82.4	16.3	1.3
2005	77.5	21.5	1
2007	75.6	23.4	1

**Figure 5 Changing industrial structure over time**



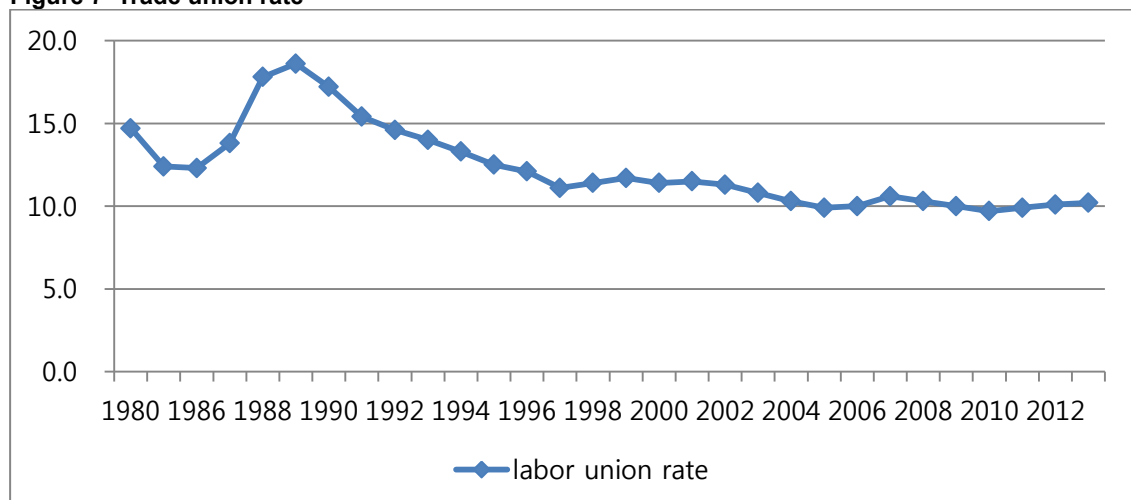
Source: KLI labor statistics, years, Korea Labor Institute.

**Figure 6 Labor dispute and work loss day**



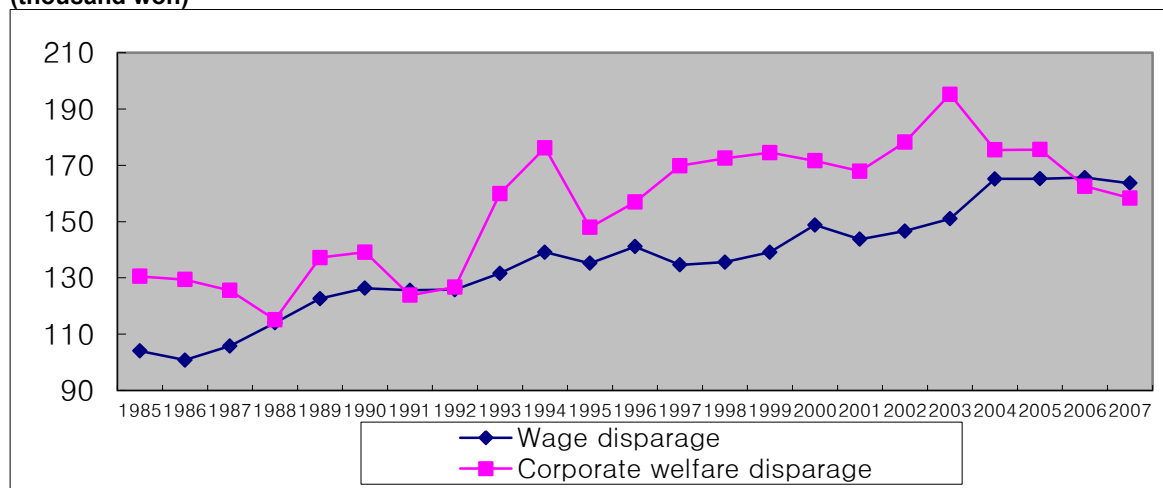
Source: KLI labor statistics, years, Korea Labor Institute.

**Figure 7 Trade union rate**



Source: KLI labor statistics, years, Korea Labor Institute.

**Figure 8 Disparages in Wage and Corporate Welfare between large, small, and medium-size Firms (thousand won)**



Source: *Labor statistics*, various years. Korea Labor Institute.

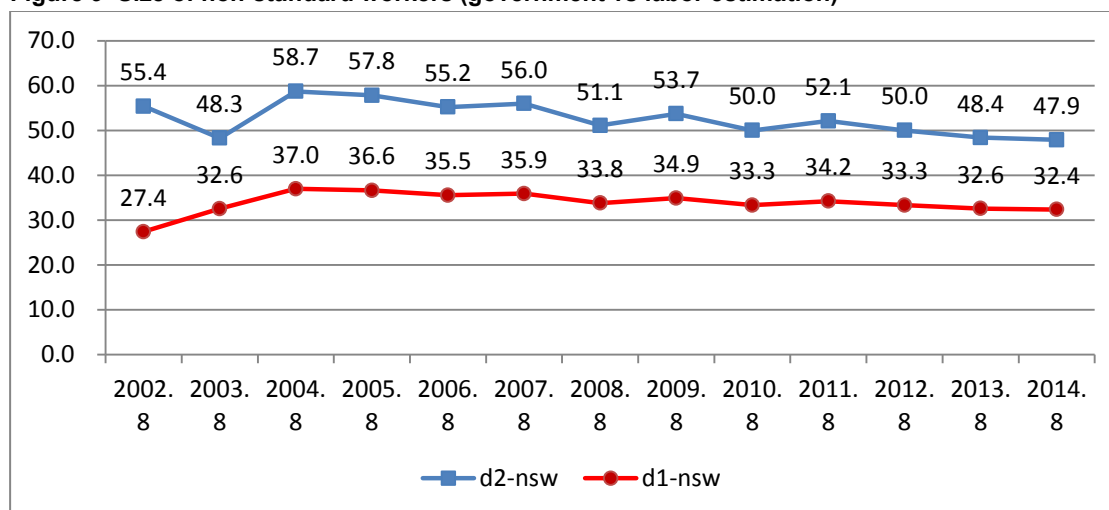
**Table 3 Structure and size of non-standard workers (2002-2014) (thousand people/percentage)**

	2002. 8	2005. 8	2008. 8	2011. 8	2014. 8
<b>Wage workers</b>	14030	14968	16103	17510	18776
<b>Standard</b>	10190(72.6)	9486(63.4)	10658(66.2)	11515(65.8)	12699(67.6)
<b>Non-standard</b>	3839(27.4)	5482(36.6)	5445(33.8)	5994(34.2)	6077(32.4)
<b>Temporary</b>	2063(14.7)	3614(24.1)	3288(20.4)	3442(19.7)	3507(18.7)
<b>Fixed-term</b>	1536(10.9)	2728(18.2)	2365(14.7)	2668(15.2)	2749(14.6)
<b>Contract extensions</b>	281(2.0)	302(2.0)	374(2.3)	339(1.9)	353(1.9)
<b>No expectation for work continuation</b>	247(1.8)	585(3.9)	549(3.4)	436(2.5)	405(2.2)
<b>Part-time</b>	807(5.8)	1044(7.0)	1229(7.6)	1702(9.7)	2032(10.8)
<b>Atypical</b>	1742(12.4)	1907(12.7)	2137(13.3)	2427(13.9)	2112(11.2)
<b>Dispatch</b>	94(0.7)	117.7(0.8)	139.1(0.9)	196.9(1.1)	194(1.0)
<b>Contract company</b>	332(2.4)	430.7(2.9)	641.2(4.0)	672.5(3.8)	604.1(3.2)
<b>Special type</b>	772(5.5)	633.1(4.2)	595.1(3.7)	613.8(3.5)	524.1(2.8)
<b>At-home work</b>	235(1.7)	140.8(0.9)	65(0.4)	74.9(0.4)	57.7(0.3)
<b>On-call</b>	412(2.9)	717.8(4.8)	818.2(5.1)	962.2(5.5)	804.9(4.3)

Source: Source: KNSO, Supplementary Survey of the Economically Active Population Survey, each year.

Note: The sum of the percentage of subtypes of non-standard workers is not necessarily indicate that of the total non-standard workers due to the different interpretation of non-standard workers.

**Figure 9 Size of non-standard workers (government vs labor estimation)**



Source: Source: KNSO, Supplementary Survey of the Economically Active Population Survey, each year.

Note: d1-nsw: government's definition of non-standard workers

d2-nsw: labor side' definition of non-standard workers

**Table 4 Wage gap by employment type (monthly salary, 2007-2014) (unit: Korean won, %)**

	Wage			Ratio to Standard Wage			Change	
	2007	2010	2014	2007	2010	2014	2010	2014
<b>Wage workers</b>	1745.5	1948.9	2231.2				11.7%	14.5%
<b>Standard</b>	2008.5	2294.4	2603.6	100.0	100.0	100.0	14.2%	13.5%
<b>Non-standard</b>	1276.0	1258.3	1452.9	63.5	54.8	55.8	-1.4%	15.5%
<b>Temporary</b>	1440.3	1400.1	1614.1	71.7	61.0	62.0	-2.8%	15.3%
<b>Fixed-term</b>	1418.8	1360.0	1583.4	70.6	59.3	60.8	-4.1%	16.4%
<b>Contract extensions</b>	1949.0	2263.3	2227.7	97.0	98.6	85.6	16.1%	-1.6%
<b>No expectation for work continuation</b>	944.7	1060.5	1287.0	47.0	46.2	49.4	12.3%	21.4%
<b>Part-time</b>	560.9	564.6	661.7	27.9	24.6	25.4	0.7%	17.2%
<b>Atypical</b>	1111.9	1249.0	1514.8	55.4	54.4	58.2	12.3%	21.3%
<b>Dispatch</b>	1341.3	1410.2	1527.0	66.8	61.5	58.6	5.1%	8.3%
<b>Contract company</b>	1023.5	1174.9	1382.8	51.0	51.2	53.1	14.8%	17.7%
<b>Special type</b>	1421.8	1629.5	2071.8	70.8	71.0	79.6	14.6%	27.1%
<b>At-home work</b>	568.4	435.3	603.4	28.3	19.0	23.2	-23.4%	38.6%
<b>On-call</b>	891.8	1040.2	1274.1	44.4	45.3	48.9	16.6%	22.5%

Source: Source: KNSO, Supplementary Survey of the Economically Active Population Survey, each year.

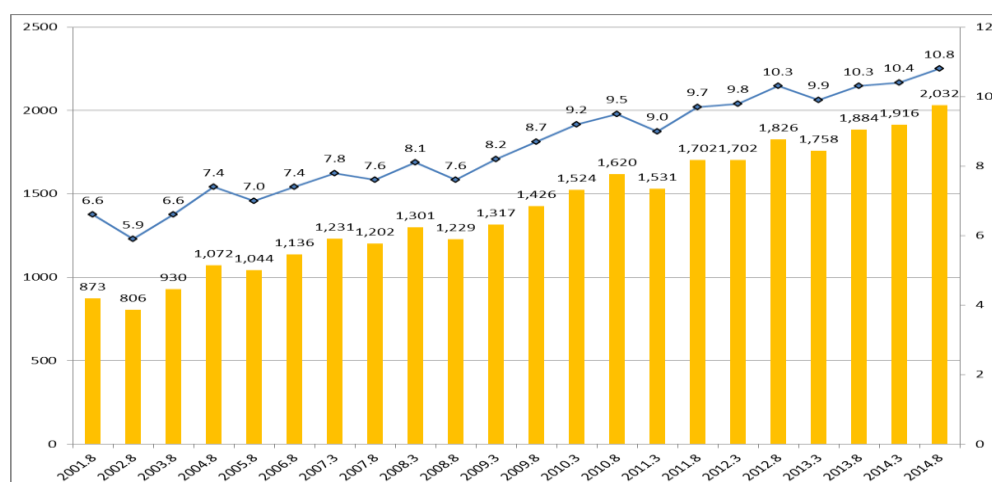


**Table 5 In-house subcontracted workers in the workplaces with more than 300 employees**

Industries	Total of In-house subcontracted workers	The ratio to the subcontracted workers of the subcontractors' workers (%)
Total	325,932	32.6
Shipbuilding	85,119	158.7
Automobile	15,075	19.5
Steel	28,512	77.6
Machine · Metal	16,634	24.6
Chemistry	16,786	23.1
Electricity · Electron	30,927	16.4
Office work · Sale Service	95,336	26.8
Etc.	37,543	25.5

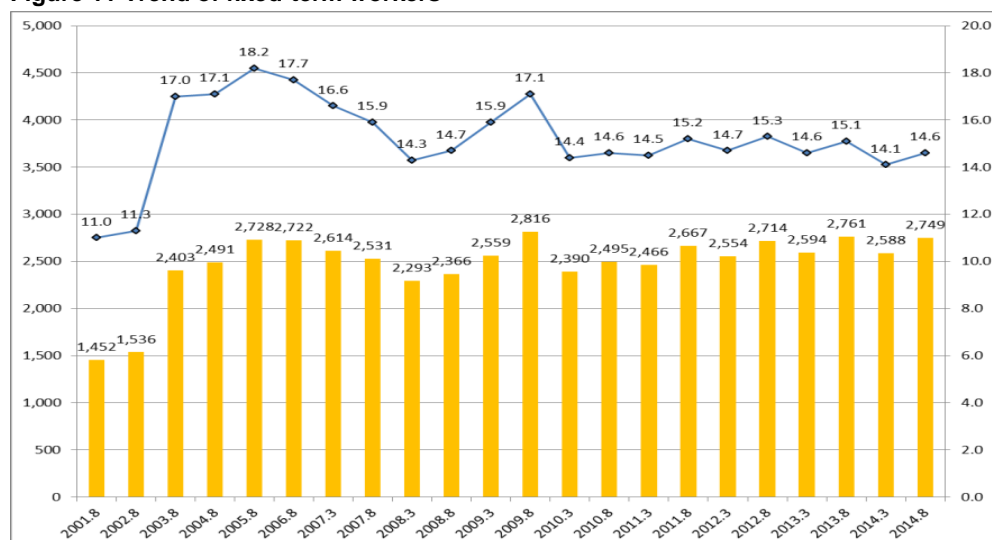
Source: Survey by Ministry of Employment and Labor, 2010. AUG

**Figure 10 Trend of part-time workers**



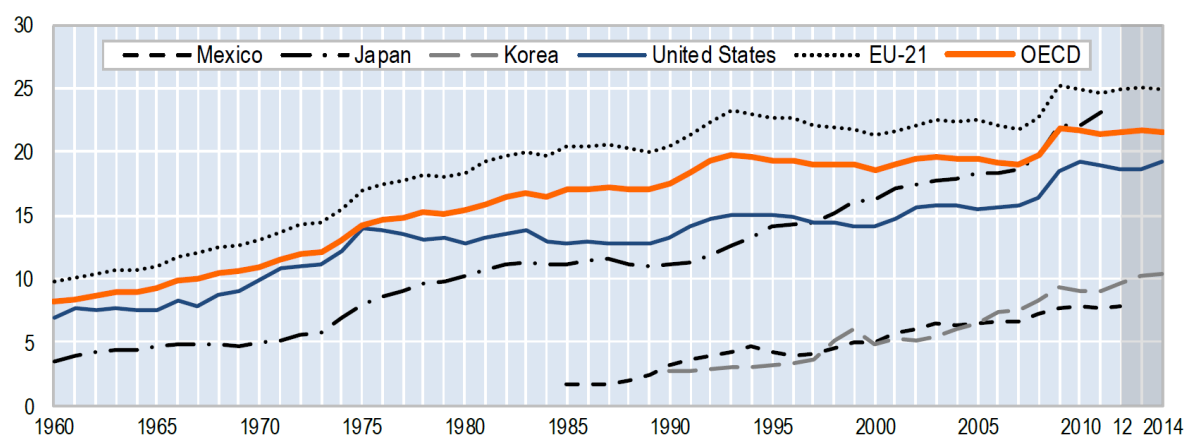
Source: Source: KNSO, Supplementary Survey of the Economically Active Population Survey, each year.

**Figure 11 Trend of fixed-term workers**



Source: Source: KNSO, Supplementary Survey of the Economically Active Population Survey, each year.

**Figure 12 Public social expenditure as a percent of GDP (1960-2014)**



Source: Social expenditure update report. (November 2014). OECD.

**Table 6 Development of the social security system in South Korea**

<i>Social Security System</i>	<i>First enactment</i>	<i>Coverage expansion/reforms</i>	<i>Full coverage</i>
Health insurance	1963 (not compulsory) 1975	1977: workplaces with 500+ employees 1981: 100+ employees 1988: 5+ employees 1988: includes farmers/fisheries 1989: self-employed in urban areas 2001: comprehensive single fund	1989
Work injury insurance	1963	1964: 500+ employees 1965–73: 16+ employees 1982: 10+ employees 2000: 1+ employee	2000
Pension (old-age)	1973 (aborted) 1986 (revision)	1988: 10+ employees 1992: 5+ employees 1995: includes farmers/fisheries 1999: includes self-employed 2003: 1+ employee	1999
Employment insurance	1993	1995 unemployment benefits:  10+ employees training programs: 70+ employees 1998: 1+ employee	1999
Old-age long-term care	2007	Older than 65 years old	
Public assistance	1960	2000: basic livelihood law	

Source: Author's summary based on the government's announcements.

**Table 7 Actual coverage rate of major social insurances, 1985–2010**

Year	Total employees (thousands)	Non-agriculture employees		Actual coverage			
		(thousands )	Total %	Public pensions <sup>a</sup>	Health <sup>b</sup> Insurance Program	Worker Injury Insurance <sup>c</sup>	Employment Insurance Program <sup>d</sup>
1985	14,970	11,165	74.6	5.5	44.1 (51.1)	40.3	•
1990	18,085	14,629	80.9	31.2	•	51.6	•
1995	20,414	17,729	86.8	41.1	•	44.5	23.7
1996	20,853	18,237	87.5	42.2	•	44.7	23.7
1997	21,214	18,644	87.9	40.3	•	44.2	23.0
1998	19,938	17,330	88.9	38.8	•	42.8	29.7
1999	20,291	17,765	87.6	58.5 (85.7)	•	41.9	34.1
2000	21,156	18,650	88.2	60.8 (81.9)	•	50.9	35.2
2001	21,572	19,125	88.7	59.9 (80.70)	•	55.3	36.1
2002	22,169	19,771	89.2	60.4 (79.6)	•	52.9	36.2
2003	22,139	20,189	91.2	62.2 (82.9)	•	51.8	35.6
2004	22,557	20,732	91.9	60.0 (80.8)	•	50.0	36.4
2005	22,856	21,041	92.1	60.0 (80.3)	•	56.8	38.2
2006	23,151	21,366	92.3	60.7 (82.0)	•	54.2	39.8
2007	23,433	21,707	92.6	61.6 (83.4)	•	58.4	42.2
2008	23,577	21,629	91.7	61.9 (83.2)	•	62.3	43.6
2009	23,506	21,541	91.6	63.3 (84.8)	•	64.4	45.3
2010	23,829	21,904	91.9	64.8 (86.2)	•	64.8	46.2

Notes:

<sup>a</sup> The figures include those contributing premiums to national pensions, civil servant pensions and school teachers' pensions. The figures in the bracket include the people who should pay contribution from the legal criteria, but are officially permitted not to pay it by the government due to their low income in addition to the actual recipients of the pension (the number in the left column).

<sup>b</sup> Health insurance began to cover the entire population from 1989, but it is difficult to estimate the number of non-recipients due to not paying contributions. It is roughly estimated that the actual receiving rate of health insurance is more than 90 percent. In 1985, the 51.1 percent included those protected by the medical assistance program.

<sup>c</sup> The actual coverage of all employees in the non-agricultural sector calculated from (the number of employees covered by the Worker Injury Insurance Program / all the employees in the non-agricultural sector) x 100.

<sup>d</sup> The actual coverage of all employees in the non-agricultural sector calculated from (the number of workers covered by the Employment Insurance Program / all the employees in the non-agricultural sector) x 100.

<sup>a,b,c,d</sup> The actual coverage rate of the Worker Injury Insurance Program and the Employment Insurance Program includes the special category of workers who should be covered, but are legally excluded due to their particular job characteristics (e.g. heavy truck drivers, golf club caddies and teachers for homework studies).

Sources: For 1985–2007, Wook (2010:72); for 2008–10, Ministry of Health and Welfare (2012).

**Table 8 Actual coverage rate of standard and non-standard workers in the major social insurances.**

			2002	2004	2006	2008	2010	2012	2014
<b>national pension purchase rate</b>	<b>pension</b>	total	52.7	59.5	62.6	64.3	65.0	66.5	67.9
		standard	62.9	72.5	76.1	77.3	78.4	80.3	82.1
		non-standard	25.7	37.5	38.2	39.0	38.1	39.0	38.4
<b>unemployment insurance purchase rate</b>	<b>insurance</b>	total	48.0	52.1	54.6	56.8	58.6	61.2	63.8
		standard	56.2	61.5	64.7	65.8	67.6	70.4	73.5
		non-standard	26.2	36.1	36.3	39.2	40.4	42.7	43.4
<b>health insurance purchase rate</b>	<b>insurance</b>	total	55.5	61.3	63.2	65.6	67.0	69.9	71.4
		standard	65.6	73.8	76.1	78.0	79.5	82.2	84.1
		non-standard	28.8	40.1	40.0	41.5	42.1	45.4	44.7

Source: Ministry of employment and labor, Annual survey of employment.

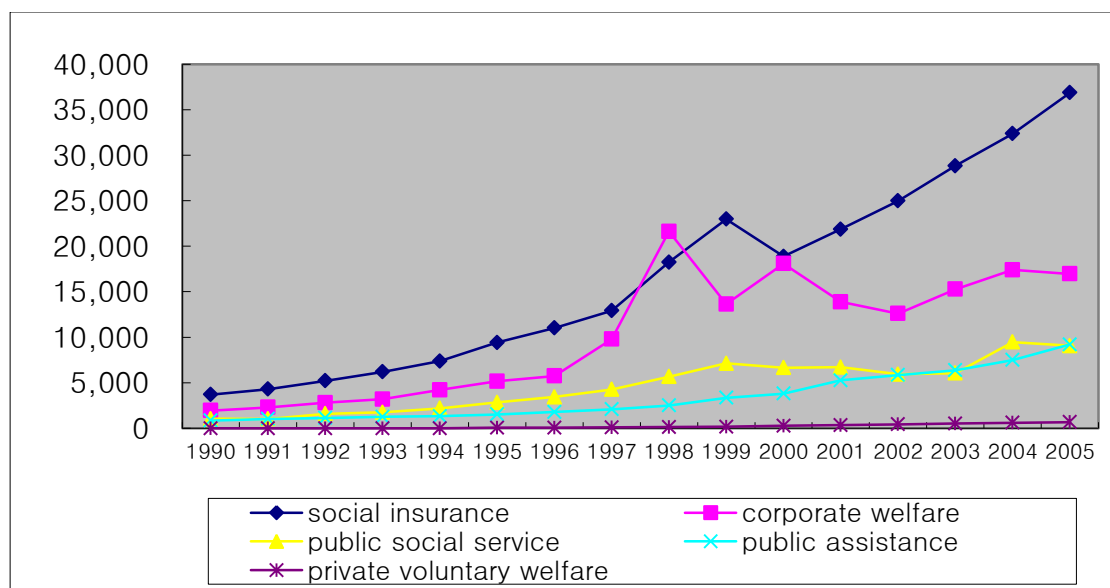
**Table 9. Coverage rate of social insurance programs by the firm size**

(Unit %)

Classification						
			Less than 5	5~29	30~299	More than 300
<b>Employment insurance</b>	<b>Total</b>	84.2	60.9	92.2	97.1	96.3
	<b>Standard</b>	95.5	86.0	97.7	99.3	96.3
	<b>Non-standard</b>	48.5	26.2	68.9	82.4	95.7
<b>Health insurance</b>	<b>Total</b>	85.3	62.2	92.0	98.3	99.7
	<b>Standard</b>	96.1	86.0	98.7	99.9	100.0
	<b>Non-standard</b>	44.9	20.2	58.4	87.4	97.8
<b>Pension (old-age)</b>	<b>Total</b>	85.4	62.1	92.1	98.0	98.9
	<b>Standard</b>	96.1	86.3	98.4	99.7	99.1
	<b>Non-standard</b>	41.7	17.9	55.9	84.6	97.1
<b>Work injury insurance</b>	<b>Total</b>	96.2	87.2	98.7	99.9	99.9
	<b>Standard</b>	97.1	89.4	99.1	100.0	100.0
	<b>Non-standard</b>	92.4	80.7	97.2	99.3	99.5

Source: Ministry of employment and labor, Annual survey of employment

**Figure 10 Comparison of Public and private welfare (1990-2005) (million won)**



Source: Ko and et al. (2007). P. 107.

**Table 10 . Gaps in corporate welfare by firm size**

(2008. AUG, %)

		A retiring allowance	Paid leave
The whole nation		61.4	52.8
Standard		74.5	65.4
Non-standard		35.6	28.0
Big sized enterprise		93.7	92.2
Small and medium-sized businesses		57.2	47.7
Big sized enterprise	Standard	98.3	97.0
	Non-standard	71.5	64.6
Small and medium-sized businesses	Standard	70.5	66.9
	Non-standard	33.4	25.6

\* Explanatory notes : With more than 300 of the employees of a big sized enterprise. Small and Medium Enterprise is less than 300 employees for employees of a small and medium sized enterprise\* Source : Korea National Statistical Office ( <http://www.kosis.kr> ). Source data by calculating the author.