

AICESIS-Greek OKE Joint Conference

'14.10.8(Wed.)~9(Thurs.)

Labor relations development and
Social dialogue in times of crisis

Economic and Social Development
Commission of Korea
Chairman Kim, Dae-hwan

Labor relations developments and social dialogue in the times of crisis: Republic of Korea

Democratization, crisis and social dialogue

The labor relations of Korea has gone through historically significant changes on two occasions: one is the movement of political democratization in 1987 which led to the grand labor struggle, and the other is the foreign exchange crisis of 1997 in Asia which forced this country to ask for bailout money from IMF.

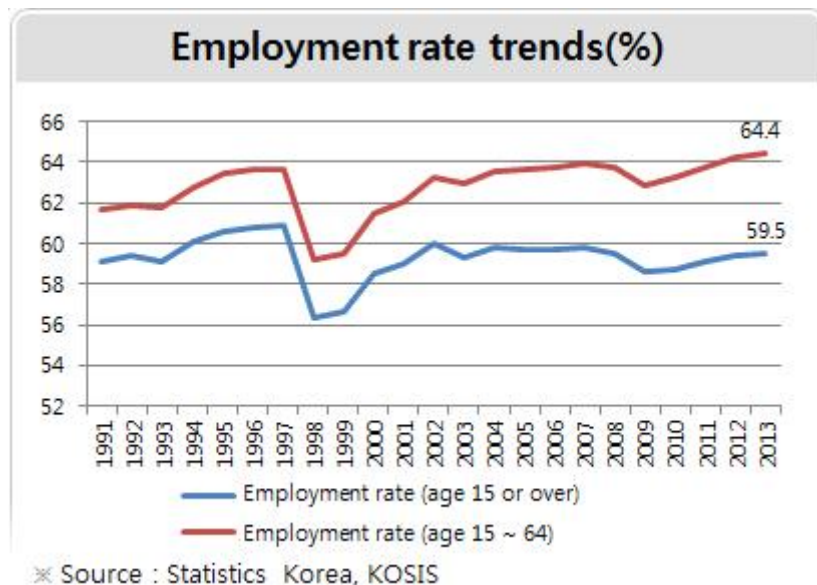
In the first period (1987~1997), a large number of trade unions were created, subsequently with rapid annual wage increases, and the new and revised laws on labor relations paved the way towards democratization of the general labor relations in Korea. The second period (1997~2012) witnessed a growing duality in the labor market, as a consequence of the increased labor market flexibility and the larger proportion of non-regular jobs which emerged in response to the challenges of corporate restructuring and massive joblessness.

The Economic and Social Development Commission (ESDC), the national forum of social dialogue in Korea, is a kind of creature that has come from a combination of political democratization and economic difficulties in the past years. In other words, ESDC has come into existence, as the democratization of the Korean society and the growth of labor movement have created favorable conditions for the presence of social partners and, on the other hand, the serious economic crisis prompted the country to work out a solution at national level.

ESDC, which was first launched in January 1998, is now challenged with an external environment characteristic of low-intensity crisis, not catastrophic or radical crisis, in this increasingly globalized world economy, and an internal mission of tackling the labor market duality and the structural problems in the labor relations marked by antagonism and disproportionate decentralization. These are key challenges to the labor relations of Korea and, at the same time, the biggest issues that should be resolved in the social dialogue of the country.

The challenge of labor reform at a time of low-intensity crisis

President Park Geun-Hye, shortly after winning the Presidential election of 2012, came up with a goal of "reaching 70% in both employment rate and the size of middle class" as one of her policy pledges. This was considered as a new approach that had not been taken by any of the previous right-leaning administrations which mainly based their policy goals on the rates of economic growth and unemployment, raising the hopes of many Korean people who had been suffering from the problems of youth unemployment, old-age poverty and non-regular work.



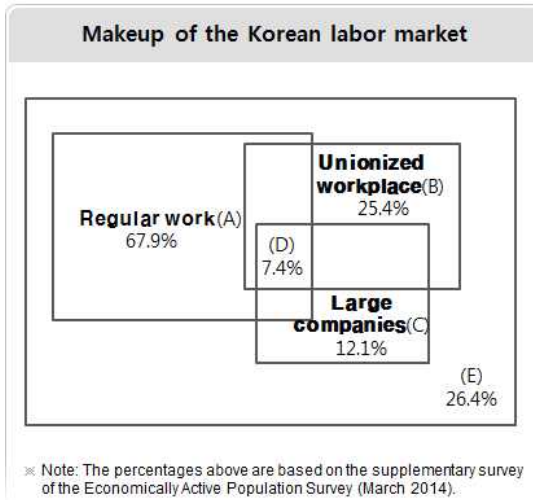
However, the goal of '70% in employment rate' is not an easy one to achieve at all, and can hardly be accomplished with the government's effort alone. In order to increase the number of decent jobs and employment rate in real terms, the country should go beyond simply trying to create more jobs, and make efforts to reform the structure and practices of the existing employment system. To this end, social dialogues and joint actions among social partners are a necessity.

Korea needs to address the following key issues:

- Long hours of work particularly among male and regular workers in larger companies;
- Lower economic status of female and non-regular workers in SMEs;
- Seniority-based wage system and complicated allowances at individual companies;
- High college enrollment rate but low youth employment rate; and
- Early retirement practices and shortage of jobs for older workers in this fastest-aging society

The Korean economy has grown within the government-led development policy and the company-oriented paradigm. The policy and the paradigm were once strong points of the Korean economy and worked rather favorably, but are now a stumbling block to further development of the economy, undermining the efforts to create jobs, balance work and family life and promote sustainable growth.

The Korean labor market is increasingly dualized, as is clearly indicated in the phenomena that the seniority-based wage system and long hours of work are more apparent among male and/or regular workers while female workers record a lower employment rate and the percent of non-regular workers is ever growing. Besides, the imbalance and gap between organized workforce in larger companies and public sector and unorganized workforce in SMEs constitutes another big problem in social and economic terms. These problems involved in dualization of the Korean labor market, largely due to the discrepancies based on the company size and employment status, have little improved in the past decade.



Comparison of different sectors in the Korean labor market

	Large firm Unionized Regular (D)	SME Non-union Non-regular (E)	Average for all
Average monthly wage (in 10,000 won)	392.0 (100.0)	134.5 (34.3)	223.4 (57.0)
Number of service years	13.4	2.3	5.6
Rate of new employees (%)	6.2	54.4	31.3
National pension coverage (%)	99.5	34.2	68.4
Health insurance coverage (%)	99.8	40.9	71.8
Severance pay entitlement (%)	99.6	36.4	68.9
Bonus entitlement (%)	99.1	36.6	70.4
Number of employees (in 1,000 persons)	1,363 (7.4)	4,852 (26.4)	18,397 (100.0)

※ Source: Statistics Korea. The figures above are compiled from the supplementary survey of the Economically Active Population Survey (March 2014).

Thanks to Korean people's strong enthusiasm about education, this country has registered one of the highest college enrollment rates in the world, emerging as a powerhouse of good human resources, but has also recorded a high rate of youth unemployment in recent years. Furthermore, Korea is one of the countries where population is aging at the fastest rate and old-age poverty rate is very high, but the practice of early retirement of employees in their early 50s is still prevalent as the right conditions have yet to be fulfilled for delayed retirement and continuous employment of middle-aged and older workers.

In an effort to tackle these problems, the new Administration, almost at the same time of its inauguration, concluded the 'Tripartite Agreement on Jobs' on May 30, 2014. This Agreement, however, is not about specific and detailed policy and legislative actions, but gives a general idea about in what directions the new Administration will take a range of initiatives to reform the labor market. The key contents of the Agreement are given below:

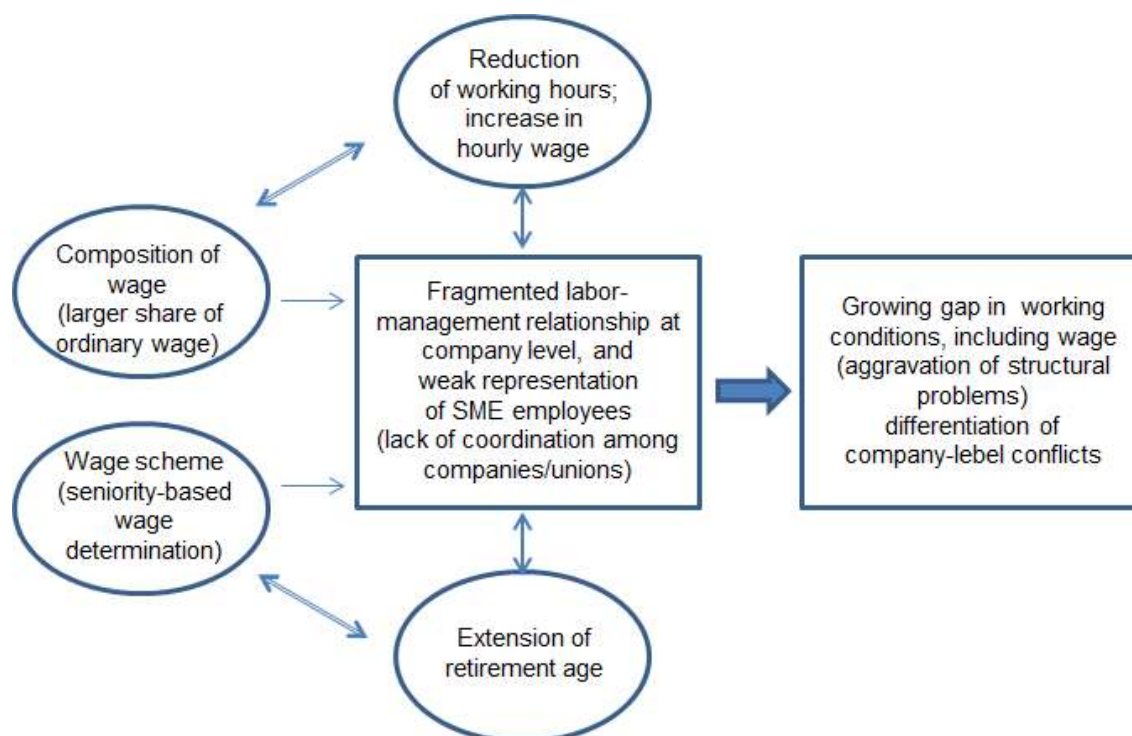
- To create the foundation for job creation, by rationalizing regulation and nurturing SMEs;
- To increase jobs for young and middle-aged persons and women;
- To expand the job generation potential, by improving the schemes of working hours and wage;
- To enhance the quality of jobs, by promoting cooperation for employment security and improving working conditions; and
- To invigorate social dialogues for job creation and fully implement the agreements on jobs

Additionally, the government adopted the policy action to increase 'selective part-time work' as a way to promote women's employment and pushed for enactment of a bill on this new type of part-time jobs. However, the bill was greeted with the objection from the labor community which argues that the law would result in a larger number of indecent non-regular jobs. The bill is still pending the National Assembly, which implies that this is one of the issues that require a full social dialogue between the government, workers and employers.

Limitations of the court rulings and the parliamentary decisions

In the meantime, before the social dialogue among social partners went into full gear, notably within the framework of ESDC, in 2013, the Supreme Court of Korea issued significant rulings on the cases of wage and working hours over which employers and employees are greatly divided. The rulings of the highest-level court have a decisive influence, not only on the ongoing labor disputes but also on the government's relevant policies.

Figure 1. The influence of the court rulings on labor market institutions



Above all, the Supreme Court ruled that ordinary wage, which is used as a basis for calculation of hourly wage, overtime allowance and other supplementary benefits, should have a much broader coverage. This ruling means that regular bonuses and many other allowances which have been frequently counted out of ordinary wage in Korean companies should be included in ordinary wage and that the hourly rate of overtime allowance should be calculated on the basis of the consequently larger amount of ordinary wage. In response, employers argue that if this ruling is applied to the reality, it would cause a risk of a sudden rise in labor cost, particularly in larger companies and manufacturers where overtime work is frequently done.

Moreover, it is likely that the court will make a final decision that the hours worked on Sundays should be added up to the upper limit of overtime hours (12 hours a week). The decision would push up the hourly wage rate and overtime allowance, while making it more difficult to have holiday work done.

These developments have taken place because nothing was done to reverse the tendency of leaving labor disputes up to the court's final judgment. However, the court decisions have rather caused other disputes and legal fights over their interpretation, which are now feared to escalate into labor conflicts and social unrest throughout the country.

Although it was critical to resolve the tension by way of social dialogue among social partners, the lawmakers, especially from the opposition parties, insisted on solving the problem by revising the existing legislation themselves. However, the parliamentary discussions on law amendments, without any proper process of social dialogue at ESDC, encountered a conflict of political interests and the lobbying competition among the unions and employer organizations, and ended up with nothing.

After all, both the courts' rulings and the parliamentary moves failed to address the fundamental cause of labor conflict, and the country has come to rely on the social dialogue again for a right solution.

Back to the social dialogue!

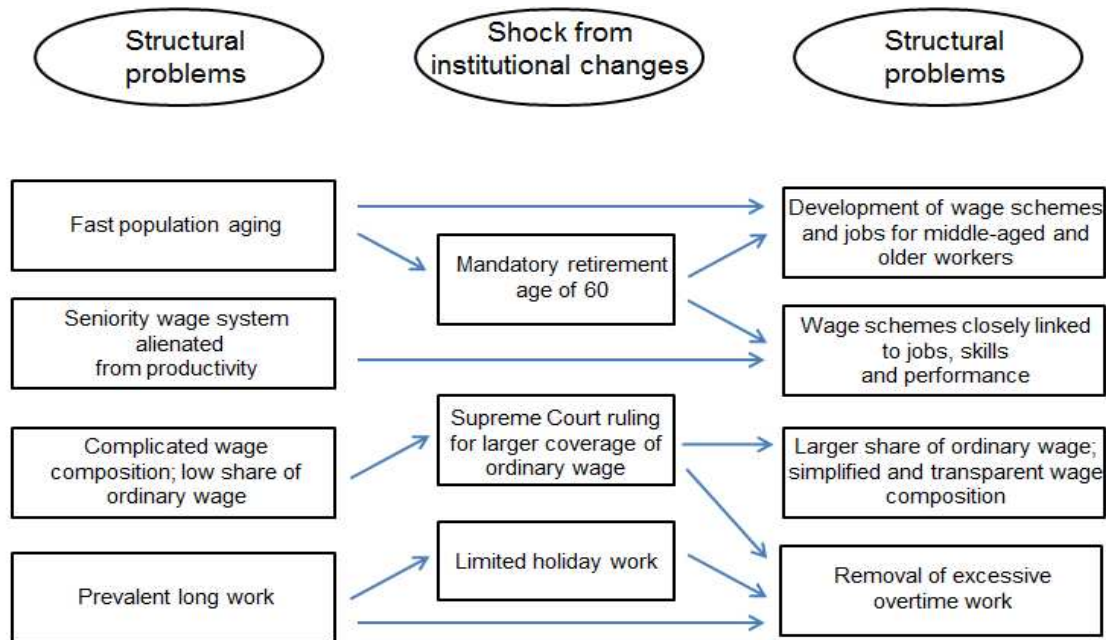
In Korea, social dialogue may take various forms but the Economic and Social Development Commission (ESDC) is the most representative body which has legal and institutional foundations. ESDC has concluded about 160 agreements and recommendations over the past 15 years, making substantial contributions to overcoming the economic crisis, democratizing the labor relations and upgrading the labor market institutions.

It is clear that key labor issues and social and economic challenges cannot be resolved by the government alone with no social agreement being reached. It is also reconfirmed that the National Assembly cannot be always a troubleshooter without autonomous dialogues and compromises among economic players.

Fortunately, the Federation of Korean Trade Unions' recent decision to play an active role in ESDC has brought a new momentum to social dialogues. In August 2014, the plenary session of ESDC agreed to set up 3 new consultative bodies - that is, 3 special committees to reform the public sector, promote occupational safety and reform the labor market structure. President Park Geun-Hye invited the representatives from the government, workers and employers to the Presidential residence to call for successful social dialogues and promise to provide the government's strong support.

Korea is now required to move to 'a new employment system'. More specifically, this country needs to shift from the traditional society where a male family head is the only breadwinner of the family and is asked to be in regular employment and work long hours, to a society of balanced work and family life where shorter workweek is in place and more women are allowed to participate in the labor market. The divide between a minority of regular workers with high job security, pay and welfare and a majority of non-regular workers with low job security, pay and welfare should be removed; the labor market should strike a right balance of flexibility and security, and the standards which are socially universal, not the ones applicable only at company level, should be drawn up and widely used.

Figure 2. Directions for the reform of labor market systems



The new employment system that we are looking for is a combination of fair wage, diversified models of shorter working hours and a strong social safety net, and this new system will serve as a basis for a new model for the Korean economy in future years.

In another requirement for the reform of the labor market and labor relations, the social dialogue should be able to accommodate drastic changes both in its forms and contents and needs to be remodelled in a future-oriented manner. To this end, ESDC has sought to reform and restructure itself as a national forum of social dialogue. After 2 years of discussions at multiple levels, ESDC adopted an initiative to bring profound changes to the composition of its participants, the scope of agenda for discussion and the operational procedures, at the plenary session in August 2013.

To summarize the initiative, first of all, representatives of non-regular workers and young people (women) will be added to the worker members of ESDC, and representatives from SMEs and small businesses will be added to the employer members. This change is a response to the criticism that ESDC does not fully represent workers and employers. In addition, public interest members will include representatives from NGOs in civil society. Besides, reflecting the

criticism that the agenda for discussion at ESDC is confined to labor policy issues, the initiative extends the reach of social dialogue to include industrial and economic policy issues which are believed to require social dialogue. The initiative also provides for upgrading of the procedures and regulations to increase efficiency in operating ESDC.

Major agenda and directions for social dialogue in the future

Major agenda	<ul style="list-style-type: none"> ▪ To improve the systems concerning wage, working conditions, etc. ▪ To create jobs for youths, women and aged people ▪ To increase links between higher productivity and fair distribution ▪ To mitigate the labor market duality, by rationalizing the contractor-subcontractor relationship, etc. ▪ To enhance flexicurity and establish a tight social safety net
Principles for action	<ul style="list-style-type: none"> ▪ To gather opinions from all members in earnest to increase workability of social agreements ▪ To proceed with dialogues and compromises at company, industrial/regional and national level ▪ To search for reasonable alternatives by sharing sufficient information and obtaining experts' opinions ▪ To carry out package-based negotiations, instead of taking the all-or-nothing approach
Other considerations	<ul style="list-style-type: none"> ▪ To strengthen ESDC's representation of unions and employer organizations and represent the interests of marginalized groups ▪ To call for the government's tax and fiscal policy actions which can facilitate social partners' dialogue and compromise ▪ To reinforce the leadership of unions and employer organizations by way of social agreements

Still, there are more important changes to be made than are stated above: the social partners should try to strengthen their self-representation and responsibilities. Additionally, the government should be consistent in playing the role of supporting and facilitating social dialogues. What is critical in these respects is the leadership of the three parties.

It is certainly important to upgrade the institutions and organizations for social dialogue, but the upgraded systems could be effective only when the parties concerned change their mentality and attitude in advance or, at least, in parallel. In case the parties keep repeating their own arguments and camp logics, no good system could guarantee the proper functioning of social dialogue. In Korea, ideological polarization is as serious a problem as economic inequality and social polarization. People are tempted to believe that they can get control more easily when they are more insistent and uncompromising. However, in a situation where

this way of thinking is predominant, the culture of dialogue and compromise can hardly take root in social areas, not to mention the political arena. This reminds us of the general wisdom that the key to the development and success of social dialogue in a genuine sense lies in social tolerance and support from a wide range of people and the philosophical maturity of social partners and civil society.

Still, our experiences tell us that the social partners of Korea have exerted and have the potential to exert, concerted efforts and energies for a common goal of all. The social dialogues and compromises that will be carried out for the purpose of 'paradigm shift' in the near future will serve as a driving force to push up this country to a higher phase of maturity. In the process, ESDC will do its best to pool the wisdom of Korean social partners and guide their dialogues and compromises.