

LABOR AND SOCIAL WELFARE POLICY FOR SOCIO-ECONOMIC UNITY

by Seong-Min Hong  
(e-mail: hsamtu@hri.co.kr)

Since the foreign exchange crisis began in 1997, the Korean economy has gone through an overall restructuring process. But the process of restructuring has inevitably brought problems such as high unemployment and labor disputes. Therefore, to minimize the possible spillover effect from the labor side restructuring, the government policy should comprise comprehensive prescriptions to enhance the socio-economic unity. Indeed, the socio-economic unity is a major component in overcoming the current crisis in the sense that it provides a socially acceptable method of "pain-sharing."

What Happened In 1998

During 1998, the situation in Korea's domestic labor market can be summarized in several developments which, in fact, worsened the socio-economic unity. First, a rapid increase in unemployment occurred. Before the economic crisis, the Korean economy had maintained practically full employment where the unemployment rate was around 2% range. In 1998, however, the unemployment rate rose up to 7%. Similar drastic changes can

be found in the nominal wage rate. For the first time in history, the average nominal wage posted a 3.2% decrease during the three quarters of 1998.

Second, among the unemployed, heads of household were a major component; this led to a massive decrease in average household income. During the 3rd quarter, average worker households experienced a 14.4% decrease in household income. According to a survey report, in Korea, where the head of a household is usually the only income source, average household's savings are comparable to only 6 months spending. Since a comprehensive social safety net has not been provided yet, this change in the household income meant a possible deterioration in the socio-economic unity. Third, income inequality has worsened. In Korea's labor market, there is a tendency that lower income workers are more vulnerable to restructuring and more likely to lose their jobs. After the economic crisis began, the earnings inequality for salary and wage earners' households radically widened. In the first quarter of 1998, the Gini coefficient reached 0.3161, a significant change from 0.2954 in the first quarter of 1997. In the second and third quarter of 1998

*"Before the economic crisis, the Korean economy had maintained practically full employment where the unemployment rate was around 2% range. In 1998, however, the unemployment rate rose up to 7%."*

<Table 1> Unemployment Rate and Change of Nominal Wages

	1985	1987	1989	1991	1993	1995	1996	1997	1998
Unemployment Rate	4.0	3.1	2.6	2.3	2.8	2.0	2.0	2.6	6.9*
Change in Nominal Wage	9.2	10.1	21.1	17.5	12.2	11.2	11.9	7.0	-3.2**

Notes: \* ) average until November

\*\* ) average until September

Sources: National Statistical Office, Ministry of Labor

*“The unemployment rate, however, is not expected to fall because of the ongoing restructuring in the corporate sector and the M&A’s in the banking industry.”*

it still remained at a high level, registering at 0.3204 and 0.3176 respectively.<sup>1)</sup>

Fourth, in the process of restructuring, the number of labor disputes increased. In 1998 the number of strikes was 122, showing a 56.4% increase over 1997. Moreover, the number of workers involved and working days lost reached 133,000 and 1,320,000, showing 209.3% and 197.3% increases respectively. This is mainly due to the prolonged and large-size strikes in relation to employment insecurity.

#### *How to Maintain Socio-economic Unity*

The Korean economy will show a positive rate of growth in 1999. Compared to the -5%~ -6% growth in 1998, this is a significant recovery. The

unemployment rate, however, is not expected to fall because of the ongoing restructuring in the corporate sector and the M&A’s in the banking industry. It will remain at the 7.5%~8% level with 1.6~1.7 million workers unemployed. With this background, the policy agenda aiming for maintaining the socio-economic unity should focus on the following points. First of all, the social-safety-net has to be completed in order to ensure the basic subsistency level of the unemployed and the poor. For this purpose, it is necessary to expand the coverage of unemployment benefits and social assistance. Also, the amount of benefits or the period of benefits should be adjusted reflecting the reality of unemployed workers. But the most important thing is to construct a

*(continued on p.22)*

〈Table 2〉 Earnings Inequality and Increase Rate of Income for Salary and Wage Earners’ Households

	1997				1998			(%)
	1/4	2/4	3/4	4/4	1/4	2/4	3/4	
Increase Rate of Income	9.3	8.5	7.0	0.6	-2.8	-5.3	-14.4	
Gini’s Coefficient	0.2954	0.2775	0.2826	0.2766	0.3161	0.3204	0.3176	

Source: National Statistical Office

〈Table 3〉 Major Indicators of Industrial Disputes

	<i>(in number, thousand persons, thousand days)</i>			
	1995	1996	1997	1998
Strikes & Lockouts	88	85	78	122
Workers Involved	50	79	44	133
Working Days Lost	393	893	445	1,320

Source: Ministry of Labor.

Note: The data of 1998 covers not the whole year but the period until November.

1) The Gini’s coefficient, which has a value between 0 and 1, is a typical index for earnings inequality. If the value is close to 0, the earnings inequality is getting smaller.

social-safety-net based on the "workfare" concept, not merely on the welfare concept. By this we mean that a person who wants to receive the unemployment benefits or assistance should take job training courses and eventually try to get a job. Second, a fundamental approach to solve the unemployment problem is providing a smooth way for the unemployed to come back to the labor market and be re-employed. An indispensable component in the policy for enhancing the socio-economic unity, therefore, should create new demand for labor and to support re-employment. Toward these ends, corporate sector must regain its competitiveness and the macroeconomy should recover from the current situation. Also the transaction costs for hiring and firing should be reduced mainly through deregulation in the related public sectors. To solve the potential mis-match problem in the labor market, the government should be more elaborate in job training programs and work out efficient mechanisms to assist personal-base job search

processes. Third, in the long run, labor and the management have to rid themselves of the old-fashioned antagonism where the "game" between labor and the management often becomes a "zero-sum game." Instead, they should design a "positive-sum game,"-that is, they need to develop productive industrial labor relations. This type of productive industrial relations will be constructed by introducing 'human capital management' that provides more incentive for employee's participation and cooperation in the management process. Finally, in order to maintain socio-economic unity in Korean society, it is essential to foster the middle class. However, during the "IMF Era," the middle class of Korea has suffered relatively the most among others. Many economists worry that due to the spread of unemployment and wage cuts, middle class households have substantially dwindled in 1998. To protect the middle class from economic hardships, an appropriate tax policy is needed. For example, excise tax increases should be suppressed and income tax brackets adjusted so that the (after-tax) income inequality does not widen. 