

**NEOLIBERALISM AND ECONOMIC POLARIZATION IN KOREA:
INSECURE EMPLOYMENT AND THE EMERGENCE OF THE
WORKING POOR**

Andrew Eungi Kim
Division of International Studies
Korea University

• **I. Introduction**

- Various forms of conflict or cleavage that are threatening social cohesion have become more intensified in Korea in recent years, most particularly an economic or income inequality.
- This paper examines how neoliberalism, especially its emphasis on labor flexibility, has contributed to the economic polarization of Korean society over the years, engendering a large number of the “working poor,” who may also be “house poor” or “rent poor.”
- The policy response on the part of the government in alleviating this problem has been as a whole ungenerous and indifferent.

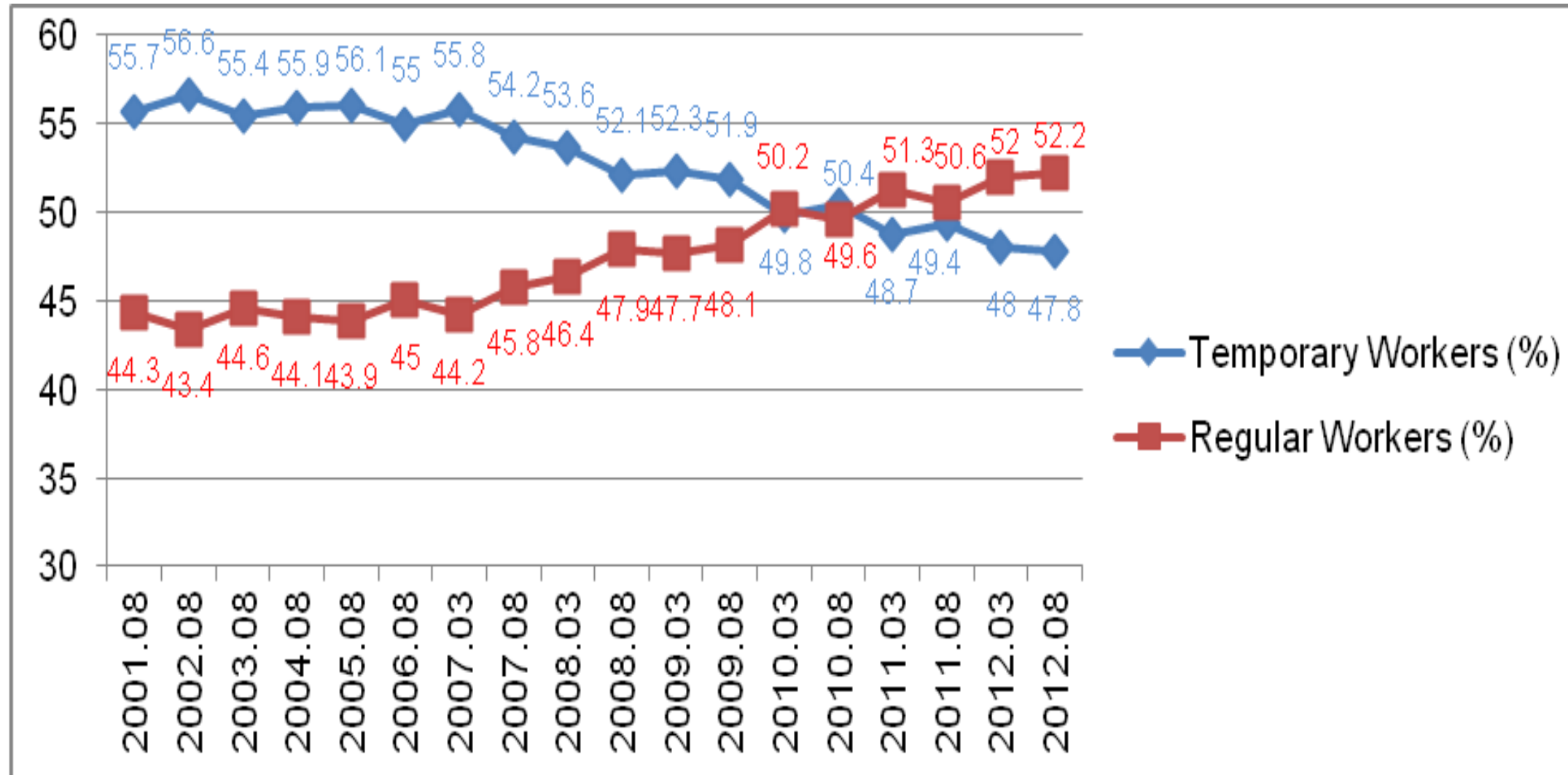
- **II. Neoliberalism and Labor Market Flexibility**

- Introduced in haste following the 1998 Financial Crisis, neoliberalism ended the time-honored life-time employment in Korea and brought in “flexible employment,” in which firms are under fewer rules and regulations in labor-related matters, meaning that they can employ workers on temporary basis or fixed-term contracts, fire employees at will, change their working hours, rotate their tasks in response to employer needs, and set wages, e.g., no minimum wage.

- Such flexible employment policy in Korea has led to the proliferation of various forms of nonstandard employment, including temporary workers, short-term contract workers, “self-employed” employees (e.g., teachers at private academies), temporary help agency workers (agency temporaries) and daily hires.
- Accordingly, the proportion of irregular workers in Korea has hovered around 35% of the total labor force in the last decade, reaching the peak of 44.2% in 2005 (OECD, 2013a).
- The figure for 2011, according to official data, was 29.4%, a significant drop from 36.7% from the previous year.

- However, the proportion of nonstandard workers in Korea is believed to be considerably higher than the “official figure.”
- The official total of regular workers actually includes hundreds of thousands of contract workers, including those working as part-time, on-call, dispatch and other contingent workers.
- If they are properly classified, therefore, the proportion of nonstandard workers should be 47.8% as of August 2012 (see Figure 1).
- This figure, albeit unofficial but very plausible, means that Korea has one of the highest shares of nonstandard employment among the member countries of the OECD.

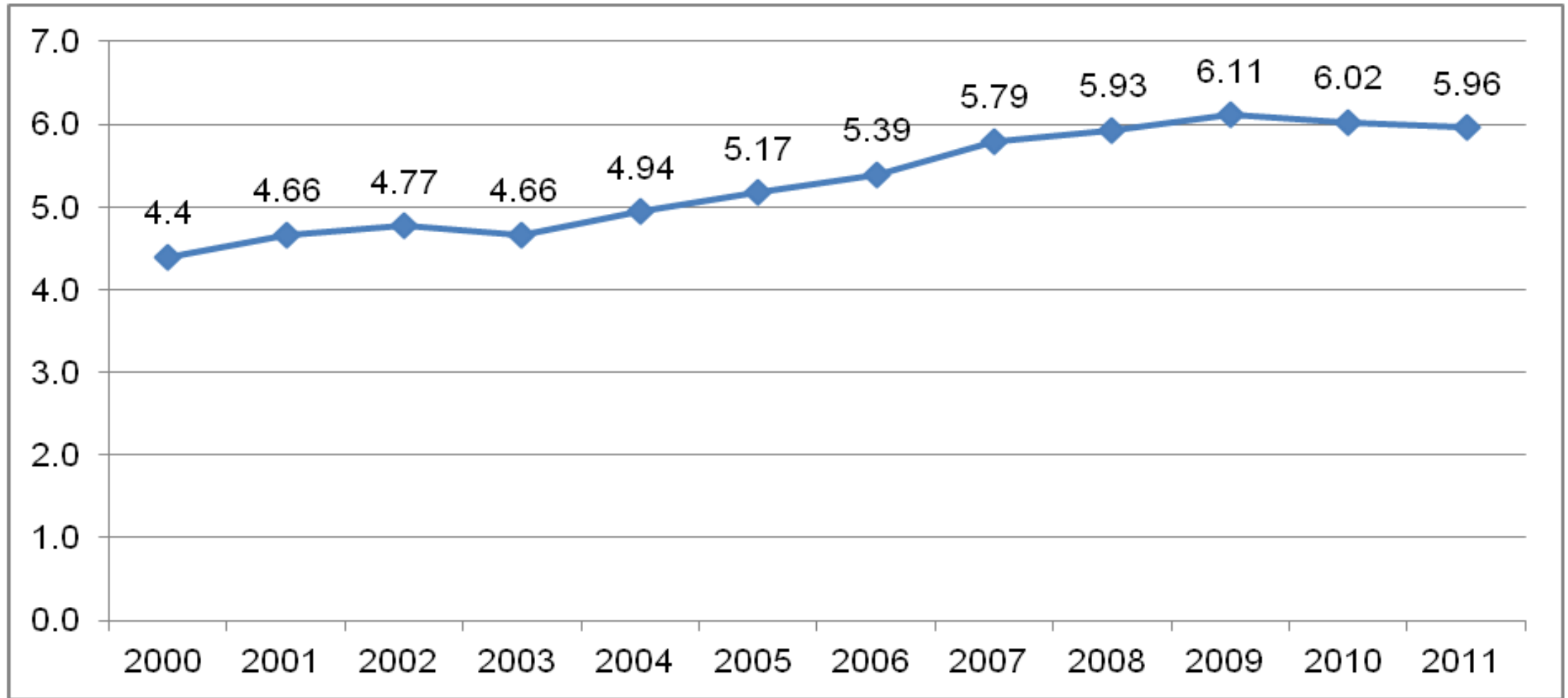
• Figure 1 Ratio of Regular vs. Irregular Employment, 2001-2012



- Firms prefer to hire new recruits on a temporary basis, because it involves less labor costs and is easier to lay them off.
- As of 2012, temporary workers earned less than 65% of the income of regular workers (Statistics Korea, 2013b).
- Many irregular workers in Korea also suffer from being denied of statutory benefits such as bonuses, overtime pay, or retirement allowances and are denied of four basic forms of insurance (national pension, health insurance, unemployment insurance, and occupational health and safety insurance).
- Furthermore, only about 40% of irregular workers are covered under the national pension scheme.

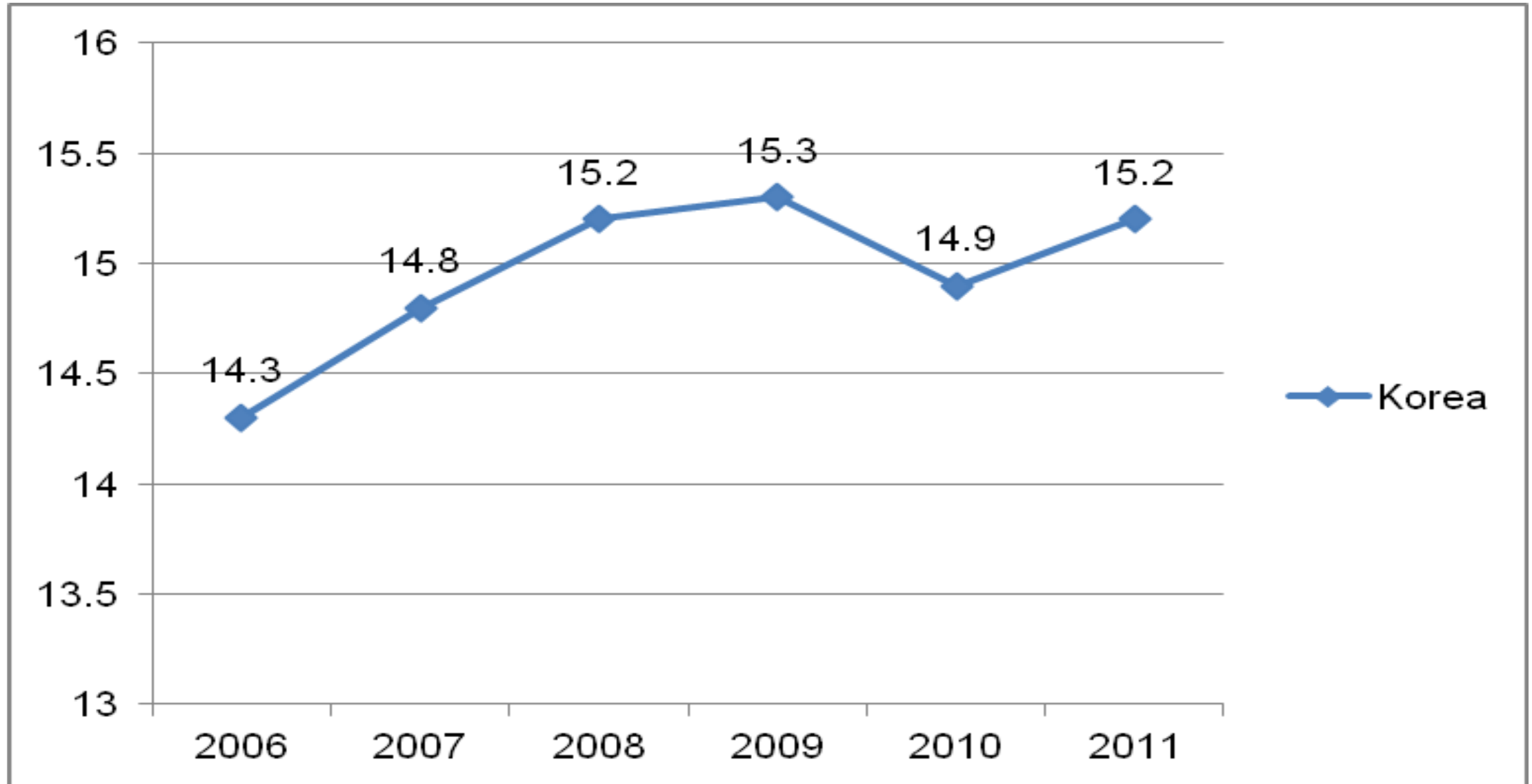
- **III. The Worsening Employment Situation and Increasing Socio-economic Polarization**
- Korea is increasingly becoming a polarized society with the have-nots comprising of irregular or underemployed workers.
- For example, in 2000 the top quintile of urban households with two or more persons earned 4.4 times more than what the bottom 20% grossed, but as of the end of 2011, the top 20% earned 5.96 times more than the total income garnered by the bottom 20% (see Figure 2).
- Income inequality is actually worse than these numbers indicate because these tabulations are based on the incomes of urban households with at least two persons, excluding, among others, the high incomes of the self-employed.

- **Figure 2 Difference in Household Income between Top and Bottom Quintiles in Korea, 2000-2011**



- The considerably large number of people living under the poverty line further indicates widening income inequality in Korea.
- For example, the proportion of Korean households living under the poverty line—those making less than 50 percent of national median income—have risen from 14.3 percent in 2006 to 15.2 percent in 2011 (see Figure 3).

• **Figure 3 Poverty Rates in Korea, 2006-2011 (%)**



- Even for those who do not live under the poverty line, their income may just be enough to live hand to mouth.
- For example, the proportion of Korean workers who are classified as low-paid workers, i.e., those who earn less than two-thirds of the median income, in 2012 was 25.9%, the highest among the OECD countries and much higher than the OECD average of 16.3%.

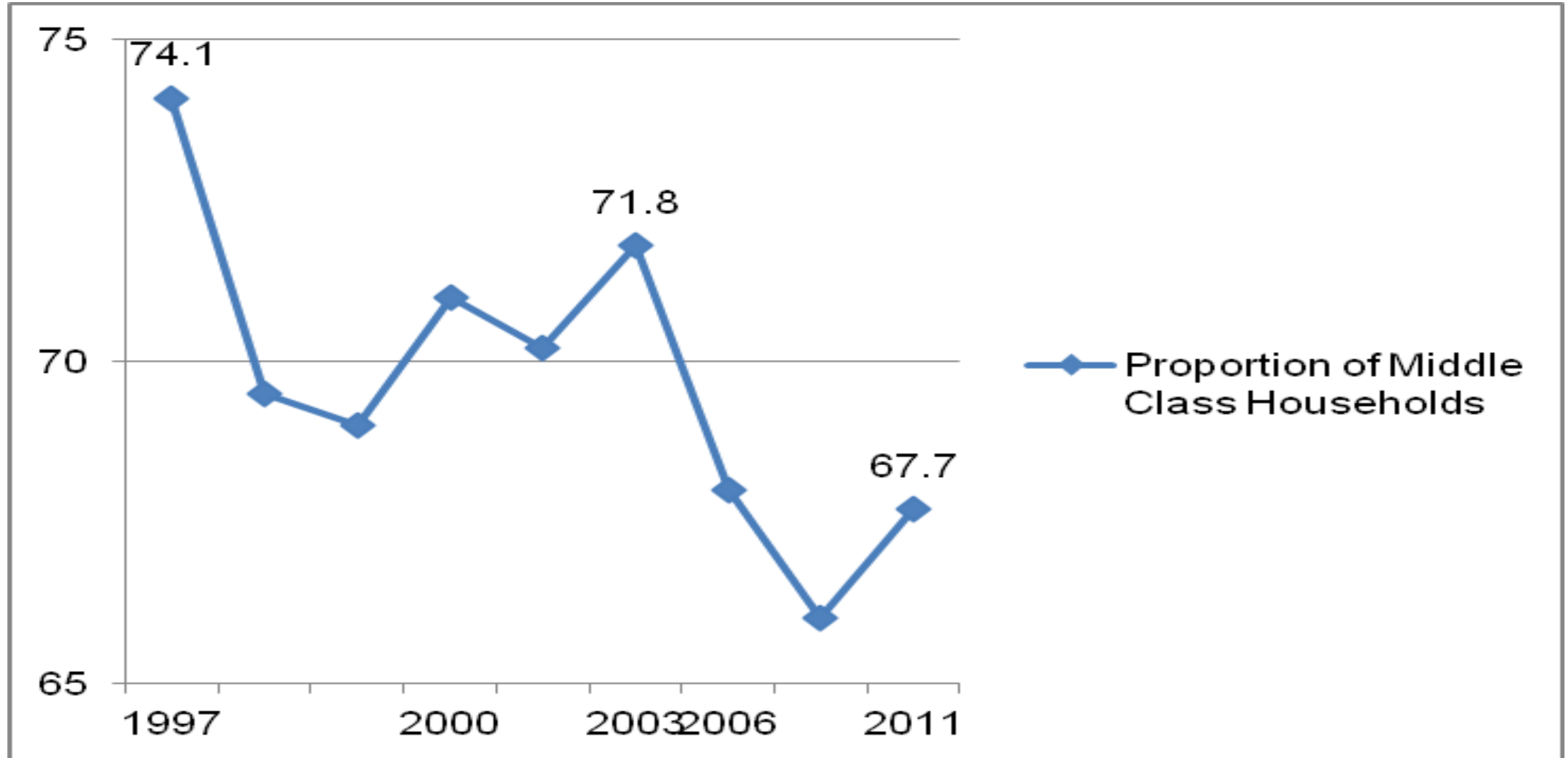
- What is even more alarming is the fact that the actual number and proportion of workers who do not even receive the minimum wage is increasing.
- For example, the proportion of such workers jumped from 4.3% in 2001 to 10.5% in 2012 (minimum wage in 2010 was 4,580 won per hour or about \$4.3 USD at the exchange rate of 1,050 won per \$1).
- Korea's minimum wage itself is relatively low, amounting to only 41% of the median wage of full-time workers in 2011 (cf, Turkey-71%; France-60%; and New Zealand-59%).

- All of this reportedly led to a conspicuous increase in the number of the “working poor” in Korea.
- The working poor refer to working people whose incomes are insufficient to provide basic necessities, especially housing.
- Given their low wages, the working poor find it difficult to save up money and, to make ends meet, many of them have multiple jobs.
- The concept of the working poor is significant, because it sheds light on the fact that even those who are working in contemporary society may be poor, i.e., poverty is often associated with joblessness, but a considerable proportion of the poor in the economically advanced countries are actually employed.

- Many of the working poor in Korea may also be faced with “double jeopardy,” as they are “house poor,” meaning that they may own a house but are under financial duress because of the falling house price and a large amount of debt and interest payment on their house.
- South Korean household debts reportedly amount to 156% of disposable income and the Bank of Korea estimates that up to 6.6 million Koreans are at “high risk of default”.
- If they do not own a house, many Korean working poor may also be “rent poor,” as they are facing financial difficulty struggling to pay for rent.

- The shrinking middle class is another phenomenon manifesting social polarization in Korea.
- The middle class comprised 75.4% of all households in 1991, but the figure shrunk to 67.7% in 2011 (see Figure 4).
- While the decrease may be modest, a recent survey shows that about 32% of those belonging to middle class consider themselves as low-income class.

• **Figure 4 Proportions of Middle Class Households, 1997-2011 (%)**



• **IV. Recommendations for Government Policies**

- Despite the gravity of the problem, the policy response on the part of the government as a whole has been passive and indifferent.
- The current Park Geun-hye administration initially had very ambitious spending plans to bolster Korea's rather ungenerous welfare benefits, including free childcare for children (e.g., nurseries and pre-kindergarten education).
- However, the prolonged economic downturn and concomitant reduction in government revenues forced the administration to scale down its welfare programs.

- However, it is still worth exploring potential policy initiatives to alleviate the problem of the working poor.
- First, the government should take measures to protect the rights of irregular workers, minimizing, if not prohibiting, discrimination against irregular workers in terms of pay and insurance benefits.
 - Indeed, labor flexibility should not be pursued without regard for the protection of irregular workers.
- Second, the government should also implement policies to ensure that firms do not abuse the current policy of labor flexibility.
 - In this regard, the government should reinforce the principle of full-time, regular employment for ordinary and continuous work; strictly regulate the kinds of work that qualify for nonstandard employment; and significantly raise the penalty against firms that violate these basic requisites.

- Third, the Korean government thus should significantly increase the minimum wage from its current 5,210 won (about \$5.2 an hour) to about \$7, as Korean labor unions and NGOs have demanded.
 - One of the key factors in the lower level of poverty in Western European countries is that the level of the minimum wage is relatively higher.
- Fourth, the government should implement various anti-poverty policies which may effectively alleviate the situation of the working poor.
 - Comparative studies by Lohmann (2009) and Brady et al. (2010) amply demonstrate that countries with generous welfare programs, including cash and non-monetary benefits, have considerably lower levels of poverty than countries with less-charitable welfare benefits.

- Fifth, the government should provide free and more varied vocational training.
 - Particular emphasis should be placed on growth industries such as IT, renewable energy, entertainment, leisure, tourism, and elderly care, many of which are jobs in the tertiary sector of the economy.
- It is worth noting that the above policy recommendations would work more effectively if more than one policy was implemented simultaneously.
- Also, the government should work with NGOs and the private sector to share information and to deal more effectively with poverty.

- IV. Conclusion
- Labor flexibility is a universal phenomenon, but what makes the Korean case “alarming” is that while other OECD countries generally have pursued it with an eye toward protecting the rights of irregular workers, Korea has not.
- Also, while the increase in irregular work is intimately linked to job creation in Europe—and discrimination against irregular workers in pay and benefits is strictly prohibited—what seems to have happened in Korea is that firms have exploited the lax labor laws to hire temporary workers solely to save labor costs.
- Not only do these workers in Korea receive significantly less pay than full-time workers but also are deprived of benefits and various forms of insurance.

- What is also disquieting is that the proliferation of precarious work in Korea is threatening full time employment itself, as the former is increasingly becoming a viable substitute, from the perspective of the firm, for the latter.
- With so many Korean workers being exposed to such labor practices, which are mostly concentrated in non-professional fields, social polarization is bound to become worse.

- This study prompts many important conclusions.
- First, the Korean case shows a compelling trend toward what can be called the *irregularization of work*, which could portend a gloomy outlook for the nature of work in Korea.
- Second, instead of genuine labor flexibility, the country could be seeing the increasing rigidity of its labor market, compounded by weaker labor unions and decreased solidarity among workers, as struggles between regular and irregular workers could become more common.

- Third, overall employment conditions are expected to worsen in Korea.
 - Given the trend to temporary workers, chances are high that even professional jobs can increasingly turn into nonstandard work, e.g., teachers being hired on short-term contracts.
- Fourth, the polarization of society between rich and poor, employed and unemployed, and skilled and unskilled workers has become more conspicuous and is likely to become even worse in the future.

- Finally, the rise in the number of the working poor in Korea sheds light on the fact that even those who are working in contemporary society may be poor, i.e., poverty is often associated with joblessness, but a considerable proportion of the poor in the economically advanced countries are actually employed.

Thank You