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Changing Industrial Relations and Labor Market Inequality in Post-Crisis Korea

Hyunji Kwon | Seoul National University

Since the Asian economic crisis in the late 1990s, Korea has developing one of the most unequal labor markets among OECD countries. The proliferation of nonstandard employment and the precarious working conditions of nonstandard workers have contributed to the polarizing labor market. Some of the main reasons to explain this change are the declining labor unions and the extremely fragmented bargaining structure with which the results of collective agreements have affected unionized workers only. Labor unions, once powerful, have been declining constantly and significantly since the early 1990s and their presence has increasingly been skewed toward the large-firm sector. Accordingly, Korean society has formed a strong public perception that unions, staying comfortably in a wealthy firm boundary, have protected exclusively their own members who are in a better position in the labor market and ignored others who are the vast majority of wage earners. This paper examines this view, the so-called the insider-outsider divide, of labor unions. It pays attention to the roles that labor unions have played in the processes of restructuring the country's post-crisis labor market. Using a brief description of the overall characteristics of post-crisis employment systems and a small set of case studies on the role of the unions in the period of major restructuring, I attempt to examine if (and to what extent) unions exclude periphery workers and thus take part in creating labor market segmentation.

Keywords: *labor union, decentralized collective bargaining, employment relations, labor market segmentation, inequality, insider-outsider divide*

Introduction

Korea has undergone a series of extraordinary political and economic events over the past half-century. Particularly over the last two decades, the labor market has introduced a large scale of precarious employment, and Korea has ended up with one of the most unequal labor markets in OECD countries. Meanwhile, labor unions of which explosive growth and activism drew world's attention in the late 1980s and the early 1990s have been declining significantly. This paper looks at the changes in industrial relations, including the decline of unions, in association with labor market changes over time.

In particular, it pays attention to the roles that labor unions have played in the process of restructuring the country's post-crisis labor market. While there are numerous studies evidencing that unions as a channel for employee voice play a positive role in reducing labor market inequality (Freeman and Medoff 1984; Kenworthy and Pontusson 2005; Western and Rosenfled 2011), a group of other researchers argues that the union's institutionalized monopoly effect on protecting insiders and their interests contributes to dualism (Rueda 2005; Palier and Thelen 2010; Hassel 2014;). However, previous studies offer us only limited insight to understand the role and the influence of unions in post-crisis Korea, not only because they suggest mixed views, but also because the role of labor unions and its labor market outcomes are affected to a great extent by institutional contexts. In particular, what the above-mentioned studies found was limited to a context where union organization and collective bargaining are structured beyond the firm boundary despite the contemporary waves of decentralization (Bamber, Lansbury and Wailes 2011).

In Korea where firm-level unions are dominant and the bargaining coverage seldom goes beyond the firm territory (Lee 2011; Kwon and Lim 2014), it appears that the society is more likely to form a strong public perception that unions staying comfortably in a wealthy firm boundary have exerted their monopoly power exclusively for their own members, who are likely to be regular employees. Similarly, there are increasing levels of criticism that unions prioritize protection of insiders, and thus contribute to widening a gap between insiders and outsiders (Lee and Frenkel 2004). Such a perception is confirmed by the 2013 Korea General Social Survey where only a handful of respondents (11%) agreed that they trust unions. This shows a dramatic shift from the result of a survey administered in 1989, the peak of the Great Labor Movement, where a vast majority of workers considered unions essential and reliable (Kwon 2015).[1] In fact, unions have constantly lost ground over the past two decades. Nonetheless, empirical evidence has not yet been documented to show that there are solid grounds for this strong perception of unions and their role. To offer some background knowledge, I will provide an overview of the current characteristics of industrial and labor relations (ILR) and how the ILR characteristics and their general labor market outcomes have been shaped over time, particularly in post-crisis Korea. Then I will move on to a small set of case studies on the role of unions in one of the affluent industries, banking, during the period of major restructuring in the early 2000. This shall enable us to see if and to what extent unions actually exclude periphery workers and thereby take part in creating labor market segmentation.

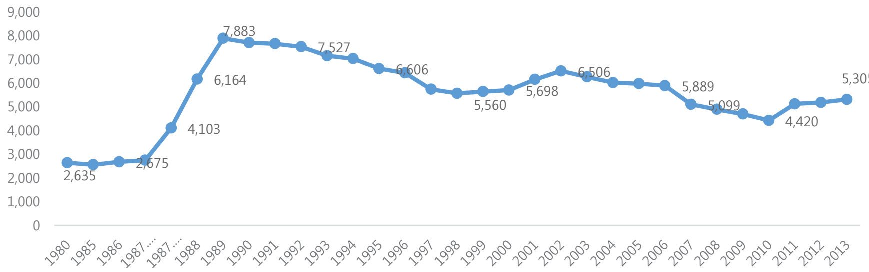
An Overview of Structural Characteristics of Industrial Relations and Their Outcomes

Key actors of the national industrial relations system

As mentioned above, the industrial relations structure is extremely decentralized in Korea: both union and bargaining activities take place mainly at the firm or establishment level. In fact, the number of individual unions is nearly 5,300 as of 2013, and most unions run their own collective bargaining unit. As figure 1 demonstrates, the number of unions, after reaching its peak (7,883) between 1987 and 1989, has fallen by more than 3,000 for the following twenty years. As a result, in 2010 there were 4,420 unions that survived after witnessing the lowest union density ever (9.7%). The number of unions has slightly bounced back since 2010 when the legislation that allows the presence of multiple unions at the establishment level was enacted.

The weak leadership of nationwide union federations that generally lack the systems and capacity for coordinating these extremely scattered unions might explain, at least in part, the decline of union organization in Korea. Once characterized as a state-sponsored organization under the state corporatism led by the authoritarian government from the 1960s to the late

[1] According to the social survey co-administered by Institute for Social Development and Policy Research and Korea Labor Institute in 1989, more than 80% of wage earners showed their positive attitudes toward unions and 54% of workers responded that they were willing to join a union.



SOURCE.—Ministry of Labor. *White Paper of Employment and Labor*, each year

FIG. 1.—Number of unions, 1980-2013

1980s, the Federation of Korea Trade Unions (FKTU) and its affiliates have been making efforts to move beyond the stigma, enduring enormous criticism and membership loss in the late 1980s. Since the Asian economic crisis in the late 1990s, the FKTU has been a proactive, steady partner of the national-level Tripartite Commission that launched as a presidential advisory body during the crisis and has become a place where key labor policies are discussed and debated among the four parties—workers, employers, the governments and the public—despite its lack of legal status as a co-determination body. However, the FKTU has not been able to take an initiative in the policy making process due to its limited resources, along with its hierarchical and conventional approach that emphasizes political deals rather than organizational power from the bottom, and its weakness in mobilization of its member unions.

By contrast, the Korean Confederation of Trade Unions (KCTU), the other national union center, is deeply rooted in the democratic unionism that emerged as an alternative to the traditional FKTU during the Great Labor Movement. Organizing most large metal unions and many white collar unions, KCTU has been a rivalry of the FKTU for both membership and policy making. It has been taking either a passively negative stance on the Tripartite Commission or it has stayed away from the negotiation table, which provides a partial explanation for the waning influence of the Commission over time. KCTU's boycott of the Tripartite Commission has also kept the union group distant from important national policy-making processes in general. Combined with the KCTU's sluggish organizing efforts, its passive-aggressive nonparticipation in decision-making has rendered the KCTU insignificant over time. Some of this organization's key agendas include political engagement via a labor party, workplace democracy, and establishing industrial unionism as a vehicle to accomplish social movement unionism. The KCTU, however, has not been able to make as much progress as expected and has been stagnant in recent years due in part to its relative failure to build leadership that could control its large, powerful member unions which at times show both the self-centered views and practical orientations of business unionism.

It is worth mentioning that there is an increasing number of unions, mostly new, that have not joined either of these national centers and they cover 19% of all unionized workers (311,605 workers) as of 2013. This emerging trend implies that many union workers—mostly low-wage service workers—do not see that they are effectively represented by the existing national centers. It also implies that the status and identity of these two national federations as the centers of union power have been decreasing.

Since the early 2000s, another emerging trend is the effort of existing enterprise unions to build and transform themselves into industrial unions. The Korean Metal Workers Union (24% of the KCTU membership as of 2009) affiliated with the KCTU and the Korean Financial Industry Union (12.5% of FKTU membership) affiliated with the FKTU are examples. Although this movement led by labor unions has been long desired and discussed since the Great Labor Movement in the late 1980s, it was only made possible when individual unions saw the clear limitations of decentralized collective effort during the Crisis. Given that many western economies have witnessed the decentralization of collective bargaining systems over the last few decades (Katz 1993, Traxler 1996, Wallerstein and Western 2000), this reverse trend in such a stronghold of highly fragmented enterprise-level bargaining deserves attention (Kwon and Lim 2014, p. 229). However, there has been a significant gap in the success. Structural reform per se was not a sufficient condition of industrial-level bargaining. Industrial unions still have fewer organizational resources and less power compared to their large firm locals, and often the industrial bargaining offers guideline agreements rather than fixed agreements that every local should abide by. The above-mentioned national-level umbrella unions have not showed the leadership to guide this new movement, either. As a result, actual bargaining to finalize pay increase and detailed changes in working conditions still take place at the local firm level (Kwon and Lim 2014; Lee 2011). Large unions' lukewarm participation and employers' reluctance to participate in industrial bargaining that might reduce their capacity of flexibility and increase the collective power of their counterparts have been main obstacles of establishing the industrial unions (Lee 2011). Although this experiment has generally failed to centralize collective bargaining, it could still be evaluated as a vehicle of coordinated and flexible bargaining to remedy the extremely decentralized and fragmented bargaining system (Kwon and Lim 2014, p. 247).

Meanwhile, employers' associations, having had virtually no scholarly attention, are far less developed compared to labor unions in Korea. The underdevelopment of employers' associations is due partly to the long tradition of direct state intervention in industrial relations under the authoritarian regimes, and again, an extremely fragmented bargaining structure. In any case, this is another key factor of keeping any sort of beyond-firm-level industrial relations unsuccessful. The Korea Employers Federation (KEF), the major national-level employer association established in 1970, focuses mainly on labor and employment-related issues and is much less influential than the Federation of Korean Industries (FKI), a league of a limited number of powerful corporations that covers all sorts of business agendas from policy involvement to lobbying, while distancing itself from labor issues. KEF has also been one of the steady partners of the national Tripartite Commission since its launch, representing general employers' perspectives when negotiating various agenda of labor policies. The presence of KEF carries weight with employers in important decision-making at the Tripartite Commission and other national-level labor-related committees. However, this association enjoys neither a sheer independent leadership position for employers nor supports tripartite partnership because Korean employers, particularly the *chaebol*-affiliated, have been in favor of a liberal labor market that is free from institutional involvement rather than a coordinated one.

Besides, being demanded by industrial unions, a few industry-level employer associations have also been formed in the mid-2000s. However, their expertise both in negotiation and in administration, and the organizational capacity to represent the entire group of employees within the industry have yet been very limited. In addition, in most cases (less so in the banking industry) these associations reflect each employer's uncomfortable view towards industrial unionism and hold at an arm's length relationship with their counterparts.

The brief illustration of key actors of industrial relations shows the structural limitation of Korean industrial relations that is remaining fragmented persistently.

The changes in industrial relations

The well-known democratization of the late 1980s that put an end to the nearly three decades-long authoritarian labor regime brought back the voice of the workers. According to the Ministry of Labor's annual statistics, the organizational and political growth that the labor movement achieved between 1987 and 1989 was remarkable: the union density, for example, skyrocketed from 12.3% in 1986 to 18.6% in 1989. Also notable were workers' outcomes not only with regard to a steep pay rise but also with regard to more equality in the labor market (Yee and Kwon 1996). Unfortunately, however, the success did not last long. From the beginning of the 1990s, union organizing soon went downhill. The proportion of paid workers who are union members fell sharply, back down to 12.1% in 1996, lower than the 12.3% union density in 1986 (see figure 2 below). Although various factors contributed to such a sharp decline in union density, one of the key factors to explain the phenomenon might be employers' practices to contain both the growth of unions and the rise of labor costs. These practices consisted of refraining from making new hires, replacing vacancies with temporary and contract workers, disintegrating business vertically via contracting out, spinning off, and relocating operations abroad. Management was active in pursuing labor market segmentation, workforce differentiation and individualization via new human resource management practices and global expansion in the early 1990s. However, the immaturity of emergent unions whose key agendas and ideas were mainly drawn from their previous experiences of the despotic and low-wage workplace kept the unions from coping with the new managerial strategies. More importantly, because unions continued the traditional enterprise-based structure of both union organization and collective bargaining despite their centralization effort, they faced various dilemmas. The first sort of dilemma is associated with drawing union boundaries: at the establishment level, individual unions sense that their prior responsibility should be to protect the interest of their own members who are in their electorates. This could cause them either to overlook or go against incorporating workers outside the membership boundaries, particularly when the members feel that the outsiders could potentially be their competitors for jobs and wages.

Second, they face a dilemma which is related to the strategy of labor-management relations: under the enterprise based IR structure,[2] a union's

[2] Decentralized IR is generally considered disadvantageous to collectivism. Organizational power

interests, such as pay increase and its survival, are somehow associated with the firm's financial performance. This interdependence is oddly combined with an arm's length union-management relationship. The arm's length relationship is not merely derived from employers' anti-union attitudes; unions have played an active role in shaping such a relationship as well. Many unions that originated from the independent democratic movement in 1987 have used an arm's length relationship as a symbol of their independence. This odd combination, arm's length mutualism, frequently seen in large-firm cases, has created certain patterns of industrial relations; when the union is relatively weak compared to its counterpart, the relationship is more likely to lean towards *a pattern of conflict-accommodation*, and when the union has relatively high bargaining leverage, *a conflict-compromise pattern* seems more likely. Industrial relations in Hyundai Motor Company, where the union has made a call for industrial action almost every year but then encouraged members to make up for lost productivity after making a deal, is a typical case of the latter (Park 2014). These IR patterns have made workplace-level conflict routine, particularly in the large-firm sector where firms have an ability to pay. This implies that workplace conflict per se might not be a good indicator of antagonism between management and labor in the Korean IR context. It rather shows how the two parties, whose identities have been formed in despotic anti-unionist workplaces via major labor struggles, coexist in the workplace.

In addition, an alternative pattern of joint-team based employment,[3] as Katz and Darbishire (2000) identified as one of the widespread IR patterns, is hard to establish in this context where both management and labor associate a pervasive arm's length relationship with their identity. Nevertheless there are some firms that are interested in incorporating workers' interests and

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and resources are unevenly distributed among unions and it is easier for them to concentrate on pursuing their own members' interests. It is also much harder for unions to create a unified voice and to develop a social agenda. In addition, it is more likely for unions and management to be involved in distributional conflict at the firm level. Korea's unique annual wage bargaining, established during the period of rapid economic growth, has been one of the causes of the frequent conflict. However, there is an alternative view that the decentralized and less-coordinated structure has benefits of building labor-management partnership. Enterprise unions may have a better chance to approach company information and are more familiar with workplace issues. Frequent face-to-face communication within a union could create close relationship between union leadership and members and this could also boost participatory management.

[3] This is one of four growing patterns of workplace practices that Katz and Darbishire (2000) identified in their seminal book, *Converging Divergences*. Important factors in this pattern are the role workers asked for (or choose) to play. Various forms of union/worker participation in business decisions is the key characteristic of this pattern (Katz and Darbishire 2000, p. 11).

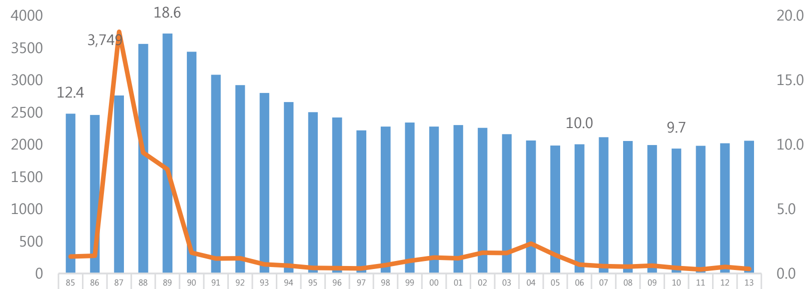
TABLE 1
Four Patterns of Industrial Relations in Korea

		Union / Employees' bargaining leverage	
		Less	More
Conflict/ Disputes	Less	**Market despotic-Low wage**	(Conformist-) Cooperation
	More	**Conflict – Accommodation**	Conflict-Compromise

their voices rather than excluding them. In those cases, either cooperative (when two parties, management and labor, are relatively balanced) or conformist- cooperative (when management is in a superior position to labor unions or their equivalent) relations take place. By contrast, in the sectors where firms are financially weak and/or workers have very weak (or even no) bargaining leverage, a low-wage employment pattern that is heavily market determined[4] (Katz and Darbishire 2000) is more likely to take place. In this pattern, it is easy neither for workers to organize a union nor for them to make any type of industrial action take place. However, once any industrial action occurs, it could be much harder to resolve the dispute because management might neither be able to afford nor be willing to use the policies of integrating desperate workers because of their strong orientation toward price leadership. This market despotic-low wage pattern has been rapidly increasing in post-crisis Korea where various types of precarious employment have added their shares.

These four patterns are useful not only to explain why some unions go on strikes on a routine basis, but also to explain how labor disputes have been decreasing over time. The post-crisis restructuring made long term changes in the distribution of the patterns for about 10 years after the Great Labor Movement in the late 1980s. As post-crisis restructuring has enabled large-firm employers to gain greater bargaining leverage compared to unions on one hand, and to reduce the size of direct-hire employment contracts by externalizing employment in various forms on the other hand, the conflict-compromise pattern has been reduced over time. More importantly, unions have generally failed to expand their organizational boundaries and to

[4] This pattern is characterized by work practices that afford management substantial discretion and power. Work practices are influenced very little by unions even if a union is present and informally applied (Katz and Darbishire 2000, p. 10).



	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99
union density	12.4	12.3	13.8	17.8	18.6	17.2	15.4	14.6	14.0	13.3	12.5	12.1	11.1	11.4	11.7
# of disputes	265	276	3,749	1,873	1,616	322	234	235	144	121	88	85	78	129	198

	00	01	02	03	04	05	06	07	08	09	10	11	12	13
union density	11.4	11.5	11.3	10.8	10.3	9.9	10.0	10.6	10.3	10.0	9.7	9.9	10.1	10.3
# of disputes	250	235	322	320	462	287	138	115	108	121	86	65	105	72

Source.—Ministry of Labor. *White Paper of Employment and Labor*, each year

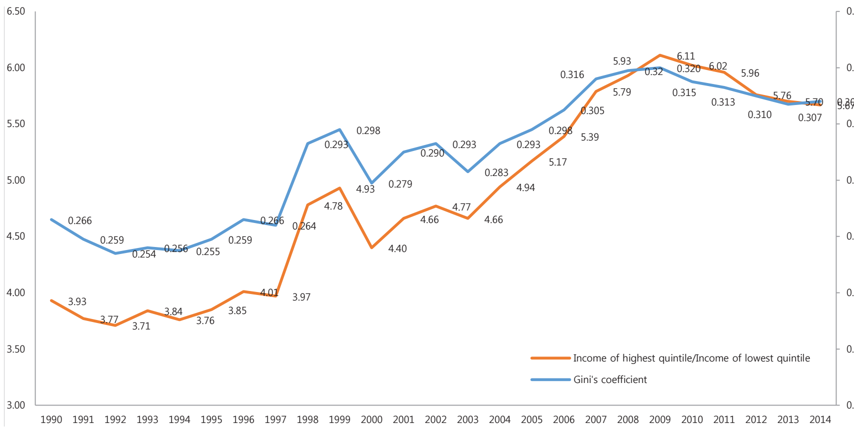
Fig. 2.—Union density and the number of disputes, 1985-2013

represent workers who have been pushed out to the periphery (and who are most likely to be situated in the market-despotic low wage pattern in Table 1). People who need unions the most do not enjoy union protection. Moreover, in the process of restructuring, it seems that people have not found labor unions very reliable. Labor unions could neither find effective ways to confront the economic threats and discrimination against peripheral workers nor be competent enough to reach a compromise with the state and employers to improve those workers' actual lives. The attitudes to unionization has plummeted accordingly and individual workers losing the collective voice have had to seeking their own ways to survive in the increasingly tougher labor markets for the last 15 years (Kwon 2015).

Thus the myth of generally strong and confrontational unionism in Korea is often perpetuated by the memory of the late 1980s' explosive union movement. Statistics show that the strike rate for the last decade, on average, has been lower than that of some other OECD countries known for very stable industrial relations, such as Denmark and Canada. However, because of the decentralized IR structure, strikes, particularly when it comes to redundancy, become militant, unmanageable, and dragged out for a long time. Put differently, fragmented and workplace-based industrial relations hold a certain level of instability because of the inherent conflictual nature of Korean industrial relations.

Labor market outcomes: increasing labor market inequality

Korea, which achieved both rapid growth and more equal income



SOURCE.—Ministry of Labor. *Statistics of Wages and Wage Structure*, each year

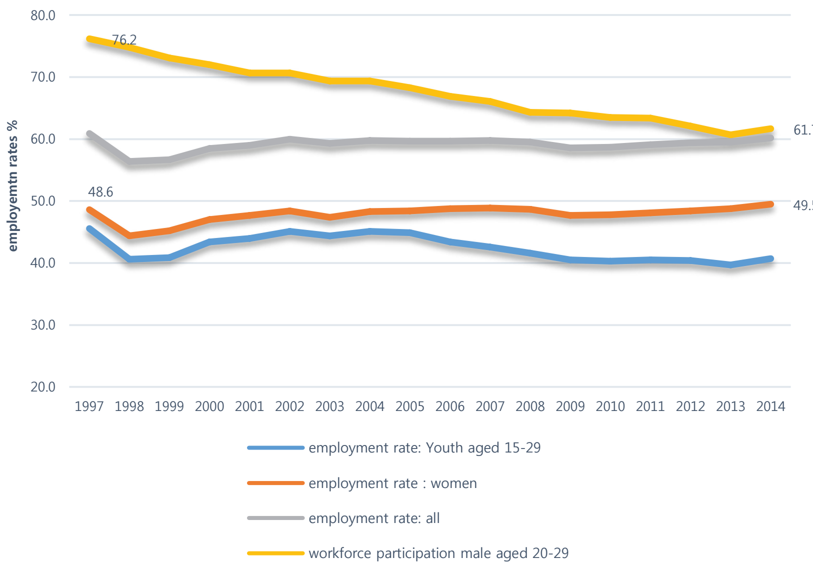
FIG. 3.—Labor market income inequality: highest quintile/lowest quintile, and Gini coefficients by year

distribution compared to any other developing countries up until the mid-1990s, offered a rare case (OECD 2011). Even before the Great Labor Movement started in 1987, the country maintained a certain level of equality, mainly explained by the state's policies of wage repression that were designed to facilitate export-led growth. Home consumption was not a primary concern then (Shin 2013). The occurrence of the Great Labor Movement in which workers refused low wages and demanded pay rises meant that the previous state policy of wage suppression would no longer work. Nevertheless, the decrease in Gini coefficients reflecting the degree of inequality has even accelerated since 1987, as Figure 3 demonstrates. For ten years before the 1997 financial crisis, income distribution improved with a larger income gain for the lower and middle-income classes. During that period, economic growth served to expand the middle class. As mentioned earlier, the expansion of internal labor markets to production workers and service workers on non-managerial tracks contributed to increasing equality. And thus the key factor to explain the decrease in inequality was the role of unions that contributed to reducing the differences among wage earners. However, this optimistic picture does not well illustrate what has happened in post-crisis Korea since the late 1990s. With the financial crisis and the ensuing restructuring of the economy, income inequality increased to a large extent. Particularly in the 1997 crisis, real wages declined by 10 percent and that led to a sudden increase in the Gini coefficient. The recovery from the financial crisis served to improve the situation slightly, but inequality indicators have started getting worse since 2003, probably affected by both the increasing level of discouraged workers as well as low-wage nonstandard workers. In fact, in 2006, income inequality in terms of disposable income in Korea at 0.311 went beyond the OECD average of 0.307. In addition, the real income for the lowest quintile has dropped in absolute terms since 2003, and the highest 20 percent recorded an income level that was 6 times higher than the lowest 20 percent within relatively better off urban worker households with two or more people. The post-crisis labor market restructuring headed by massive downsizing transformed the key characteristics of labor markets and created new issues. Problems include growth without employment, the degraded quality of jobs, and a widening income gap. These problems have become the main sources of an increasing degree of social and labor market polarization, a rising issue in current Korean society. Again, Figure 3 showing the various indicators of inequality reflects this change after the crisis.

First, let us discuss the growth without employment. Although the overall employment rate got back on track in early 2000s, firms' employment freeze policies have continued and they have led to the overall stagnation of the proportion of working people since then. Some point out that the low unemployment rate does not reflect good labor market performance but mirrors the significant presence of discouraged workers, the low level of female participation in the workforce, and the excessive use of cheap nonstandard employment.

Figure 4 suggests that the employment rates have stayed still and not been able to go over 60 percent. Similarly, in the figure, the employment rate for women also remained stationary and has not risen beyond 50 percent. Furthermore, the youth group has faced a tougher labor market situation partly because companies have either reduced the number of new hires or preferred to hire an experienced workforce.

Again, Figure 4 demonstrates that the employment rate for the young, aged 15-29, has decreased over time. The workforce participation rate of young men aged 20-29 has been more significantly and constantly declining from 75 percent in 1997 to 63.5 percent in 2010. This figure has a close link to the increasing youth unemployment rate (11 percent and 8.9 percent for the workforce aged 15-29 and 20-24, respectively, as of 2009) that is even higher than the average, which means the younger age group is becoming more vulnerable. Given the fact that the country's development has been relying heavily on intensive investment in education and training, and as a result, well-developed human resources, both the reduced employment and



SOURCE.—National Statistics Office. *Economically Active Population Survey*, each year

FIG. 4.—Employment rates: youth, women and all, 1997-2013

rapid increase in unemployment among youth are likely to cause the slowdown of economic growth. As often pointed out, the inefficiency of not utilizing a qualified labor force, particularly women, will also limit the country's capacity for further development. This is particularly an issue given the equal investment in education for both men and women and on average high private educational spending.[5]

This issue of growth without employment is associated with changing employment practices among large firms. Although the number of the large firms was relatively small, both the size and the quality of jobs that they created used to be significant. Particularly after the nationwide labor movement and a series of democratization movements in the late 1980s, both blue collar and lower level white collar workers in the large-firm sector were successfully integrated into the internal labor markets and enjoyed employment security, relatively high wages and company welfare. However, since the 1997 crisis, as large firms' inefficient management was targeted for

[5] For example, households with a child attending a private after-school academy pay on average about 8 percent of monthly income with the total cost amounting to 2.2 percent of GDP in 2007 (OECD 2010).

TABLE 2
Employment changes in banking for the decade of post-crisis restructuring

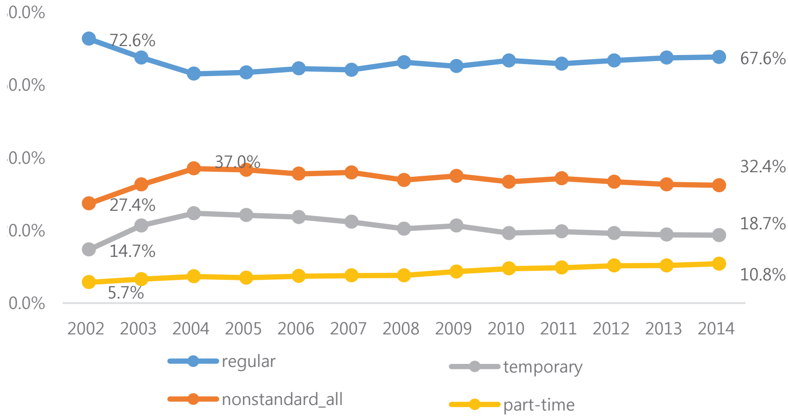
	Non exec. managerial ranks (A)	Nonmanagerial-regular (B)	A+B	% changes in B	temps (C)	% changes in C
1997	41,743	64,715	106,458		15,043	
1998	31,686	42,135	73,821	-35%	19,013	26%
1999	33,095	40,078	73,173	-5%	20,796	9%
2000	31,855	37,202	69,057	-7%	21,346	3%
2001	32,624	34,258	66,882	-8%	21,762	2%
2002	34,490	30,900	65,390	-10%	24,518	13%
2003	36,908	29,611	66,519	-4%	28,303	15%
2004	38,650	28,513	67,163	-4%	27,795	-2%
2005	39,257	26,904	66,161	-6%	27,761	0%
2006	42,049	24,512	66,561	-9%	32,232	16%
2007	43,369	28,920	72,289	18%	31,014	-4%
2008	44,466	29,648	74,114	3%	31,803	3%
2009	45,029	29,832	74,861	1%	28,671	-10%

Source.—Finance Supervisory Services, *Annual Business Statistics in Banking*, http://www.fss.or.kr/fss/kr/bbs/view.jsp?url=/fss/kr/

reform, large-firm employment has dramatically decreased. Most large firms responded to the crisis with massive downsizing in the first place. Furthermore, survivors, carrying out massive job cuts (over 30 percent in many cases) have kept their employment at a minimum by freezing new hires and increasing employment flexibility and outsourcing (often subcontracting including in-house subcontracting to avoid a direct employment relationship). At the same time, constant restructuring takes place, and early retirement, particularly among white-collar workers in large firms, is broadly expected. As a result, the ratio of total employment in the large firms with more than 300 employees has significantly dropped from 19.3 percent in 1996 to 13.4 percent in 2008. Without promising alternatives of job creation, this problem is expected to continue.

The banking sector offers a useful example here. The commercial banking industry underwent tough restructuring, including many closures and consolidation. The direct and the most influential measure of restructuring to workers was downsizing. The surviving banks downsized by at least 30 percent as unanimously required by the financial supervisory authority during the early phase of the crisis between 1997 and 1998. They also made further cuts to major redundancies until 2002 when the country officially escaped from the crisis. However, as Table 2 shows, the commercial banks did not increase the number of regular workers until 2007, which is reflected by the number of regular employees at the bottom of the hierarchy where people enter the labor market. A big jump in regular employment was made in 2007 but this does not mean that the firms resumed pre-crisis recruitment practices. Rather the increase of non-managerial regular employees by 18 percentage points is the effect of a newly-introduced law on the protection of nonstandard employment that ordered temp-to-perm transitions for temporary employees whom the firm wants to continue to use for more than 2 years. Considering this, the commercial banks have continued to constrain the increase in regular employment. Table 2 shows that the changes in regular employment are closely related with the changes in temporary employment, a main source of cost containment and employment flexibility. During the second major crisis, the so-called global economic crisis in 2008-2009, the table clearly shows that the headcount adjustment was mainly taking place for temporary workers.

The second labor market issue is related to the proliferation of nonstandard employment and the deterioration of job quality. Figure 5 tells us that the share of nonstandard employment accounts for more than 1/3 of the whole of wage earners over the last decade. In fact, according to an OECD statistics, the share of temporary employment in Korea – a dominant nonstandard form of employment in the country – is the second largest among OECD countries (OECD 2004). Nonstandard employment increased strikingly during the Asian financial crisis. For example, 75 percent of workers who escaped from unemployment took a temporary or daily-based job (NSO 1999). The emphasis on labor market flexibility and the lack of the employment protection legislation for the emerging types of employment at that point affected this rapid increase. Unlike the unemployment rate, which went up momentarily right after the crisis, the increase in nonstandard types of employment was not a temporal phenomenon. Firms focusing on short-term performance and cost reduction constantly expanded their reliance on irregular employment and its share kept increasing until 2008 when the recent legislation that aims to regulate the nonstandard, particularly temporary, employment was enacted. After the years-long debate at the national Tripartite Commission, the National Assembly finally passed the new legislation on the protection of the nonstandard workforce –both the terms of use and equal treatment were key matters for regulation. Despite its

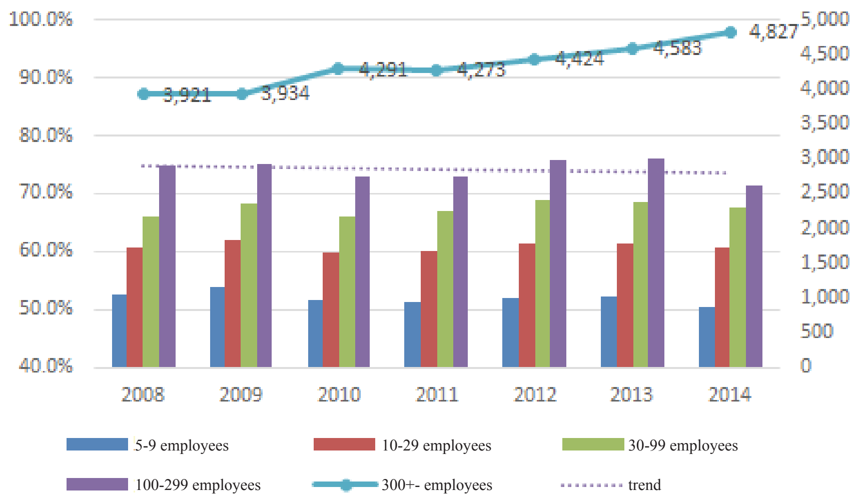


SOURCE.—*Economically Active Population Survey*, each year

FIG. 5.—The share of nonstandard employment in the Korean labor market, 2002-2014

slight decrease from its peak since the new law, the nonstandard employment share still included 33 percent of the total number of wage earners in March 2009 and 35 percent in March 2015.

Moreover, it is worth mentioning that the official employment statistics do not reflect the employment associated with the widespread practice of in-house subcontracting, particularly in the manufacturing sector (Kwon and Kwon 2006). Under the current employment law prohibiting manufacturers from using third party temporary help services for line assembly work, in-house-subcontracting practices have been widespread and as many critiques argue, subcontractors often function as virtual temping agencies (Kwon and Kwon 2006; Cho 2009; Lee, Hong, and Kwon 2014). Lacking particular regulations for employee transfers when business transfers take place, employees hired by subcontractors are more likely to suffer job loss. Therefore, the share of actual nonstandard employment in job insecurity might be larger than what the official statistics show. Besides, precarious employment has been also increasing as companies actively carry out vertical disintegration of their business functions. In fact, Korean firms have been rapidly networked and it is rather worrying as the networks are mostly hierarchical and many small and medium firms tend to be held captive by large firms rather than independent firms (Cho 2009; Kwon et al. 2015), and this monopsony structure enables large firms to employ unfair practices including rent-seeking and social dumping. Accordingly, small and medium



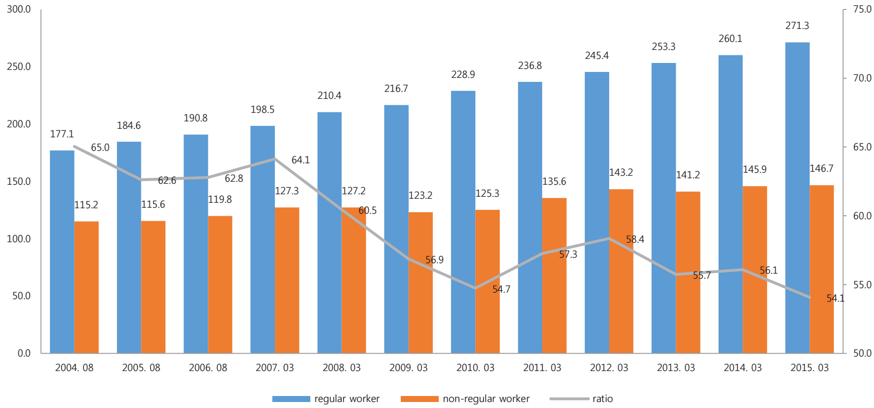
Source.—*Economically Active Population Survey*, each year

Fig. 6.—Wage gaps by establishment size

companies involved in such structures seldom engage in strategic decision making to set prices for labor. The price competition among suppliers often directly connects to employees of suppliers in the form of low wages. A series of recent studies on the structure of networked production and services and its impact on labor demonstrate that about 42% of establishments appearing in the employment insurance database in 2014 are involved in a suppliers network and the employees of the first-tier suppliers earned 52% of lead firm employees' pay on average in that year (Ahn 2015; Lee 2015). Going down the lower tiers, the wage gap between suppliers and lead firms gets wider. The stark wage gap by the establishment (or firm) size in Korea shown in figure 6 is in part explained by this the gap in the supplier network.

Also there is a clear barrier for the employees to progress along the supplier networks and it is virtually impossible to move up in the supplier network and secure a lead firm job. The representation gap enhances inequality of the supplier networks. Only 7.7 percent of employees at the first-tier suppliers are represented by a union and number drops to 4.1 percent for second-tier employees (Ahn 2015).

The increase in nonstandard employment means a decrease in the number of decent jobs, as Figure 7 demonstrates. The ratio of the nonstandard workers' wages to that of regular workers has been around 60-65 percent and



SOURCE.—NSO. 2005-2015. *Economically Active Population Survey, March Supplement*

FIG. 7.—The ratio of nonstandard workers' wage to regular workers', 2004-2015

TABLE 3
THE COVERAGE OF SOCIAL BENEFITS AND COMPANY ALLOWANCES BY CONTRACT STATUS IN 2014

	Pension	Emp. insurance	Health insurance	Severance pay	Bonus	Training
Regular workers	82.1	73.5	84.1	82.0	83.5	57.0
Nonstandard workers	38.4	43.4	44.7	39.5	39.7	43.1
Part-time workers	14.6	19.5	17.8	13.1	16.5	32.4

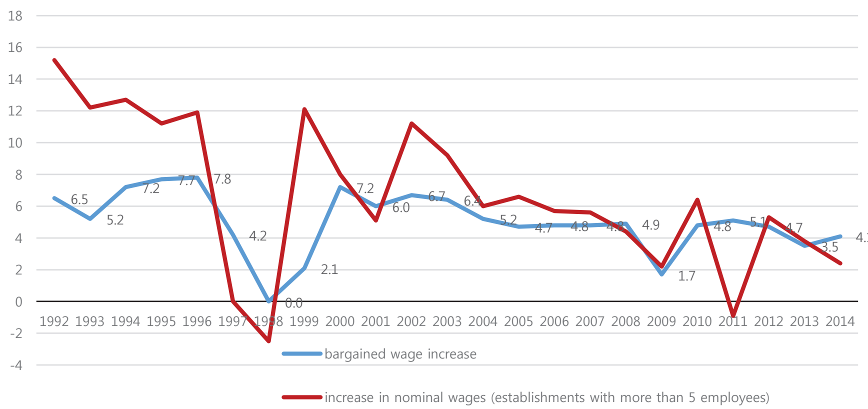
SOURCE.—NSO. 2014. *Economically Active Population Survey, August Supplement*

the gap gets wider. The wage increases of irregular workers have not caught up to the increases for regular workers. Given the large share of nonstandard employment, this significant wage gap becomes one of the key sources of the increasing income gap among wage earners. The gap in social security coverage between regular and irregular workers is also significant. While 82.1 percent and 73.5 percent of regular workers were covered by the national pension scheme through their employer and the unemployment insurance respectively, only 38.4 percent and 43.4 percent of irregular workers joined those schemes in 2014. This income gap is associated with increasing income inequality in the Korean labor market, as Figure 7 and Table 3 show.

Summary

It seems obvious that the economic crisis has been a key factor in explaining the increase in labor market inequality in the post-crisis era. However, it is important to note that the employment relations practices introduced during the crisis remained the same after the economy recovered from the crisis and have continued. It is fair to say that the crisis is a trigger rather than the direct cause of labor market transformation despite, the huge shock that the crisis imposed on the economy for such a short period of time. The main cause of the transformation was the managerial decision to reduce costly internal labor markets extended in the 1987 labor regime, which management viewed as undesirable. Instead of seeking workplace innovation through human development and skill retention, management focused on cost reduction by decreasing the volume of the internal labor market and imbuing it with performance-oriented practices. Frequent measures to meet these purposes include increasing numerical flexibility, segmenting labor markets within the firm, promoting monopsonist vertical disintegration and enhancing performance based human resources practices. The collapse of the power balance between labor and management offered a foundation for management to pursue such changes. Unions, facing the new employment practices and diversification of production networks, have not been very competent to protect both employment and working conditions. Moreover, many have criticized unions' insider orientations and their selfish attitudes of protecting their members' interests only as another important source of increasing labor market inequality. However, Figure 8 implies that that is only partially true. The figure demonstrates that the increase rates of agreed wages have not been necessarily higher than those of overall nominal wages. In many instances, the agreed wage increase rates are lower but much less fluctuated than the normative ones according to the figure. We can interpret what the figure shows us as that unions have engaged in concession bargaining in relative terms while avoiding any negative growth in wages during economic downturns.

This implies that the gap has not been created by union's explicit strategy of exerting monopoly power. Rather, the inequality could be largely attributed to the widening representation gap. As suggested in the typologies of IR patterns (Table 1, p. 473) and in the very low numbers of labor disputes taking place over the last decade (Figure 2, p. 474), declining union density combined with weakening union bargaining leverage has had the IR pattern



SOURCE.—Ministry of Labor. *Yearbook of Labor Statistics*, each year

FIG. 8.—The wage increase rates: agreed wages vs. nominal wages

of arm's length compromise give way to the pattern of arm's length accommodation, and also had arm's length accommodation replaced with the market despotic pattern. Unions have managed to survive but they were not capable of reducing the nonunion sector and stopping the spread of the low-wage employment pattern. The expansion of nonunion and low-wage pattern, meaning overall decrease in union influence in the labor market, seems to create a vicious circle of wider gaps in pay and working conditions in the labor market than before. Moreover, the primary causes of the increase in labor market inequality are the managerial strategies of seeking cost reduction, keeping ILMs minimum and disintegrating the business. The unions, however, may be responsible for their ignorance of labor market changes and for their immaturity and normative attitudes that have kept them from being able to strategically respond to managerial policies.[6]

This view is supported by Crouch in his recent article on the criticism of the simple insider-outsider framework (see Table 4). He argues that the externality coping capacities by unions are heavily affected by forms of governance (Crouch 2015). In the Korean case, with the pervasive firm-level bargaining in the union sector and rapid increase in corporate hierarchy and market- based governance, the unions' coping capacity has become limited to

[6] For example, facing the nonstandard issues in the labor market, they demanded the abolition of nonstandard employment rather than taking it more realistically or strategically (i.e. making effort to decrease the gaps between the contract types or making clear confrontation against labor market discrimination).

TABLE 4
Characteristics Means of Dealing with Externality Problems

Forms of governance	Externality coping capacity	Definition of outsiders
Law and government	High	Depends on political leverage of different groups
Associational bargaining	Depends on degree of encompassingness	Groups outside associational scope
Firm-level bargaining	Low, unless unions can introduce wider perspectives	Groups of low importance to firms, unless amended by union influence
Corporate hierarchy	Low: limited to organizational needs	Groups of low importance to firms
Market	Low	Groups defined by implicit and incidental results of market competition

Source.—Crouch 2015, p. 28

a great extent and less capable of dealing with inequality that is driven by firm strategies.

In the next section, using the case of banking, I shall describe the roles of unions facing employers' strategy of segmenting labor markets by increasing temporary workers and confirm the view that I developed above.

Insider-outsider Politics: Union's Limited Roles in Integrating Peripheral Workers during the Major Restructuring Process

Restructuring: employers' policies to rebuild segmented labor markets

The employment relations system in the Korean banking industry was originally designed to follow the Japanese model of internal labor markets in the 1960s. Rather than relying on one coherent employment system within the internal labor market, the banks had developed a dual system and transferred the costs and risks of rigid employment of the primary market to a workforce that was primarily female, located on the second tier of their internal labor market. The female employees, who were hired as tellers, automatically took a so-called female track, and, supposedly unable to rise through the managerial ranks, earned significantly less than the male employees holding the same jobs and qualifications. Although most of them were sourced from very good secondary vocational schools, some female employees held college degrees. Also, until the 1970s, they were expected to quit upon marriage, and in this way they were forced to offer the banks a certain amount of employment flexibility. The male-dominated unions, one of the rare white-collar unions under the military regime, which adhered to a male breadwinner principle, cooperated with management to sustain the system until the mid-1980s. Embedded in a paternalistic society and lacking a proper level of female representation, neither management nor unions recognized the intense gender discrimination this system perpetuated. However, this gender discriminating system came under pressure from both female employees who became aware of it and from the emerging women's movement in the mid-1980s; the pressure intensified during both civil democratization and the Great Labor Movement in the late 1980s and the early 1990s. Management had to give up the explicit female track and instead applied the internal labor market to all employees then.[7]

Losing their key mechanism to manage flexibility and contain labor costs, employers desired to construct a new employment system that would not harm the core labor market but help maintain their ability to respond to market fluctuations. Throughout the 1990s, the commercial banks stopped hiring female employees from secondary vocational schools as regular employees and started filling in vacancies with nonstandard workers. Because the movement was gradual, it was not seriously challenged by labor unions. The dramatic increase in fixed-term contract employment in the banking sector during the financial crisis should be understood as a continuum in this context. The banking industry was hit hardest by the Asian crisis; many banks failed, and became subject of mergers and acquisitions during the

[7] Indeed, from the outset in the 1960s banks have long had a gendered labor market structure. The "female banker system" divided the line between two internal labor markets before the union democratization and feminist movements took off in the late 1980s (Korean Financial Industry Union 2000). However, pressured by internal and external accusations of gender discrimination, most banks expanded the primary internal labor market to women workers and developed a single universal internal labor market in the early 1990s. Also, institutional changes constrained such employer decisions. As the Equal Employment Act was enacted in the late 1980s, social coalitions between women activist groups and women workers pressured employers, the government, and existing unions to abolish gender-discriminative employment practices. As a result, most women employees were incorporated in the core internal labor market and officially attained the same opportunities for upward mobility and wage increases as men (Kim 2004; Korean Financial Industry Union 2003).

crisis. The survivors had to unanimously downsize their total employees by 30 percent. The female employees were primarily targeted and many chose the early retirement packages. Fixed-term employees replacing the downsized positions increased dramatically and defined almost 50 percent of the regular employees in most banks in the early- and mid-2000s. According to an establishment-level survey administered by the Korea Labor Institute in 2004, HR managers in the banking industry claimed that "cost containment (70% of the respondents)" and "easier dismissal (80% of the respondents)" motivated the use of non-standard workers. Managers responded that they found it too hard to respond effectively and swiftly to increasing market competition and the blurred boundaries of financial product markets with their costly and highly standardized internal labor market systems.

In a nutshell, management's goals for increasing non-standard employment in the post-crisis banking industry can be summarized by the following four objectives: a) to reduce the absolute number of employees and maintain a minimum level of employment on payrolls in order to meet the guidelines recommended by the state authority, financial supervisory commission, and the International Monetary Fund at the beginning of the financial crisis; b) to save labor costs given that the banking industry is a high wage sector; c) to obtain more employment flexibility and avoid the high costs associated with the discharge of regular employees (i.e., unions' strong resistance to collective discharge and the costly negotiation process of downsizing, the unfeasibility of individual-based severance or displacement by law, costly early retirement packages, and so forth); and, d) to modify the internal labor market by implementing more performance-driven human resources policies and practices.

The choice of direct-hire fixed-term employment (hereinafter, temps), the dominant form of nonstandard employment in banking, was closely associated with the strategy of rebuilding a reliable secondary employment system in the effort of modifying internal labor markets. This particular type of system enabled employers to secure stable organizational performance and, at the same time, to draw a clear line between the core and periphery within the firm labor market. In fact, among many types of non-standard employment, direct-hire fixed-term employment provided management with the structure closest to the former second-tier internal labor market (the so-called "female banker system"), which lasted until the early 1990s. This shows that employers' choices are historically embedded and thus path dependent.

The banking industry's new secondary internal labor market subsystem is much more detached from the core internal labor market subsystem than the previous explicitly gendered secondary subsystem in that direct-hire-temps have less job security and fewer career prospects than previous corresponding employees. In the new secondary system, fixed-term workers had almost no opportunity to move into the primary system as a temp-to-perm transition was very rare until the mid-2000s when unions began to negotiate with employers and obtained an agreement for the transition of a certain proportion of workers. Fixed-term workers were not unionized, and had neither a wage table nor company welfare. Yet, these workers, dealing with the core banking services in the mass customer market segments, were still internally sourced and managed and many of them expected long-term employment up until 2007 when the new legislation that ordered the use of fixed-term employees for the limited duration was enacted.

Union responses

Although unions opposed the industry's massive downsizing in the face of unexpected challenges using various industrial actions, they continued to bargain to protect their core members throughout the crisis period between 1998 and the early 2000s. They conducted negotiations on wage concessions, early retirement packages, performance-based wages and evaluation systems, and even the selection of the workforce to be made redundant during the restructuring process (KFIU annual reports). Unions had never before brought those issues to the bargaining table. Although the banking unions intensified their pressure by making various threats and backing them up with strikes, in the end they were willing to negotiate with employers to minimize the costs to union members.

In the restructuring process in the early 2000s, employers did not want to bring too much change to the core sector, in part because such change might involve further economic and political risks. Thus, the important changes in workplace and employment relations were negotiated with the union at most major banks at the peak of the crisis. This negotiation process was extended to the national level through the National Tripartite Commission, when the Commission established a special financial subcommittee that set the agenda regarding industrial, organizational, and labor relations restructuring in the financial industry in 1999 (National Tripartite Commission 1999).

Employers and unions reached an industry-level agreement in 1999 that declared that each firm should set an upper limit on the extent of temp use, but this agreement was neither followed through by management nor monitored by the unions. Facing dramatically increased workloads and labor intensity after the downsizing and branch closures, union members themselves had an interest in loosening regulations that limited the use of non-standard workers. In addition, most unions simply did not take the agreement seriously. No unions had made the working conditions of non-standard employment a priority at the collective bargaining table until the mid-2000s when the public became aware of the discriminatory working conditions against non-standard employment and accused both banks and the unions. Moreover, according to each union's annual reports, non-standard workers' wages and employment status had not been raised or negotiated in any major nationwide banking union prior to 2003.

Until 2002, when the second round of restructuring was carried out and the major mergers were completed (a process that faced vehement union resistance), the negotiation process focused on downsizing and the details of early retirement packages but not on the volume and the working conditions of non-standard workers. Meanwhile, the unions' stance on non-standard work was passive. They considered the increase in temps inevitable, but they did not recognize these temps as their members. The unions' official position was to demand a switch from fixed-term status to permanent, but this had only limited success, partly because the union failed to pressure employers. Union leaders in fact knew that this would not be a feasible demand, and it was more rhetoric than a real action strategy. Many union officers recognized that direct-hire temps provided a buffer and helped secure wage increases for regular workers, the true priority of most unions. After recovering from the crisis, the top priority in unions' bargaining agenda was wage increases rather than incorporating expanded temps. As a result, regular workers have continuously gained significant wage increases, and the wage gap between regular and fixed-term workers has widened (KFIU 2000-2003).

Local unions in the banking industry did not represent non-standard workers directly hired by their banks, and some of the unions even had explicit clauses that excluded non-standard workers from member eligibility (the union code of a KFIU local union). The leadership of the financial industry union, formed during the crisis, had not shifted their strategy to organize non-standard workers, because local unions were concerned that the integration of temps would erode the cohesion of regular workers and would constrain them to grant concessions concerning temps' wages and job security.

Working at geographically-scattered branch offices and facing the implicit but constant threat of contract termination, fixed-term workers' challenge to existing unions and their organizing efforts were still weak. The absence of protective and solidaristic actions for regular workers also made it difficult for fixed-term workers to form a collective voice. The establishment of a fixed-term local union was attempted in 2003, but employers neither recognized the leader of the fixed-term local union nor allowed her to be a part of the formal bargaining process. This organizing effort did not lead to a significant increase in union density. Only about 200 fixed-term temps from the major banks had been organized in the temporary workers' union by 2004.[8]

Yet increasing social awareness, criticism of unions' insider-oriented policies, and the temporary workers' own organizing efforts[9] have led the unions to give more attention to non-standard workers' issues. Unions began to address these issues at the collective bargaining table in 2003. Similar actions were found in other major industries such as the automobile manufacturing industry, one of the leading union sectors in which unions took a responsibility to improve nonstandard workers' working conditions via agency bargaining (Lee et al. 2014). Likewise, instead of throwing their full energy into non-standard worker integration and organization, regular workers' locals focused on improving non-standard workers' employment conditions through gradual change. As a result, some progress has been achieved, mostly on wage-related issues. In the central collective bargaining agreement of 2004, the KFIU and bank employers agreed to a 15% wage increase for fixed-term contract workers, which is a twofold increase compared to the regular workers'. In addition, they reviewed the 1999 agreement that indicated the upper limit of the use of regulated non-standard employment arrangements, and both parties agreed to make it more effective. They also created contract language that provided a temp-to-perm transition system. These provisions were all written in a separate agreement because union representatives, facing employers' opposition, failed to negotiate their inclusion in the main body of the agreement. Although the agreements provided some improvement for temps, union policy has not strongly

[8] This information is provided by one of the Korean Financial Industry Union's internal policy documents from 2004.

[9] This effort was more systematic in the Hyundai Motors workplaces. Unlike in banking, the regular and contracting workers' unions in the auto industry have undergone some dramatic changes in their relationship from solidarity to antagonistic rivalry, although the gap in the relationship has been increasingly widened as the experiences of confrontation were accumulated (Lee et al. 2014).

challenged the emerging workplace segmentation, and local unions have continued to exclude temps from their organizations, not fully, but to a certain extent. A similar pattern of union actions was also found during the temp-to-perm transition negotiation process in 2008 and 2009 (Kwon 2010). Facing the new legal regulation indicating limited duration of temp use and prohibiting firms from treating employees differently because of the employment status, employers had to choose either to terminate their existing temporary workers who had been used for more than two years or to hire them as regular employees. Banking became one of the leading industries where many temps were switched to regular positions thanks to the unions' bargaining history for temps. However, the extent of transition differed among the banks mostly due to the bargaining power of the unions. Even in the cases of switching over a relatively large number of temps, those temps were only partially incorporated into the existing internal labor markets as employers and unions agreed to create a new track for the transferred in many cases (Kwon 2010).

These short case studies demonstrate that unions were not completely and explicitly exercising 'insider-outsider politics,' but they, being forced to go on the defensive during the recession, prioritized members' interests and took a passive position on the incorporation of nonstandard workers.

Conclusion

In this paper, overviewing the key characteristics of industrial relations in Korea and their influence on the segmented labor markets developed over the past few decades, I attempt to challenge the simple conventional view of an insider-outsider divide where labor unions, using their monopolistic status, exclusively protect and benefit their members who are already likely to be fully integrated into the labor markets.

Particularly in the Korean contour of the industrial relations system where both union and bargaining structures are, to a great extent, decentralized, despite some movement towards coordinated bargaining through industrial unionism, the union's insider politics and thus the insider-outsider divide is more likely to take place. However, I argued that the view of insider-outsider politics is rather too simple. Unions, having grown from the tradition of a moral economy (Western and Rosenfeld 2011) heavily affected by the spirit of Great Labor Movement in the late 1980s, still have intrinsic motivation to broaden their perspective and put solidaristic policies into place, given their capacity. Also, external pressure from the broader society, to a certain degree, have added to the reasons why unions are limited in their exclusive exercise of insiders' politics. In addition, as Crouch's table shows (Table 4), unions involved in firm-level bargaining have very limited externality coping capacity regardless of their perspectives. In the same vein, as the leadership characteristics embedded in their institutional and cultural context (e.g. male-dominant unions with strong male breadwinner ideology) and the changing IR balance leaning towards employers, the unions' choices and capacity for representing and integrating peripheral workers are significantly limited. The decrease in unions' organizational power, and thus, the increase in employers' bargaining leverage, have made the insider-outsider divide imposed by the employer's firm labor market segmentation strategies significant. My brief case analysis of the restructuring process of the banking industry demonstrates these complex dynamics. Increasing income inequality in the contemporary Korean labor market is in part attributed to the limitation of unions and their insider oriented policies, but more importantly derived from employers' cost-oriented and segmentalist employment policies and practices.

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HYUNJI KWON is associate professor of Sociology at Seoul National University. Her research on workforce flexibility incorporates the changing employment relations, gender dimension, and the context of vertically (dis)integrated organizations from a comparative perspective. Her work has been published in journals including *Industrial and Labor Relations Review, British Journal of Industrial Relations* and *Human Relations*. *Address:* Department of Sociology, Seoul National University, Gwanak-ro 1, Gwanak-gu, Seoul, 151-015, Korea. [*E-mail:* hkwon248@snu.ac.kr]