Corporatist Policymaking Coordination and Collective Bargaining Structure in Korea*

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Despite the fact that the literature on corporatist policymaking concentration has been developed mostly based on European experiences, South Korea (hereafter Korea) demonstrate that tripartism and social dialogue can flourish in non-Western countries as well. Korea developed tripartite consultation institutions when faced with national economic emergencies.

In the 1980s, many suspected the death of neo-corporatism. The concertation between governments and organized interests declined almost everywhere. Instead of the supreme macro-economic performance it promised to bring, corporatism was increasingly associated with wage inflexibility and thus considered too dysfunctional for the new competitive economic environment. However, tripartism in the 1990s made important contribution to economic performance objectives, including workplace flexibility and participatory workplace restructuring. Actually, tripartite policymaking concertation most effectively addressed economic pressures associated with globalization when it is related to workplace issues, and thus it did not preclude a sensible degree of decentralization in the structure of collective bargaining (Katz et al. 2004).

Through the lens of the analytical framework provided by the “new corporatism” literature of the 1990s, this study aims to examine the mechanisms, and results of corporatist decision-making arrangements in Korea, with specific reference to the changing nature of its collective bargaining structure. Not only does this study have practical implications for other Asian countries with similar challenges and tripartite initiatives, but it will also help expand the explanatory power of the emerging literature on the new
European Monetary Union (EMU) criteria forced many national governments to cooperate with domestic interest organizations. A common orientation toward greater national competitiveness required coordinated action. Welfare state retrenchment and reform could also be better achieved when major producer groups’ interests were well represented and coordinated. Furthermore, coordinated sectoral bargaining, which Taxler (1995a) described as organized decentralization, continued in several European countries to regulate labor markets and employment systems. In order to distinguish the new social pacts and policymaking concertation from the traditional forms of social corporatism, Rhodes (1998, 2001) referred to them as competitive corporatism.

Therefore, Tripartism in the 1980s and 1990s operated rather differently than did the corporatism practiced in many countries in the earlier years. Tripartism continued to address wage moderation, but one important difference is that wages were no longer based on productivity but on competitiveness. Tripartism also began to address workplace flexibility, employment creation, and vocational training issues, trying to find a new balance between flexibility and security. For example, 1982 Wassenaar Agreement in the Netherlands marked the beginning of trade union’s acceptance of the flexibilization of labor

Globalization, decentralization, and pressure for increased flexibility were common trends that almost all advanced industrial countries confronted, but there were significant differences between the institutional forms and functions of collective bargaining structures and social dialogues. Whereas in some countries organized interests were able to exert a certain degree of coordination and control in the processes of labor market and welfare reforms, in other countries, pressure for decentralization was associated with a generalized decline in associational governance of labor markets (Iversen and Pontusson, 2000). The former set of countries is referred to as a case of “organized” or “coordinated” decentralization.

In line with this argument, Traxler (1995b) also suggests that while demand-side corporatism geared toward Keynesian economic policy has subsided, the need for a new type of supply-side corporatism aimed at backing a country’s competitiveness continues to grow. He argues that market-imposed flexibility cannot produce highly-skilled labor and trust in labor relations, which are critical for maintaining competitiveness in the era of flexible specialization.
market, and in return for that, employers gradually dropped their objections to reducing the working week.

Examples of neo-corporatism again abounded in the 1990s. Corporatism was preserved not only in countries with strong traditions of corporatist policymaking concertation, e.g. Austria and the Netherlands, but it also emerged in those countries where the traditional prerequisites have been weak, as demonstrated by the cases of Italy and Ireland. In addition, numerous East European countries experimented formally with macro-level corporatism during their transition period. Although they were mostly modeled on Western European experiences, their creation and survival have been much more dependent on the governmental initiatives and their eventual defections (Schmitter and Grote, 1997).

As the newly-emerging neo-corporatism was firmly rooted in the different political/economic environment of the 1990s, the organizational capacity of labor and capital, substance of their collective interests, and government strategies to coordinate their interests were also changing. Reflecting such developments, Jørgensen (2000: 21) even suggests that neo-corporatism from now on must be described not so much by structural requirements such as centralized unions and employers’ organizations, but by functional roles developed through the participation of labor and capital in agenda-setting and policy development. Actually, due to capital market integration and their inability to sustain growing public deficits, governments have largely lost the means to compensate consent from social partners with welfare expansion, and the importance of wage restraints also diminished. The new pacts forged during the 1990s instead actively invited social partners
to participate in the regulatory policymaking processes.\textsuperscript{4}

Based on his case study of the recent Italian experience, Regini (1997) more directly challenges the traditional assumptions of neo-corporatist theory. According to him, policymaking concertation in the new political economic environment may succeed precisely when interest organizations become less centralized and less insulated from rank-and-file members. That is because those unions with strong organizational power might be less-inclined to satisfy the new requirements of rapid adjustment to increased international competition, reduction of the welfare state deficit,\textsuperscript{5} and greater flexibility in place of centralization and standardization. On the other hand, if interest organizations are too weak to deliver workers’ consensus and do not possess the capacity to self-regulate in a responsible way, their participation in the concertation would become meaningless.

The fact that the corporatist policymaking concertation in the 1990s coincided with the decentralization of collective bargaining structure should not be interpreted as the new corporatism no longer requires institutional preconditions. One of the most important preconditions of new corporatism is that a country’s collective bargaining structure, along with its labor movements, should possess \textit{coordinating} mechanisms. In the Netherlands, as industry bargaining reduced the burden of national tripartite institutions, the Social and Economic Council (SEC) and the Foundation of Labor (StAr) could play just an agenda-confirming rather than an agenda-setting role. Usually, most of the issues discussed at the

\textsuperscript{4} Rhodes (2001) describes the core elements of these pacts as “a coordinated decentralization of bargaining structures and an ordered re-regulation of the labor market, accompanied by adjustments to tax and social security systems to avoid a reduction in real incomes or social security protection.

\textsuperscript{5} If strong and centralized unions have a stable power base, they are less likely to enter into negotiations on welfare reforms because they have little to gain. (Ebbinghaus and Hassel 2000)
national level have already been included in leading industry or company agreements (Slomp, 2004). Italy, whose trade unions had been divided and bargaining structure uncoordinated, was able to transform its unstable political exchanges of the 1980s into effective tripartism in the 1990s, because it was greatly assisted by the reforms that took place in 1993 involving the introduction of a new workplace representation system (RSU’s) and clarification of the relationship between industry and company collective bargaining. Even in Ireland, the company bargaining took place within the framework of the overall recentralization of the bargaining structure, and its encompassing trade union and employer organizations were able to police effectively the negotiated pay deals.

In terms of the results of new corporatism, the existing literature has not explicitly discussed the welfare outcomes of policymaking concertation. A neo-corporatist class compromise in previous periods had clear-cut outcomes that positively affected the material welfare of the popular sector as a whole. Full employment is no longer guaranteed in social pacts. As these pacts more or less contain the elements of new market-confirming policy mixes, and trade unions’ membership strength and organizational resources are generally weaker than before, the ‘equity’ enhancing function is frequently downplayed. Furthermore, due to a bifurcation of the labor force into the secure high-skilled and the insecure less-qualified, an intraclass aggregation of interests is progressively difficult to achieve. In this situation, how the newly-forged neo-corporatist agreements affect equality among labor as well as between labor and capital should be fully explored.

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6 Kenworthy (2001) is an important exception. Based on a quantitative analysis of 16 OECD countries, he found that the effects of corporatist institutions on low unemployment disappeared in the 1990s, largely because unemployment outcomes in low coordination countries improved rather than because those in high coordination countries deteriorated.
Table 1. Neo-Corporatism and “New” Corporatism

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THE TRIPARTITE COMMISSION: CORPORATISM KOREAN STYLE

The 1990s saw many attempts made by consecutive Korean governments to spawn several tripartite initiatives at the national level that could bring about wage restraints and industrial peace. The economic downturn in the early 1990s provoked a sense of crisis, and as usual, the country was not free from direct confrontations between labor and management. Most of them, however, led to unsatisfactory results, as the labor movement leadership as well as rank-and-file members was suspicious of the government’s intentions.

7 When the economic downturn provoked a sense of crisis, the representatives of labor (FKTU) and capital (KEF) reached agreements on the wage increase rates in April 1993 (4.7-8.9 percent), and again in March 1994 (5-8.7 percent). However, these agreements came to a halt. Rank-and-file members of trade unions did not endorse their leadership’s decision to participate in the government’s wage stabilization policies, calling them the disguised “wage guidelines” of past authoritarian regimes.
The memory of authoritarian repression of the labor movement discouraged them from involving themselves in government-initiated policymaking consultations.

Therefore, it was not until January 1998 that Korea has institutionalized tripartism by creating a presidential advisory body. The Tripartite Commission (*Noshjung Wiwonhoe*), facing intense pressures to reform financial and labor market structures from international financial institutions such as the IMF, was established to strengthen national competitiveness and cohesion, via “fair burden-sharing among social partners.” The most significant “political exchange” in the pact forged by the Commission on February 9, 1998 was the consent by labor to ease the procedures for laying off workers, in return for the government’s promise to expand public expenditure for social safety nets and improve basic labor rights. Wage restraint was not a critical issue in the pact of 1998, because trade unions had already engaged in pervasive concession bargaining which entailed pay freezes and reduction of welfare allowances. (Lee and Lee, 2004).

Despite the government’s efforts to institutionalize stable labor-management cooperation at the national level, the outcome of the first social pact was not promising. The repercussions of the Asian financial crisis in the late 1990s have severely disturbed the cooperative development of labor-management relations in Korea. Therefore, ever since his inauguration in February 2003, President Roh has been burdened with the demands to fix the industrial relations system, to promote labor market flexibility, and to prevent labor disputes.

At the beginning of his administration’s term of office, President Roh pledged to institute a multi-level collective bargaining system, which implied that his regime would
endorse industrial unions and the industry-level bargaining that the trade union leadership aspired to establish, to reduce an increasing gap between regular workers in larger firms and workers in nonstandard employment arrangements, and to refrain from interfering with conflicts between labor and management. However, the first year of his presidency was marked by a relatively high level of labor disputes, and the government was pressured to take a tougher stance toward striking workers. As a result, the priority of the government’s labor policy switched to improving the nation’s labor relations to meet global standards, both in terms of basic labor rights and labor market flexibility. The President publicly denounced the privilege of trade unionists in larger firms, such as company payment of full-time union officials, and declared that he would strictly enforce the law to prevent illegal strikes.

It was in this context that the government began to focus on two specific projects which require the Tripartite Commission to play a major role to coordinate diverging interests between labor and management. The first of the two was a blueprint for industrial relations reform drafted by a committee of 15 labor experts (Research Committee on Industrial Relations System Development). The blueprint comprises a set of labor reform measures that expanded the freedom of association and the right to bargain collectively, strengthened voluntarism in industrial relations and devised effective arbitration mechanisms to reduce industrial disputes, and rationalize remedies for unfair dismissal and overdue wage payments. These measures, informally referred to as a “roadmap,” have been vehemently opposed by both labor and management because they dealt with many contentious issues that encroached on workers and employers’ vested interests.
Consequently, the Tripartite Commission remains in a stalemate over the reform measures, and the legislative procedures to implement the blueprint are being delayed.

Raising labor market flexibility to the level of global standards in Korea has proven to be a difficult task for the government, as dualist tendencies in the labor market worsened after the 1997-98 financial crisis. It is true that regular jobs in larger firms are relatively well-protected, but the increasing size of the nonstandard workforce has raised concerns because these jobs pay low wages, provide few benefits and social insurance, and do not have implicit guarantees of long-term employment. Furthermore, the lack of flexibility in the protected sector was also blamed for growing youth unemployment and in general, the growth of joblessness. The government tried to overcome this deadlock by forging the second social pact for job creation. The Tripartite Commission began to draft the second social pact for “job creation” in December, 2003, and the representatives of labor, management, the government, and public interests finally agreed on 55 items on Feb. 8, 2004.

In the pact, labor agreed to cooperate in stabilizing wages over the next two years, in an attempt to create jobs and reduce wage gaps with non-regular workers and workers in small and medium sized firms. Business promised to refrain from employment retrenchment and in cases where this was inevitable, to minimize the number of dismissed workers through good-faith consultations with trade unions. In return for the compromise made by labor and management, the government would facilitate corporate investment in creating jobs by deregulating business activities, and expanding tax and financial benefits to businesses. All social partners agreed to cooperate in order to improve working
conditions of the nonstandard workforce. In order not to repeat the failure of the first pact, the representatives also agreed to establish a “Joint Public-Private Sector Committee on Job Creation” to monitor the implementation and the progress of the promises made in the pact (The Tripartite Commission, 2004).

Whether the social pact will eventually achieve its proposed goals remains to be seen, but the prospects are not very bright. Social institutions and practices are context-dependent. The Tripartite Commission is still crippled by the absence of the more militant KCTU (Korean Confederation of Trade Unions) whose member unions include the largest enterprise unions with the most bargaining power, such as the Hyundai Motor Company. In fact, the success of the social pact is critically dependent on whether the large enterprise unions will comply with the promises made at the national level. Enterprise-level bargaining is still the most dominant form of collective bargaining in Korea, and will remain as an important institution where pay levels and working-time arrangements are decided. Due to the long history of confrontational labor relations and lack of cooperation between and within social partners, Korea was not endowed with the mechanisms of bargaining coordination.

In addition, despite the promise made in the pact, the FKTU, as well as the KCTU, advised its member unions to ask for the two-digit wage increase rate in 2004. National or industry confederations have always lacked the proper bargaining authority that can make lower-level negotiators, whose interests are mostly focused on winning concrete economic gains for regular workers, abide by their decisions. At the same time, individual employers just want to minimize not only labor costs but also interactions with unions, while lacking
proper managerial transparency. In sum, industrial relations system in Korea is still short of an infrastructure of cooperation.

Despite the fact that the social partnership cannot be created in a vacuum, reforming the collective bargaining structure has not been emphasized enough in the roadmap and the social pact. In recent years, conflicts over a proper bargaining structure have been a major cause of a large number of labor disputes, as those sectors of the economy where enterprise unions transformed themselves into industrial unions strongly demanded industry-level bargaining. Collective bargaining is an important regulatory institution of employment relations, but the fragmented Korean enterprise bargaining system has not been able to make a contribution to both national economic competitiveness and social equity. Without some institutionalized bargaining coordination at the meso or industry-level, Korean experiments with tripartism will most likely end in futility. The infrastructure and institutions must be there to persuade labor and management to assume a wider responsibility that goes far beyond the partial interests that are usually expressed through enterprise-level collective bargaining.

CONCLUSION

The accumulated literature on the resurgence of macro-corporatism in the 1990s has demonstrated that corporatist concertation is still capable of producing beneficial outcomes that help to cope with challenges posed by the new competitive economic environment.
This encouraging result persuaded many countries to experiment with tripartite arrangements, even those non-European countries that had no prior experience with neo-corporatist concertation. In particular, the Asian financial crisis and external pressures it created forced many countries in this region to search for new tripartite mechanisms to overcome the economic hardship. This study, based on the case of Korean tripartism, has attempted to explore whether the experiments with corporatism can have relevance in countries with an underdeveloped collective action capacity in terms of labor and capital, as well as weak formal institutions that regulate employment relations. The following three findings of this study help to expand our understanding of new corporatism.

1. New corporatism also requires institutional preconditions to ensure meaningful outcomes.

It could be true that the centralized structure of trade unions was no longer necessary in the neo corporatist concertation of the 1990s. But labor representatives in the tripartite institutions must be assured of the support and compliance of their members. In the era of open economies, the state cannot run deficits as much as they did in the past. Therefore, instead of generous social spending, the government invites social partners into the realm of joint regulation and rule-making, thus inducing their cooperation. When the state provides the opportunity, labor must actively mediate and coordinate their own interests in order to voice a unified demand and increase their bargaining power. Such coordination was always absent in Korea, resulting in disappointing outcomes of the social pacts. When labor lacks the capacity for collective action and self-regulation, the government usually proceeds with unilateral action without an effort to build a consensus.
2. If the tripartite arrangement is crafted by the state with weak social partners, the success of the endeavor by and large depends on the capacity of the state to convince the other partners of the benefits of concertation. The Tripartite Commission in Korea materialized from President Kim Dae-jung’s conviction that the country needed a consensus-building mechanism to overcome the financial crisis and restore national competitiveness. Despite his firm resolution, the government and the ruling party lacked adequate administrative and legislative capacity, as well as strong political leadership, to implement the agreed economic and labor reforms. The second social pact crafted by the Noh administration has an added problem that the “job crisis” of the early 2000s is far less significant than the financial crisis of the late 1990s. If the state cannot demonstrate its political competence, it is impossible to convince social partners to enter into a responsible agreement. Labor would leave the tripartite arrangement and protests outside the political arena. Management would prefer micro-corporatism, which is more flexible to implement.

3. The results of new corporatism need to be explored beyond macroeconomic indicators and immediate policy outcomes for unexpected byproducts to be revealed. As the social pacts of new corporatism were forged during the period when neo-liberal labor market reforms were strongly advocated by international financial institutions, the pacts were bound to include some variants of policies that promoted labor market flexibility. These policies increased the hardships suffered by the least protected groups of the labor force and produced a large number of irregular workers in Korea. When the trade union movement
lacks proper organizational power, participating in such a contentious tripartite process critically divides and intensifies conflicts within the movement itself.

References


