

# **Political Economy of Working Time in Korea: Tensions in the reduction of working hours\***

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## *Abstract*

Working hours in Korea are the highest among OECD countries, higher by almost 1,000 hours per year than Scandinavian countries. To reduce working hours, the Korea Tripartite Commission had discussed the reduction of legal normal working hours from the current 44 hours to 40 hours in line with the international standards on weekly working hours. However, the three-year long discussion did not lead to any agreements, whereas around 80 per cent of Korean people still support the reduction of working hours. This paper will investigate the structural as well as behavioral factors underlying this failure. In doing this, the paper will first examine why legal changes are preferred to other methods in Korea, although there are considerable gaps between legal and actual working hours (the author estimates that about 25 per cent of employees in Korea are potentially violating the legal provisions on weekly working hours). It will be argued that, in addition to the advantages of legal approaches in coordinating interests among workers and among employers (*i.e.*, classical economic discussion regarding how to address negative externalities related to working hours), they are more effective than other methods such as individual reductions (*e.g.*, part-time work) and collective-bargaining-based reductions. In a sense, the legal approach was preferred “by default”. This paper will then analyze why the broad-agreed direction towards shorter legal working hours did not materialize. It will be suggested that the reasons include (1) the heavy reliance of total wage income (or labour costs) on overtime and unpaid annual leave; (2) complicated wage structure, which has strong components of seniority; (3) different interests among workers, particularly between white- and blue-collar workers, and between regular and non-regular workers; (4) different interests among individual companies with different sizes. All of these factors resulted in coordination failures among workers and among employers. In light of the discussions, the paper will try to draw some policy implications regarding the conditions under which the reduction of legal working hours can be successfully implemented.

## 1. Introduction

Korea seems to have longest working hours among the countries for which reliable data are available (KILM 2002). In 2000, annual working hours in Korea were around 2,600 hours, longer by 1,000 hours than those in the Scandinavian countries. It is known that such long working hours could threaten workers' health and safety (Spurgeon 2003) and limit workers' ability to balance work and family (Messenger ed., forthcoming). Indeed the effects of long working hours go beyond individual workers and concern the whole society (White 1987). Thus, it is not surprising that Korea is one of the countries where the reduction of working hours is a key social issue and has been intensively discussed between the government and the social partners.

When the need for the reduction of working hours is socially recognized as a key policy issue, its resulting policy contents are influenced by many, often competing, factors such as economic, social and institutional factors (Lee, forthcoming). The goal of improving the quality of working life or, sharing the "benefits of the rapid technological progress" (ILO Forty-Hour Week Convention, 1935, No. 47) through shorter working hours often encounters the economic costs that addressing such goals would incur. In many cases, these benefits and costs are hard to estimate, and an agreement on them between the social partners is even harder to reach. It is not unusual that employers overestimate cost increases while workers are optimistic of productivity improvement in the wake of shorter working hours (see White 1987).<sup>1</sup> As recent experiences in some European countries indicate, such disagreement is more pronounced when the reduction of working hours is intended to boost or maintain employment (see Anxo 1999 for a review).

The existing institutional framework regarding working time is another key factor determining the methods available in achieving shorter working hours and hence their benefits and costs. As recent literature on working time points out, working time changes in European countries can be characterized by three types, such as "statist flexibility"

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<sup>1</sup> See Messenger (forthcoming) for a review of empirical evidence regarding the effects of shorter working hours on productivity.

(under a “state-initiated working time regime”), “negotiated flexibility” (under a “negotiated working time regime”) and “externally constrained flexibility” (under a “market-based working time regime”), depending on “the relative strength and degree of articulation of the various levels of regulation which, in turn, are intimately related to the type of industrial relation regime, the regulatory role of the state in the labour market and the degree of centralization and coordination of the bargaining process in a given country” (Anxo and O’Reilly 2000, 63; see also Lee 2002). It is also known that the distribution of working hours varies depending on the type of working time regime: for example, a single-peaked and highly concentrated distribution is normally found in the state-initiated working time regime, while a widely-dispersed (often quasi-uniform) distribution is in the market-based working time regime.

The importance of institutional articulation in determining working time, which underlies the typology of working time regimes mentioned above, can be extended not only to non-European industrialized countries (see Lee forthcoming) but also to other parts of the world, notably developing countries. In doing so, two caveats need to be made among others. First, the dominant type appears to be state-initiated working time regimes, possibly with some components of negotiated and/or market-based regimes. Secondly, although statutory regulation is critical in determining working hours, its actual effects are largely limited in the sense that the statutory standard of working hours are often exceeded and those long working hours are perceived as “standard”. Thus, these countries may find themselves in a situation where long working hours, partly due to the limited effectiveness of the statutory regulation, need to be discouraged through introducing a shorter statutory standard of working hours.

As will be argued, such a paradoxical situation has to a great extent characterized the reduction of working hours in Korea. What is unique to Korea (which could occur in other countries as well) is that the social partners at the newly established institution, the Tripartite Commission have been expected to negotiate and reach an agreement with regard to details of the statutory change towards a forty-hour workweek, whereas the

existing institutional arrangement (*i.e.*, state-initiated working time regime) requires “the consolidating role of the state” due primarily to “the inability of the social partners to come to negotiated agreements” (Anxo and O’Reilly 2000, 71-2). In a sense, the mismatch between the existing regulatory framework and the imposition of the “negotiated working time regime” components has caused considerable tensions at the Tripartite Commission, whose three-year long negotiation process has not rendered an agreement on working time revisions. Furthermore, the presence of labour market segmentation, along with the weak power of central workers’ and employers’ organizations, has made it more difficult for them to coordinate different interests within their respective groups.

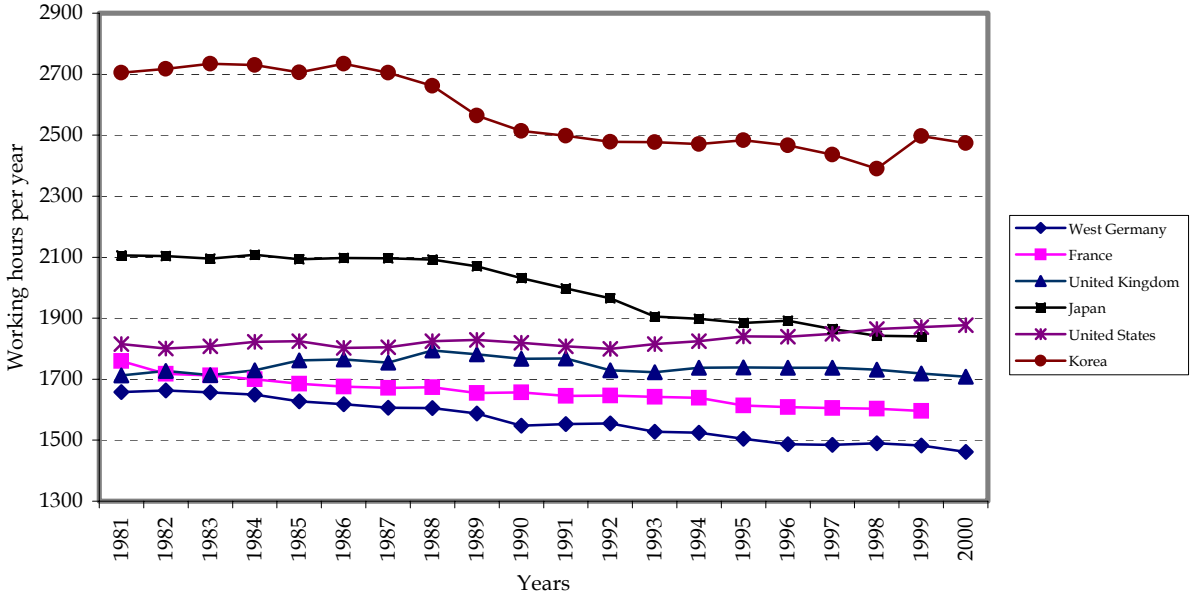
This paper aims to provide a preliminary analysis concerning these tensions in the negotiations on working time in Korea, focusing on two aspects: (1) why the statutory changes in working hours are adopted; (2) institutional and labour market factors which have hampered coordination among workers and employers, thereby making the negotiation extremely difficult. The rest of the paper is constructed as follows. In the following section, the situation of working time in Korea will be described, based on data from several key national surveys. It will be shown that the overall working time pattern shows the characteristics of a state-initiated working time regime, but that a significant gap between the statutory standard and actual working hours exists. Section 3 will then explain why, despite this gap, the reduction of statutory working hours has been attempted in Korea. In section 4, the factors contributing to the deadlock at the tripartite (in fact, bipartite) negotiation will be analyzed, highlighting different conditions in working hours and wages between junior/senior workers, blue-/white-collar workers, regular/non-regular workers, and small and large enterprises. This paper will conclude by drawing some policy implications from the Korean experience.

## **2. Trends in working hours in Korea**

A decreasing trend in working hours is found in Korea for the last two decades, but they remain considerably higher than those in other countries. As Figure 1 shows, Korean

workers are working on average by almost 1,000 hours (or 25 weeks on the basis of 40-hour workweek) longer than their German counterparts. In fact, the difference between Korea and the rest of OECD countries has not been significantly narrowed.<sup>2</sup>

Figure 1. Historical trends in working hours in selected countries



Sources: OECD Labour Market Statistics

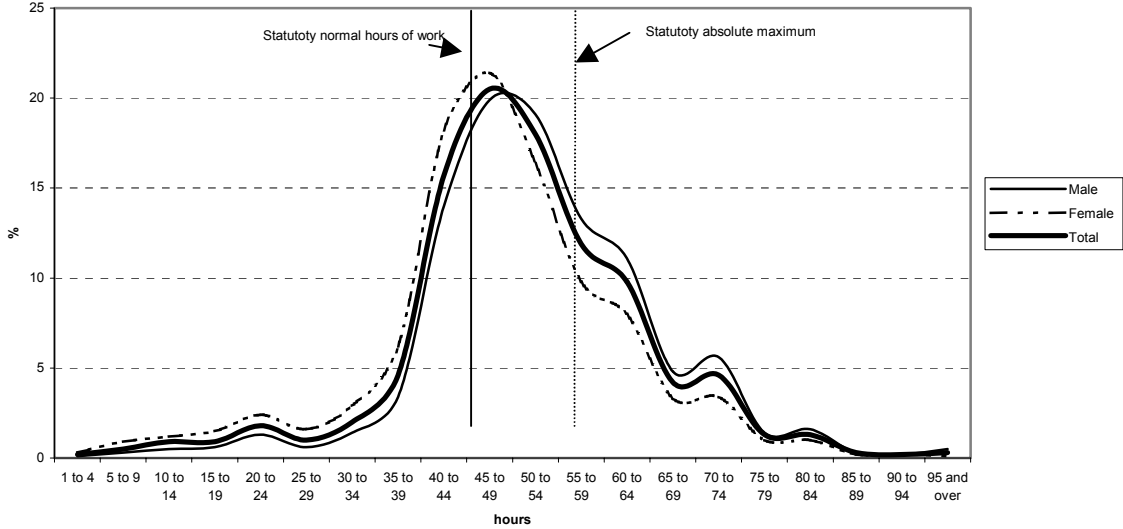
*Weekly working hours*

Long annual working hours in Korea are mainly due to both long weekly working hours and shorter annual paid leave. To examine the overall situation of weekly working hours, the distribution of working hours is calculated from the Survey on the Economically Active Population of 2000 (See Figure 2). As the legal standard on working time does not concern the self-employed and family workers, these workers are excluded and hence only “employees” are considered. First, while the distribution of weekly working hours among

<sup>2</sup> As Figure 1 suggests, a mixed trend is found among France, Germany, the UK and the US: while the first two countries have witnessed a decreasing trend in annual working hours, the US shows a moderate increase. In the case of the UK, a stagnant trend is found. For the institutional forces underlying this mixed trend, see Lee (forthcoming).

individual workers shows the importance of statutory norms in working hours (44 hours), which is in common with state-initiated working time regimes, it should be noted that the majority of workers (72.4 per cent) are working more than the legal normal hours of work.

Figure 2. The distribution of individual working hours in Korea (2000, employees)



Source: Survey on Economically Active Population, 2000

Another interesting feature of working hours in Korea is the fact that, although state-initiated working time regimes tend to display less of a gender difference in the distribution of actual working hours (*e.g.*, France and Spain) than other types of working time regimes (*e.g.*, the Netherlands and Germany), the gender difference in Korea is much less than in other state-initiated regimes. For example, 64.8 per cent of women workers were working more than 44 hours in 2000, compared to 77.8 per cent of men workers. In fact, both men and women are roughly equally exposed to long working hours. Given the persistent practice in which women are the ones who mainly handle family responsibilities, such long hours among women workers are obviously associated with low female participation rates in the labour market. The female participation rate in Korea

stood at 49.7 per cent in 2002, showing a moderate increase of 7 percentage points for the last two decades. Furthermore, female participation rates by age are characterized by a M-shaped curve,<sup>3</sup> while male participation rates show an inverse U shape. As some studies indicate, when the length of working time is used as a screening device for rewards and punishments, such women workers who prefer shorter hours because of their family responsibilities would face a choice over “zero-hour” (no participation) or “very long hours” (Landers *et al.* 1996; Rebitzer and Taylor 1995; Eastman 1998). Again, relatively lower participation rates are also common in other state-initiated working time regimes where part-time work tends to be under-provided. Yet, the low female participation rate in Korea is associated with a lower chance for women workers to work statutory standard full-time hours as well as the limited availability of part-time jobs.

Finally, while it is common in many other countries that workers are working beyond the normal hours of work (hence, undertaking overtime) and the labour law normally stipulates the maximum limit for such overtime work in order to protect workers’ health and safety, it is not unusual in Korea for workers to work more hours than the statutory maximum of overtime in the labour law (currently, 56 hours per week), as indicted in Figure 2. Further details on the extent of this potential legal violation and the characteristics of these workers are summarized in Table 1.<sup>4</sup>

**Table 1.** The characteristics of overworked workers in Korea (2000, employees)

	56 hours and less	Over 56 hours	Total	Mean	St. Dev
All wage-earning workers	73.4	26.6	100.0	50.7	13.0
<i>Sex</i>					
Male	69.2	30.8	100.0	52.6	12.3
Female	79.4	20.6	100.0	48.1	13.3
<i>Age</i>					
15 to 19	73.9	26.1	100.0	48.8	15.8

<sup>3</sup> Female participation rates decrease considerably around the age between 30 and 35 when women are more likely than other age groups to be pregnant and take child-care responsibilities, and a moderate increase begins around the age of 40.

<sup>4</sup> The self-employed and family workers are excluded, as they may not be subject to the labour law.

20 to 24	76.7	23.3	100.0	50.4	11.9
25 to 29	72.1	27.9	100.0	51.7	11.9
30 to 34	71.2	28.8	100.0	51.6	12.5
35 to 39	73.3	26.7	100.0	50.8	12.7
40 to 44	73.9	26.1	100.0	50.8	12.3
45 to 49	74.7	25.3	100.0	50.5	12.4
50 to 54	74.2	25.8	100.0	50.7	13.2
55 to 59	73.0	27.0	100.0	50.4	14.9
60 and over	72.9	27.1	100.0	48.0	17.2
<b>Education</b>					
Up to middle school	70.9	29.1	100.0	50.2	14.5
High school	69.6	30.4	100.0	52.2	12.7
Technical college	78.1	21.9	100.0	50.1	11.1
University	81.3	18.7	100.0	48.9	12.0
<b>Marital status</b>					
Single	74.7	25.3	100.0	50.8	12.2
Married	73.3	26.7	100.0	50.8	13.1
Partner dead	75.6	24.4	100.0	48.2	14.8
Divorced	61.3	38.7	100.0	52.7	14.4
<b>Employment status</b>					
Permanent job	74.9	25.1	100.0	52.4	9.9
Temporary job	67.4	32.6	100.0	52.1	14.0
Daily job	80.3	19.7	100.0	44.4	15.5

Sources: Calculated from the Survey on Economic Activities (2000)

In 2000, around 27 per cent of employees were working 56 hours or more per week,<sup>5</sup> but there is considerable variance within this group, depending on demographic and employment characteristics: male workers are more likely than female workers to work more than 56 hours: 30.8 and 20.6 per cent, respectively. While variations by age are not considerable, lower education is associated with a higher likelihood of long working hours. In addition, temporary workers (defined as workers whose contracts last less than one year for an employer) are more likely to work 56 hours or more per week.

<sup>5</sup> Yet, the figure is likely to be an overestimated one, as exceptions to the absolute maximum working hours are allowed in the current labour law for workers in agricultural and fishery industries, those who are engaged in surveillance or intermittent work (if the Minister of Labour approves), and those engaged in business as provided for in the Presidential Decree.

### *Paid leave*

Another factor that causes long annual working hours is shorter periods of leave. Although the length of entitled leave in Korea is not considerably shorter than in other countries (even compared with industrialized countries); however, take-up rates are very low. As Table 2 shows, leave schemes in Korea are complex, consisting of different types of leave, including menstrual leave for women workers. Normally the length of annual leave increases with years of service (seniority), while allotments of summer holidays and monthly leave tend to be given equally to all regular workers. However, the take-up rate is around 50 per cent (tantamount to about 130 hours per year, if the current 44-hour workweek is applied), with slightly higher ratios in big enterprises. The overall pattern is that workers use all of their entitled summer holidays but not other types of leave. These low take-up rates are related to the common practice in which pecuniary compensation is made for unused days of leave at the end of the year, and workers often regard it as part of their regular earnings.

**Table 2.** Length and take-up rates of paid leave in Korea (2002)

	Summer holidays	Annual leave	Monthly leave	Menstrual leave	Others	Total
<i>Firm size</i>						
Less than 29	3.45 (95.1)	8.08 (31.9)	9.75 (35.6)	7.13 (44.3)	1.65 (44.2)	30.06 (44.0)
30 to 99	3.38 (94.4)	10.46 (42.6)	11.18 (40.3)	9.79 (48.2)	1.43 (46.9)	36.24 (48.4)
100 to 299	3.02 (94.4)	12.02 (45.3)	11.36 (46.8)	10.95 (50.2)	2.01 (53.2)	39.36 (51.3)
300 to 999	3.33 (95.2)	13.6 (40.3)	11.6 (51.6)	11.47 (60.8)	1.82 (63.2)	41.82 (54.4)
1000 and over	3.27 (98.2)	13.47 (36.9)	11.62 (56.7)	11.67 (65.3)	2.21 (36.2)	42.24 (54.9)
<i>Unionization</i>						
Organized	3.18 (95.0)	13.8 (38.7)	11.61 (44.3)	11.28 (54.2)	2.2 (63.6)	42.07 (49.9)
Unorganized	3.36 (94.9)	9.68 (42.4)	10.7 (45.5)	9.25 (51.9)	1.48 (39.2)	34.47 (50.9)
Total	3.29 (95.1)	11.29 (40.6)	11.05 (45.1)	10.04 (52.9)	1.76 (51.1)	37.43 (50.5)

Source: The Survey on Working Time Systems, Ministry of Labour, 2002

### **3. Rationale for statutory changes in Korea: second best?**

The prevalence of long working hours has invited social concerns and debates throughout the 1990s, which gained momentum when the Korean economy was faced with a severe financial crisis in 1997 and 1998. The focus at that time was placed on the positive effects of reduced working hours on employment security and job creation (“work-sharing”), which invoked conflicting views between workers’ optimism and employers’ pessimism, as noted above. However, as the debates were deadlocked and the overall economy recovered, the focus shifted to the relationship between long working hours and their impacts on the quality of working life.

In October 2000, the Tripartite Commission reached an agreement that, in order to reduce actual working hours to less than 2,000 hours per year, the labour law should be revised to adopt a 40-hour week as the new standard (The Basic Agreement). It was also agreed that this legal change should be accompanied by the modernization of holidays and leave schemes in accordance with “international standards.”

Given the large gap between the current legal standard and actual working hours, this law-oriented approach to the reduction of working hours might be seen as paradoxical and controversial. One might be surprised to see that the tripartite discussion has been rather silent on why legal methods should be preferred to other potential methods, such as collective bargaining and individual contracts. Then, what are the rationales underlying the tripartite agreement on the need for a new legal standard on weekly working hours? To examine this issue, it is essential to investigate the disadvantages or infeasibility of other methods of regulating working time in Korea, and thereby the comparative advantage of legal approaches in Korea.

### *Part-time work and individual negotiations*

Economic theory often assumes that market-based approaches, namely individual contracting, are superior to other methods in terms of benefits to workers and employers (Rottenberg 1995). In fact, it is one of the common assumptions in labour economics that, when workers begin to suffer the increase in disutility of “overworking”, they will renegotiate with their employers so as to reduce their working hours at a new equilibrium. Yet, evidence indicates that workers’ ability to adjust their working hours through individual negotiation, at least within a particular job, is to large extent constrained (Schor 1991). These constraints are particularly strong in Korea where long working hours are often perceived as an “indispensable” part of working life, not the subject of “negotiation”. According to a recent survey, 38.8 per cent of respondents believed that, if required, they should undertake overtime whether or not overtime payments are made (Samsung Research Institute 2001). In many cases, particularly among white-collar workers and professionals, the long hours *culture* is prevalent in the sense that long hours of work are valued as a sign of commitment to their employers, thereby potentially improving the chances of promotion (cf. Kodz *et al.* 1998).

Part-time work is one of the main factors contributing to shorter working hours in many industrialized countries (*e.g.*, the Netherlands), but this option has not been well-received in Korea. An estimation based on the Korean Economic Activities Survey shows that, in 2000, around 6 % of wage workers were employed in part-time jobs (defined as working less than 35 hours per week), and more than 40% of these workers were involuntary part-time workers in the sense that they were working shorter hours simply because they could not find any full-time work. Although this unpopularity of part-time work is also found in countries where legal regulations on working time are critical (*e.g.*, France and Portugal), the disadvantages relating to part-time work are more pronounced in Korea. As overworking is rather a social norm, part-time workers tend to be disadvantaged in promotion and career development, and the wage gap between part-time and full-time work is strikingly high. For example, part-time workers appear to receive less than half of

what full-time workers receive in terms of hourly wages, even taking into account working-hour differences between two groups of workers (See Table 3).

**Table 3. Employment status and working hours, 2002 (Korea)**

	% of wage earners	Average wages	Average weekly hours	Proportion of workers with long working hours (more than 50 hours per week)
Regular full-time workers	43.4	100.0	44.0	27.8
Temporary workers	54.7	52.7	45.5	35.9
Part-time workers*	5.9	27.4	22.3	1.8

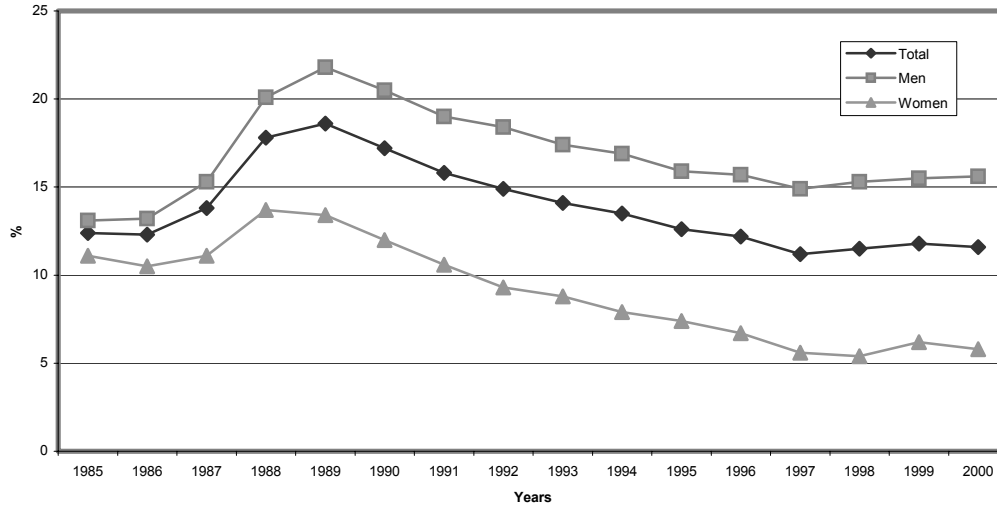
\* These workers are either regular full-time workers or temporary workers. For this reason, the first column does not add up to 100.0

Source: The 2002 Supplementary Survey on Economic Activities, quoted from Kim (2003)

### *Changes through collective bargaining*

The possibility of discouraging long working hours through collective bargaining is also limited in Korea. First of all, a low and decreasing proportion of employees are organized. As Figure 3 shows, only about 12 per cent of employees were union members in 2000. Furthermore, as most unions are enterprise-based unions (although many of them belong to one of two national umbrella organizations), coordinated sectoral or national negotiations are rare. It is also known that union density is lower in small enterprises, such as those employing less than 100 employees. According to a recent study, the likelihood of a union presence among enterprises with less than 50 employees is only 1.4 per cent, while the figure is almost 42 per cent for those enterprises with 500 to 999 employees. In addition, while temporary workers who are more likely to work long hours (see Table 1), they are in fact not organized (1.2 per cent)(Kim 2003). Therefore, there is a potential danger that the reduction of working hours based on voluntary collective bargaining can worsen the already significant gap in working conditions between union members and non-union workers.

**Figure 3.** Trends in union membership in Korea (% of employees)



Source: Ministry of Labour, Korea

*The relative advantages of legal methods*

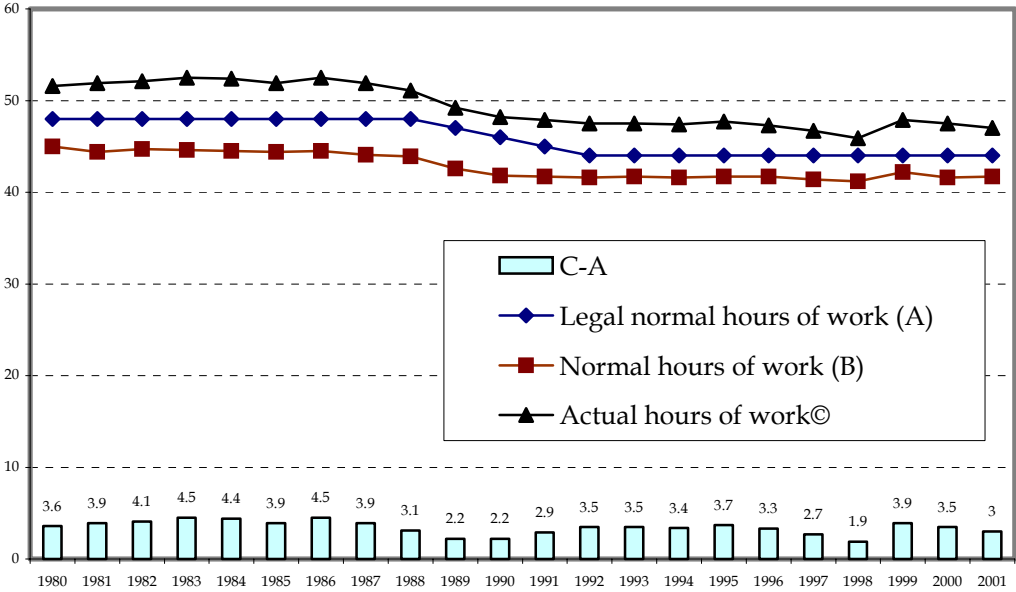
Given that the individual approaches (either through part-time work or through individual negotiations) are not likely to be a reasonable method of reducing working hours at the national level, the reduction of legal standard working hours has been considered as a relatively effective and justifiable alternative.

Rationales for state intervention in working hours come mainly from the fact that: (1) the negative effects of long working hours have social, health and safety dimensions that are sometimes ignored by individual workers and employers (hence, the potential presence of negative externalities); (2) workers with weaker bargaining positions are forced to work longer hours; (3) the reduction of working hours needs to be undertaken simultaneously across firms, since initiatives by individual employers to reduce working time can simply mean the loss of their competitiveness, particularly against those companies with long working hours (Messenger ed., forthcoming, chapter 6). The legal imposition of a standard

number of normal hours is thus seen as a realistic solution in this context. The universal coverage and application underlying this approach can be seen as beneficial by both workers and employers when the need for shorter working hours is recognized.

However, the problem lies in the limited effectiveness of the current legal standard on actual working hours in Korea, as is demonstrated by the significant proportion of workers who are working longer than the legal maximum. This situation has often induced some employers to argue that the reduction of legal standard hours should be considered only when actual working hours fall to the level of legal standards. Yet, questions are abundant regarding the period of time required to achieve this objective relying on such a “voluntary” approach (Korea Ministry of Labour 2002). More importantly, this “wait-and-see” approach is not supported by the evolution of actual working hours for last two decades.

**Figure 4. Changes in legal normal, normal and actual hours of work (regular employees)**



Source: Monthly Labour Statistics, annual average data

The history of changes in weekly working hours indicates that changes in statutory standards on working hours are very influential in determining changes in actual working hours. For example, as Figure 4 shows, actual working hours had been stable about 52 hours until 1989 when statutory working hours began to be gradually reduced from 48 to 44 hours. The effects of the reduction in statutory normal hours on actual working hours were direct and obvious as actual hours were reduced below 50 per week.<sup>6</sup> Since then, no significant change has occurred. It should be noted that this reduction of actual working hours has been accompanied by the persistence of considerable gaps between statutory and actual working hours (see bar columns in Figure 3), fluctuating around three hours largely subject to business cycle.

#### **4. Obstacles and tensions**

The widely recognized need for the reduction of statutory standard hours induced the Tripartite Commission to discuss details of the required legal changes. These discussions involved the government, a national association of employers, and a national federation of trade unions. More specifically, it was agreed that the outcome of such changes should be the reduction of annual working hours from current 2,500 hours to below 2,000 hours. However, the three-year long negotiations have not resulted in any further agreements (Korea Ministry of Labour 2002 for details).

The reasons for such failure could be of various kinds, but the primary one is the mismatch between the logic favoring statutory approach on the one hand and the corporatist bargaining structure as a means of achieving the change, on the other. As noted, although consultations are important in securing the legitimacy of legal change, the state-initiated working time regime such as Korea requires the consolidating role of the state to compensate for a poor institutional structure and a weak tradition of collective bargaining which result in considerable difficulty in reaching negotiated agreements. The weak organizational capabilities of trade unions is already discussed, and this is also the

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<sup>6</sup> The positive employment effects of this statutory change are reported in Ahn and Lee (2001).

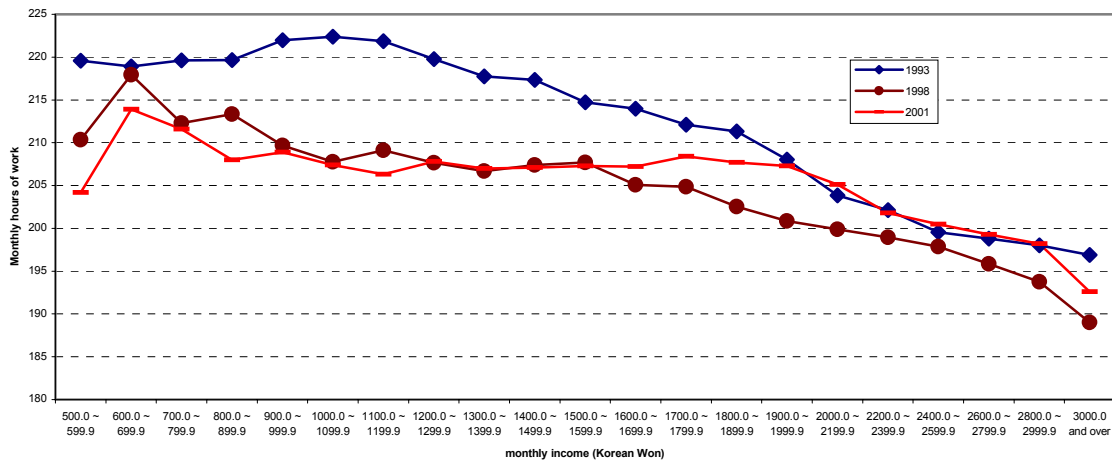
case to the national employers association. However, the social partners at the Commission have been expected to negotiate and reach an agreement detailing the revised legal provisions on working time, after which the government would proceed to implement these provisions in law.

It should be noted that the weakness of workers' and employers' organizations is compounded by the presence of labour market differentiation. As noted, the gap between statutory and actual working hours (*i.e.*, the prevalence of overtime), which paradoxically necessitated the statutory change, has posed the wage adjustment/maintenance issues, often limiting scope for compromise between workers and employers. The capability of reflecting and coordinating interests among workers or among employers is further weakened by the existing gap in working hours and wages between different types of workers and companies. Due to the lack of coordinating capabilities, the negotiations have been characterized by inconsistent demands from both of the social partners (see Korea Ministry of Labour 2002). For example, "the principle of a forty-hour week applied in such a manner that the standard of living is not reduced in consequence" (meaning the maintenance of wage earnings) was agreed, but different views have been expressed regarding what wage earnings are supposed to be maintained: should overtime payments be also taken into account? What about compensation for unused leave? These questions are critical because the effects of a 40-hour workweek on workers will differ depending on what kinds of tripartite agreements are reached on these questions. Thus, it would be helpful to examine what differences regarding working hours and wages exist among different types of workers and companies, concentrating on: (1) low-paid workers; (2) blue- and white-collar workers; (3) junior and senior workers; and finally (4) small and large enterprises. It should be noted that the data presented below are only for regular employees, excluding the non-regular employees (such as temporary workers) who account for the majority of total employees and whose working conditions are known to be worse than those of regular employees (see Table 3).

### *Working hours and wages: double burdens for low-paid workers?*

The need for maintaining wage levels in the context of shorter working hours gains critical importance because low-paid workers tend to work longer hours and will be more affected financially by the reduction of statutory working hours. As Figure 5 shows, monthly working hours are gradually decreasing as monthly earnings increase, and, as a consequence, workers earning between 600 and 700 thousand won (600 US dollars) were working by around 20 hours longer than those with earnings of 3 million won (approximately 3,000 dollars) and over. This indicates the possibility that long working hours have been used as a method of compensating their low wage earnings in Korea.<sup>7</sup>

*Figure 5. Working hours and wage earnings (regular employees; monthly, 2001)*



Source: Basic Survey on Wage Structure 2001

At the same time, low-paid workers are more likely to prefer longer working hours in return for higher earnings. A recent survey indicates that, in 2001, for workers whose annual wage incomes are less than 10 million won (about 9,000 US dollars), about 17.1 per

<sup>7</sup> The association between longer working hours and lower wage earnings is also reported for the UK and the US. See Harkness (1999) and Bluestone and Rose (2000).

cent would like to reduce their working hours with some reduction in wage income; the ratio is higher at 27.3 per cent for those workers whose wage incomes were more than 27,000 dollars per year (Samsung Research Institute 2001).<sup>8</sup> Therefore, the acceptability of a 40-hour workweek depends to a large extent on what level of wages will be maintained in the context of shorter working hours.

*Blue- and white-collar workers: different interests in overtime payments*

The issue of wage maintenance is particularly problematic given the fact that the long-hour practice in Korea is associated with heavy reliance on overtime. As Table 4 demonstrates, the average employee in 2000 was working 4.2 hours of overtime per week or 18.4 hours per month, accounting for 9.0 per cent of total working hours. Note that these figures appear to be underestimated because they are calculated from establishment survey data (Basic Survey on Wage Structure), thereby excluding unpaid or “free” overtime (this is also why overtime hours are reported very low for professionals and managers). According to the latest estimates, around 14.5 % of workers (most of them are white-collar workers) were working unpaid overtime work in 1998 (Kim *et al.*, 2000)

**Table 4.** Working hours and payment in Korea (regular employees only, 2001)

	Average tenure (yrs)	Actual working hours	Normal hours of work	Overtime hours	Proportion of overtime to total working hours (%)	Proportion of overtime pay to total wages (%)	Average monthly wage earnings (highest =100.0)
<b>Total</b>	5.9	47.2	42.9	4.2	9.0	8.8	
<b>Age</b>							
Less than 19	0.9	47.5	41.8	5.7	13.5	15.0	47.5
20 ~ 24	1.8	46.4	42.3	4.1	9.6	10.0	52.7
25 ~ 29	2.9	45.8	42.3	3.5	8.2	8.2	67.8
30 ~ 34	4.9	46.1	42.3	3.8	9.1	8.5	84.9
35 ~ 39	7.1	46.6	42.2	4.5	10.6	9.0	97.7
40 ~ 44	8.5	47.1	42.4	4.7	11.1	8.9	99.6
45 ~ 49	9.7	48.2	42.7	5.5	12.8	9.9	100.0

<sup>8</sup> Yet, irrespective of income levels, more than 40 per cent of workers are reported to prefer longer working hours if they are accompanied by higher income.

50 ~ 54	9.9	49.5	44.0	5.4	12.3	10.1	95.2
55 ~ 59	7.8	52.2	48.4	3.9	8.0	7.1	83.7
60 and over	6.2	53.9	51.9	2.0	3.8	3.9	72.6
<b>Industry</b>							
Financial intermediation	8.2	42.9	42.0	0.9	2.0	1.6	83.2
Real estate, renting and business activities	4.0	49.4	48.2	1.2	2.5	2.6	67.5
Education	8.5	42.0	40.8	1.2	2.8	2.7	83.8
Wholesale, retail etc	4.8	44.9	42.9	2.0	4.5	3.8	69.1
Health and social work	5.0	44.6	42.8	1.8	4.0	3.9	75.3
Fishing	6.6	44.4	42.4	2.0	4.5	4.0	74.7
Construction	4.6	45.2	43.4	1.8	4.1	4.1	75.3
Hotels and restaurants	3.4	46.3	43.8	2.4	5.2	4.3	52.4
Other community, social and personal services	6.1	46.0	43.3	2.6	5.8	4.4	69.8
Agriculture, hunting and forestry	6.6	45.9	42.7	3.2	6.9	7.1	69.8
Transport, storage and communications	6.7	49.6	42.0	7.6	15.4	13.8	73.5
Manufacturing	6.1	48.6	42.1	6.5	13.4	14.8	64.6
Mining and quarrying	8.0	49.5	42.1	7.4	15.0	14.9	73.9
Electricity, gas and water supply	12.0	48.9	42.6	6.3	12.9	17.3	100.0
<b>Occupation</b>							
Managers and administrative workers	9.4	44.0	43.2	0.8	1.9	1.3	100.0
Professionals	7.0	42.7	41.6	1.1	2.5	2.4	78.2
Clerical and related workers	5.1	44.3	42.4	1.9	4.4	4.3	49.8
Technical and related workers	6.6	44.4	42.3	2.1	4.8	4.8	65.1
Agriculture, forestry workers, and fishermen	5.7	47.1	44.3	2.7	5.8	5.0	46.0
Sales workers	3.0	46.0	43.1	3.0	6.5	6.1	41.9
Service workers	4.2	45.8	43.1	2.7	5.9	6.2	42.9
Laborers	4.0	56.2	52.1	4.1	7.2	11.4	33.3
Production and related workers	6.0	50.0	43.2	6.8	13.6	15.7	50.0
Machine/equipment operators and assemblers	6.0	51.7	41.9	9.8	19.0	22.8	52.1
<b>Firm size (no. of employees)</b>							
5 to 9	4.2	45.2	43.9	1.2	2.7	2.3	72.3
10 to 29	4.7	46.6	44.2	2.4	5.1	4.8	76.6
30 to 99	5.4	48.0	43.2	4.8	10.0	8.6	81.8
100 to 299	6.6	48.6	42.5	6.2	12.7	12.0	87.0
300 to 499	7.5	47.7	41.7	6.0	12.5	11.6	92.5
500 and over	8.8	47.0	40.5	6.6	13.9	14.9	100.0

Sources: Calculated from the Basic Survey on Wage Structure of 2001

Overall, white-collar workers are better positioned than blue-collar workers in implementing shorter working hours. First, as Table 4 shows, the proportion of overtime hours and overtime payments is higher for blue-collar workers than for white-collar workers. The proportion of overtime payments compared with total wage earnings is 22.8

% for machine operators/assemblers, while the ratio is less than 3 % among professionals. Table 4 also indicates relatively low working hours for white-collar workers, again because unpaid or “service” overtime is excluded. Therefore, if shorter working hours are introduced, white-collar workers are less likely to suffer earning losses and more likely to enjoy the increased time for “leisure” (note that the reduction to 40 hours also requires a reduction in the workweek from 6 to 5 days).

By contrast, blue-collar workers’ views on the reduction of working hours will heavily depend on the way in which wage compensation is made. For example, Table 4 shows that overtime hours are particularly high among machine operators and assemblers: 9 hours per week. Due to these long hours of overtime, overtime compensation accounts for a considerable part of their total earnings, on average 8.8%. For machine operators and assemblers, more than 20 per cent of their average earnings came from their overtime payments.<sup>9</sup> Therefore, for these workers, the reduction of working hours without compensation for their customary overtime hours would simply be unacceptable.

#### *Junior and senior workers: the issues of modernizing leave schemes*

The possibility of different interests or preferences between junior and senior workers in the area of working hours is suggested in long-term contracting models (Lang and Kahn 2001). In the deferred compensation model, for example, junior workers will want to increase their working hours while senior workers will prefer shorter hours. By contrast, the opposite situation will be the case in the firm-specific training model. Thus, it is plausible that a universal change in the standard working hours will face conflicting responses from junior and senior workers.

While there is no available data to assess this theoretical hypothesis in Korea (in fact, empirical studies on other countries are mixed; see Lang and Kahn 2001), Table 4 shows

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<sup>9</sup> It was estimated that 23 per cent of these production workers were earning more than 30 % of their wage income from their overtime work (Kim *et al.* 2000)

that the changes in statutory standard hours and overtime hours and premia may affect junior and senior workers differently. Throughout the core working period of life (between 25 and 55 years), workers' working hours are positively associated with their tenure: overtime hours increase with workers' tenure, and as a consequence, the proportion of overtime payments compared with total wage earnings increases as well. Thus, it is particularly important for senior workers to ensure that any legal change should be taken without reducing their earnings.

Senior workers are also more vulnerable to the proposed changes in leave systems that could reduce the number of days of annual leave to which they are entitled, while increasing leave for junior workers. Furthermore, if financial compensation for unused leave is abolished and no compensatory (or partial) income support is provided, senior workers will suffer more significantly earnings losses than junior workers. Thus, the pressure for the maintenance of full-earnings (taking into account the annual compensation for unused annual leave) is particularly strong in the trade unions where senior workers dominate.

*Small and big enterprises: a phased approach as "realistic but not acceptable"?*

To alleviate the cost-increasing effects of shorter working hours, it is not unusual to adopt a phased approach where different time frameworks for implementation are applied depending on enterprise size. The need for this approach is especially strong in Korea, given the gaps between different sized enterprises in terms of wages and working hours. Understandably, employers, arguing that the reduction of working hours is much harder in smaller enterprises, prefer a longer time framework. Yet, Table 4 suggests that working hours are longer in medium-size enterprises (between 30 to 299 employees), but the variation is not significant, on average no more than 3.4 hours per week. More interesting is the different composition of total working hours: smaller firms tend to have longer normal hours of work and shorter hours of overtime. It should also be noted that smaller enterprises have normal hours of work close to the current statutory standard (44 hours)

whereas bigger enterprises were approaching the new standard (40 hours). This implies that the new standard would particularly concern small and medium sized enterprises. As far as overtime hours are concerned, as Table 5 indicates, workers in enterprises with 5 to 9 employees were on average working 5.3 hours per week for overtime, while those in big enterprises with 500 employees and more were working five times more hours of overtime. As a consequence, the proportion of overtime payments compared with total wage earnings is much higher in large enterprises, reaching almost 15 %.

Given the different situation for small and large enterprises, it is expected that a major adjustment from 44 to 40 normal hours of work will be needed in small enterprises, which will potentially induce a significant increase in overtime hours. The outcome would be the creation of a working time structure similar to that in large enterprises (long overtime hours and high overtime payments). Thus, the cost implications will be strongly felt in small enterprises. By contrast, it would be a relatively easy task for large enterprises to adapt themselves to a new standard. Therefore, a phased approach over a longer period of time is both realistic and economically viable for employers.

However, from a workers' perspective, this approach is at best problematic. Given the existing labour market segmentation between white- and blue-collar workers, between small and large enterprises, and between regular and non-regular workers in terms of working hours and wages, such a time framework is very likely to exacerbate the existing inequalities of the labour market. Furthermore, the outcome of this approach will be that workers who need legal protection most in the area of working hours (temporary, unorganized, and low-paid workers in small-sized enterprises) are likely to be the group of workers who benefit the least from the 40-hour workweek.

## 5. Concluding remarks

Despite rapid economic growth during the last three decades, working hours in Korea remain considerably longer than in other countries. This situation invited social dialogue on reducing working time for the last five years. The paradox is that, while long working hours are partly due to the limited effectiveness of the current statutory standard on weekly working hours (44 hours) – as illustrated by the presence of a considerable proportion of workers whose weekly working hours exceed the statutory absolute maximum of 56 hours –, tripartite negotiations have concentrated on change in these very same statutory hours. It is suggested in this paper that this paradoxical situation can be explained by the nature of working time regime in Korea (*i.e.*, a state-initiated working time regime): state intervention through statutory regulation is critical in regulating working hours, while other methods are not feasible or available.

However, the new emphasis on social dialogue, which was expected to provide a strong legitimacy for this statutory change, induced the Tripartite Commission to negotiate and conclude an agreement on details of broad-ranging issues that should be resolved with the introduction of a 40-hour workweek (overtime, wage maintenance, leave schedules etc). While, in a sense, a component of a negotiated working time regime was added to the existing Korean working time regime, this has not been very compatible with the existing structure of industrial relations (low union density, enterprise unionism, and the weak capability of central trade unions). In the absence of an active government role in the state-initiated working time regime, it is not surprising that the negotiation between workers and employers at the Tripartite Commission has not generated any agreement, except the symbolic announcement of the principle that the statutory working hours should be reduced from 44 to 40 hours. Furthermore, the weak coordinating capabilities among the national trade unions and the employers' associations is further weakened by the considerable gaps in working hours and wages among different types of workers and companies. For example, in the phased approach to the implementation of shorter working hours (by firm size), workers who are already in unfavorable working

hours/wages conditions are less likely to benefit from the reduction in statutory working hours.

There are some reasons to believe that this kind of situation will take place in many developing countries where the role of government is critical in regulating working hours. When the need for reducing working hours emerges, it is very likely that the statutory approach will be favored over other possible methods, and that the change will be designed through tripartite discussion. As in Korea (with a large group of unorganized workers, and a considerable number of temporary workers), those workers who are not represented in this discussion (*e.g.*, informal economy) are likely to make the negotiation much harder. In this regard, the Korean experience suggests that the government role should not be reduced to implementing the agreements of the social partners, but “the consolidating role of the state”, underlying the logic of the state-initiated working time regime, should be retained and fully utilized.

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