# WHAT CAN THE DUTCH MODEL OFFER TO THE KOREAN LABOUR MARKET?

Kyoung-Hee Moon*

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## INTRODUCTION

Korean people's interest in the Dutch labour market model has significantly raised since mid-2003. This quest for the Dutch model followed the President Roh Moo-Hyun's remarks in favour of introducing a new Dutch-style labour arrangement to the Korean labour market in early July this year. The Korean government currently faces the need of improvement for current labour market conditions, including persistent labour-management conflicts and decline in employment stability causing a high level of unemployment and underemployment problems. These problems are seen as the negative outcome of the structural changes of the Korean labour market based on the US and UK model established on the neo-liberal standards. Apparently, the most critical drawbacks of the efficiency-driven US and UK labour market model lie in a high level of wage inequalities and a weak level of social consensus on labour policies (Choi 2001; Lee 2002:45).

* *PhD Candidate Political Science and International Relations National Centre for Development Studies Asia Pacific School of Economics and Government Australian National University*

The Dutch model is well-known for the strong economic growth and job creation based upon the social consensus of labour, management, and government on the economic restructuring policies and a low level of income inequalities. The Dutch case appears different from not only the US and UK model but also many other European countries, which have led consensus-oriented economy but with weak economic growth (Choi 2001). Therefore, it has been advocated as a remedy to cure the weaknesses of the Korean labour market. However, in response to the government's advocacy of the Dutch model, there have been critical opposing views, mostly claiming that the Dutch model would not fit to the Korean situation efficiently for the time being. Taking the ongoing debates into consideration, this paper would like to explore what the Dutch model can offer to the Korean labour market.

## WHAT ARE THE MAJOR CONCERNS IN THE CONTEMPORARY KOREAN LABOUR MARKET?

The sudden shift in labour managerial strategy to the neo-liberal labour operation occurred during the country's crisis-affected period following 1997. According to the new labour approach, Korea highlighted the enhancement in numerical flexibility in the Korean labour market through lay-offs, wage reduction, and expansion of non-regular forms of employment, such as fixed short-term, part-time, or outsourced in the labour market, and weakening of trade union power. The radical labour market change to flexible labour operation was a great shock to Korean workers who were accustomed to life-long employment, high commitment to the firm and the senior-based wage and promotion system. The government made its first attempt at legal implementation of flexible labour arrangements to the labour market prior to the crisis but it failed due to large-scale labour strikes by nationwide organised labour unions. However, the outbreak of the 1997 crisis made the labour market's easier adaptation to the neo-liberal labour policies with little resistance from the labour side (Lee 2002:80-6; Song 1999).

As a result, the unemployment level remained as low as 2 per cent until the occurrence of the crisis soared as high as 6.8, 6.3 and 4.1 per cent in 1998, 1999, and 200, respectively. Apparently, the unemployment level changes positively in response to booms

and declines of the economy. During the same period the country had dynamic GDP changes each year, marking a great fall as much as 6.7 per cent in 1998 but a great bounce up to 10.9 per cent in 1999, and the high growth continued to 9.3 percent of 2000 (NSO 2002). With the continuous GDP growth, the unemployment level fell as low as 3.1 per cent in 2002.

Although the official unemployment level is seen as stabilising in response to the economy's recovery, there still remains a significant market concern to be looked at in terms of how the jobless people managed to disappear from the unemployment statistics. It has been argued that the unemployment level usually appears lower than what it is when it includes unemployed people who become discouraged workers by giving up job-seeking activity and staying outside the labour market (Kim 2000). This could be supported by the significant drop in the rate of the total workforce participation since the crisis. Compared to 62.2 per cent of total workforce rate in 1997, the year of 1998 marked 60.7 per cent which declined as much as 1.5 per cent and it was continued almost the same until 2000 (NSO 2002). In addition, according to Kim Tae Hong's study examining the unemployment rate of 1998 including discouraged workers, it appeared approximately 10 per cent, which was far greater than 6.8 per cent excluding discouraged workers (Kim 2000).

More importantly, it has been argued that the unemployment situation has positively changed not because many job seekers successfully have entered or re-entered the labour market with the conditions they want. Rather, as a result of the large-scale expansion of non-regular forms of employment, they increasingly have become non-regular workers, particularly fixed short-term, part-time, daily, and outsourced, because they have had no other choice than to accept it. Consequently, the ratio of workers in non-regular forms of employment among the total paid workforce made up 56.6 per cent in 2002, an increase of ten per cent from 45.9 per cent in 1997 (Kim 2003; NSO 2002)[1].

1) The estimation of non-regular workers differs by institutions. This is largely because the persistent ambiguity in defining non-regular forms of employment. There is a complete agreement to see part-time, dispatched, out-sourced, on-call, self-subcontracted, and home-based work as a non-regular forms of employment. In addition, fixed-term (specifically, less than one-year term) contracted and short-term non-contracted workers are also categorised as non- regular workers. However, it is still ambiguous to see whether or not these two, employees with no contract but possibility to continue to work in the workplace, and employees with more than one-year

The average wage of non-regular workers in 2002 accounted for only 52.7 per cent of that for full-time permanent workers. 48.6 per cent out of the total Korean workforce was regarded as low-income class in terms of OECD standard. Amongst them, one out of five regular workers and seven out of ten non-regular workers belonged to the low-income class. Moreover, among the 640,000 persons who received wages lower than the legal minimum wage level, set by the Korean law, 620,000 persons appeared as non-regular workers. In terms of employment benefits, 22-25 per cent of non-regular workers enjoyed social insurances, including public pension, health, employment insurance, while 79-95 per cent was the case for regular-workers. Finally, 10-14 per cent of non-regular workers and 77-93 per cent of regular workers were receiving retirement fund, annual bonus, and overtime payment (Kim 2003). The increases in unemployment and non-regular forms of employment in the recent few years are significantly related to the emergence of 'people of the new poverty'[2], referring to people in unstable and insecure employment, including long-term unemployed people, non-regular workers, and people in debt. It has been reported that these people have increasingly been involved in suicide or money-related hate crimes such as fraud, kidnapping, and murdering others with relatively higher wealth (*Hankyoreh* 22 July 2003).

On the other hand, the bad relationship between labour and management appears as one of the most serious concerns in the contemporary Korean labour market. Frequent labour disputes and strikes, and work stoppages often occur as consequences of the labour-management conflicts (Kang 2003). Apparently, Korea is well known in the world for the presence of labour organisations with their militant tendencies, which grew based on workers' struggles against the authoritarian regime's labour repression in the 1970s and

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fixed-term but contract, are non-standard workers. This research uses the data collected by the Korean National Statistical Office (NSO), defining regular employment as a full-time paid employment without any specific working contract and thus no definite working term but with expectation of continuous employment, or with contract saying more than one-year working term (Kim 2003).

2) The term 'people of the new poverty (*shin-bin-gon-cheung*)' was first publicly used by Ryo Jung-Soon, the president of Korean Institute of Poverty Issues (KIPI), at the two-year anniversary conference of KIPI in 22 July, 2003. In her talk she also emphasised that income inequality in the Korean society has worsened since the 1997 crisis by comparing Korea's Gini index between 0.283 of 1997 and 0.319 of 2001. A Gini reading closer to 1 indicates a higher degree of income inequality (*Hankyoreh* 22 July 2003).

80s. Compared to what they were in the past, there has been significant improvement of the labour market conditions in terms of wages and of trade union's bargaining power in accordance with the country's political and economic conditions toward democracy and liberalism over the last decade.

However, the Korean labour market has not yet established an equal power balance between labour and management. With the minimal presence of workers in management, workers often tend to disagree with management's wage, hiring, and promotion determinations, and accounting practices. On the other hand, lacking trust in labour, employers are less likely to see union leaders and their collective activities as reasonable and accountable. Moreover, the government has usually attempted to arbitrate labour disputes but it has often appeared as an interventionist rather than an arbitrator. Therefore, labour issues have frequently been resolved by the government's lead and the way many issues dealt with by political elites has been neither practically nor peacefully but politically and forcefully (Kang 2003).

In fact, Korea has had a consensus-building mechanism, the Tripartite Commission since 1998, consisting of labour, corporations and government. This Commission was first constructed with the aim of gaining a national consensus of some economic and social issues in the process of economic restructuring following the 1997 crisis. The tripartite agreements on the structural reform, including labour and management relationship, labour laws, and economic policies, accounted for the first Social Compact since the crisis, contributing to calm unrest and reduce social costs to a great extent. However, it has been argued that the committee has achieved the very limited success in the sense that it has not been a democratic and effective channel of communication for all of the party participants (Lee 2002; Song 1999; Yoo 2002).

It has been commonly criticised that each party in the Commission has been excessively self-interested so that the Commission has not been able to come to conclusions fully supported by all the parties. As a result, lacking mutual trust among one another and transparency in each party, a number of decisions have been made in terms of the urgency of the issues but even some decisions have not yet been put into practice. Moreover, the Tripartite Commission functions as one of the Presidential Commissions

and, as a result, the government has had a relatively stronger representation in the negotiations (Kim 2003).

Especially, during the crisis-affected period, both domestic and international expectation on the nation's quick economic recovery put huge pressure on each party in the process of negotiations. Thus, it was not possible for each of them to put their major concerns and interests into negotiations on an equal basis. As a result, the government and management had relatively stronger representation in the negotiations, while the labour side had hardly any choice but to accept the great extent of labour market reform, including lay-offs and reduction in wages (Lee 2002; Song 1999; Yoo 2002). The weak representation of labour in the negotiations resulted in the decline in the labour movement during the post-crisis period. Nonetheless, trade unions began to intensify their activities facing the negative outcomes of the neo-liberal labour arrangements following the labour market reform, embracing decline in workers' rights and benefits and employment stability.

In sum, the major concerns in the Korean contemporary labour market are shown as declines in workers' rights and benefits and persistent conflicts between labour and management. The labour market reform in accordance with the neo-liberal labour standards market following the 1997 crisis is evaluated as a failure to the extent that it has produced significant shortcomings, embracing long-term unemployment, expansion of non-regular forms of employment, and weakening of trade union's collective power. Struggling from decreases in employment benefits and stability, and lack of representation in management, workers have increased trade union movements and have conflicted with firms in favour of the efficiency-driven neo-liberal labour arrangements. The fact that labour and management confrontation often becomes a major cause of frequent work stoppages and labour strikes has urged the Korean labour market to look for an alternative.

## CAN THE DUTCH MODEL BE COPIED IN THE KOREAN LABOUR MARKET?

The Dutch labour market over the past decades has been famous for overcoming the high unemployment problem of the 1980s with a great success based upon the rapid

growth of part-time jobs, the substantial wage moderation, and the low level of wage inequalities (Ours 2003; Salverda 1999; Visser and Hemerijck 1997). In 1982-83 the unemployment rate was on a peak marking 12 per cent. However, it declined as low as 1.8 per cent in 2001, although the rate went up to a level of 2.7 per cent by the end of 2002. Notably, labour policies that support the extensive and prolonged wage moderation and flexibilisation of labour, embracing the general reduction in working hours and the increase in part-time jobs, are seen the most important for the country to transform the situation from the so called 'Dutch disease' to the 'Dutch miracle'. The huge growth of part-time jobs was possible with the increase in the female workforce participation, especially married women who used to remain as full-time housewives in the past.

More importantly, what makes the Dutch case different from those for other similar countries lies in the Dutch 'consensus' on those policies, largely built by a tripartite and self-motivated involvement of unions, employers' organisation and government in an institutional structure (Joo 1999; Ours 2003; Salverda 1999). This institutional structure functions as the socio-economic governance of the Dutch economy and the wage bargaining in the economy with relatively little antagonism among the three sides. Based upon the three parties' agreement, the policies and law stimulating the growth of part-time work was implemented. In the so called Wassenaar Agreement in 1982 employers agreed with a shortening of working time in exchange for unions' consent to a wage moderation. In response to the agreement between labour and management, at the same time the government agreed to restrain its budget, reform social security and reduce taxes (Ours 2003). Part-time workers' legal status was improved significantly on various occasions. The introduction of the law in 1993 has supported that those workers with very small working hours, specifically less than about 13 hours a week, are also entitled to receive an equivalent part of the legal minimum wage. Moreover, any differences by length of the working time for social security benefits, such as unemployment benefits and pension rights, are banned.

As a result, the large decline in unemployment was caused by the persistent creation of new employment. Apparently, part-time jobs accounted for a majority of the new jobs, increased with 1.6 million jobs during the last two decades, the 1980s-90s, while full-time jobs decreased as many as 66.000 in the 1980s but later began to increase up to 500.000

in the 1990s. In addition, GDP per capita increased 1.6 and 2.2 per cent in the 1980s and the 90s, respectively, while the real wage increase during the two decades appeared as 0.5 per cent on average (Ours 2003). On the other hand, the importance of part-time and temporary jobs to the country's total employment accounted for 49.8 per cent in 1997, 38.4 and 11.4 per cent, comparatively. 68.1 per cent of women were working part-time with 14.9 per cent of them working on a temporary contract. Meanwhile, only 16.7 and 8.8 per cent of men were working based on each part-time and temporary contract in the same year (Salverda 1999).

The Netherlands' part-time driven employment policies have also gained some criticism. For instance, Richard Freeman (1998) called the Netherlands 'the only part-time economy in the world, the new champion of the Continent, with a finger in the dike of unemployment'. His remark is closely linked to the fact that the Dutch rate of part-time work is exceedingly high by international standards and the incidence of part-time work is more than twice the European average while the average working time is rather low. Moreover, it is also viewed critically that women account for a majority of part-time and temporary workforce, receiving on average 25 per cent less than full-time workforce. Therefore, some critics say that the country's economic success and decline in unemployment over the past decades were possible largely through the utilisation of cheaper form of female labour in the service industry and strong wage moderation (Yoon 2003).

In addition to this, the temporary boom of the real estate industry in the late 1990s, mainly caused by the tax exemption from mortgage loan with the aim of boosting consumption, was looked at as another cause of the country's economic growth. Hence, since the bubble in the economy began to burst in 2000, the economy has contracted, shown as a drop in 1.3 and 0.2 per cent of the annual GDP growth in 2001 and 2002, respectively. Markedly, the unemployment rate has raised, reaching the level of 5 per cent in 2003 (*BBC*, 23 April 2003; Yoon 2003).

Keeping the above criticisms in mind, the quest for whether the Dutch labour policies can be copied in the Korean labour market needs continuing. The Korean people in favour of the policies highlight the co-operative relationship among labour, management, and the government. For Korea, lacking mutual trust among its three parties, the

consensus-based socio-economic governance of the Dutch economy is seen as a good example to follow (Joo 1999; *Pressian* 4 July 2003 2003). However, it has been argued that it is not very possible for Korea to establish such a consensus-mechanism at this stage for different characteristics of the participants, who still appear familiar with the authoritarianism of the past to a large extent. In his interview with *Korean Times* (03 July 2003), Joseph James Day, vice president of the European Union Chamber in Korea (EUCCK) said, 'Korean society doesn't seem to have that consensus as seen by the fact that the Korea Tripartite Commission, which has similarities with the consensus-oriented Dutch Model, has had difficulty in maintaining the combined agreement for the past few years.' He also added, 'Korea has to get a consensus first before it can actually bring the Dutch Model into labour management relations'.

In relation to the Dutch-style flexibilisation of labour, it is also said that Korea does not have the capacity to provide its non-regular workers as good employment benefits as the Netherlands does because of the country's relatively poor security network in terms of housing, education, and medical service. It is claimed that if countries like Korea, where the social security benefits are meagre, attempts to moderate wages and increase in contingent work, it may threaten people's right to live (*Pressian* 4 July 2003). Moreover, the adaptation to the Dutch female-centred part-time model is expected to worsen the marginalisation of female workforce in Korea. It has already been shown that Korean women are over-represented in non-regular forms of employment largely due to gender-differentiated labour conditions. In addition, the situation that Korea has at present, including high female workforce participation in economy, is different from when the Netherlands began the policies twenty years ago (Salverda 1999).

## CONCLUSION

In conclusion, the success of the Dutch labour policies over the past decades, based upon the rapid growth of part-time jobs, the substantial wage moderation, and the low level of wage inequalities, deserves being evaluated in pursuit of an alternative to the neo-liberal efficiency-driven model. What makes the Dutch experience more valuable is that flexibilisation of labour was achieved on the basis of employment policies, protecting part-

time and temporary workers in terms of equal payment and social security benefits. This transformation was possibly made in support of labour, management, and government. Based upon each party's consensus, the labour agreed to wage moderation and employers agreed to a shortening of working time. Additionally, the government supported the labour and management agreement by implementation of appropriate labour policies to the market on time. Finally, although it may not be possible for Korea to adopt the Dutch policies, it is important to note that the Dutch model may be a useful benchmark for Korea, which faces unemployment and underdevelopment problem with little employment protection causing frequent labour conflicts against management and government.

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