

## LABOR AND POLITICS IN EAST ASIA: THE CASE OF FAILURE OF THE ENCOMPASSING LABOR ORGANIZATION IN KOREA

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*Olsonian theory supposes that when labor unions are organized in an encompassing manner at the industrial and national levels, they can better prevent collective action problems and bring about more stable industrial relations. This theory regards the encompassing labor organization as a positive institution. However, the Korean case shows weak theoretical and empirical relevance for the proposition, as institutionalized talks between government, business, and labor did not contribute to establishing stability in industrial relations. In some respects, the situation only worsened. The Korean case therefore suggests that the optimistic propositions of encompassing organizations of labor require a careful reassessment.*

**Key words:** South Korea, economic development in East Asia, industrial relations

### Introduction

The East Asian developmental state model that achieved industrialization through the state's strategic intervention has been challenged since the late 1990s by the neo-liberal paradigm,

which emphasizes free markets and comparative advantage in international trade. East Asian states enforced market-oriented policies to create a more flexible labor market and a more competitive corporate structure. In the case of Japan, however, the unemployment rate increased owing to the corporate structural adjustment drive implemented during its long-term depression in the 1990s, which made employment and subsistence of labor the focal point of industrial relations. In an attempt to overcome the crisis, the employers' organization and the federation of unions reached an agreement on the stability of employment.<sup>1</sup> It has been argued that the joint consultation system based upon harmony and cooperation contributed to the stabilization of industrial relations and the recovery of the economy in Japan.

What about the case of Korea? The Kim Dae-jung government (1998-2003) initiated a social pact between the government, business, and labor in an attempt to overcome the economic crisis of 1997. It launched the Tripartite Commission on January 15, 1998 and succeeded in persuading business and labor to reach the so-called "9 February Social Pact," which stipulated a mass redundancy of regular workers and dispatched workers. However, the Tripartite Commission, in effect, stopped operating as the Korean Confederation of Trade Unions (KCTU) and the Federation of Korean Trade Unions (FKTU) had seceded from it in February and April 1999, respectively. The third period of the Tripartite Commission was reluctantly resumed in September 1999, but the KCTU still refused to return to the bargaining table.

The socioeconomic condition of the concluding social pact in 1998 was poor. Since his days as a presidential candidate, Kim Dae-jung had considered introducing social corporatism<sup>2</sup> as

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1. Ahn Hee Tak, "Ilbon ui choegun nosagwangye byunhwa" (Recent Changes in Japanese Industrial Relations), in Kim Dong Won, ed., *Segye ui nosagwangye byunhwawa junmang* (Change and Prospects in the World Industrial Relations) (Seoul: Korea International Labor Foundation, 2003), pp. 79-106; Lee Won-woo, "Ilbon ui nodong undong byunchun gwajung-gwa nosagwangye baljun" (A Study of the Japanese Labor Movement Change Process and Labor-Management Relations), *Gyungyounghak* (The Review of Business History), vol. 19, No. 1 (June 30, 2004), pp. 39-40.
  2. P. C. Schmitter, "Still the Century of Corporatism?" in P. C. Schmitter and G. Lembruch, eds., *Trends toward Corporatist Intermediation* (London: Sage, 1979); G. Lembruch and P. Schmitter, eds., *Patterns of Corporatist*

well as a tripartite social pact with a focus on realizing stable industrial relations.<sup>3</sup> However, the “9 February Social Pact” of 1998 was the result of the government’s coerced political bargaining between business and labor. It did not result from a rational choice of participating actors.

The existing studies proposing to introduce a social pact in Korea expected that the corporatist way of interest mediation would contribute to economic stabilization and development.<sup>4</sup> It was based upon the Olsonian logic that the stability of industrial relations can be better achieved when labor organizations are encompassing—that is to say, when they are centrally organized at an industrial or a national level rather than consisting of individual, firm-based labor organizations such as are usually found in the Anglo-American world.<sup>5</sup> However, the social pact lasted for only a year in Korea. Since 1999, it has not been revived. Neither business nor labor appears to have any intentions to continue working on interest mediation through the Tripartite Commission. Moreover, it is doubtful that the Tripartite Commission had practically contributed to creating stable industrial relations. As shown in *Figure 1*, the frequency of labor strikes constantly increased during 1998-2004, despite its decrease in 2005.

This study analyzes theoretically the reason for the interruption of the social pact and corporatism in Korea. The authors argue that the Olsonian assumption of an encompassing organization’s contribution to a stable labor relationship and economic development has seldom been sustained in the case of Korea.

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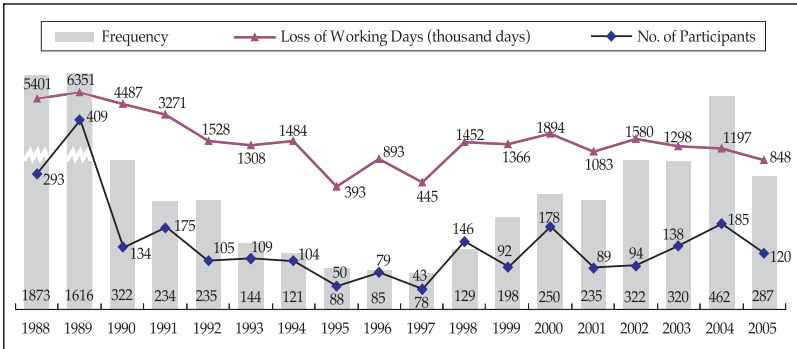
*Policy Making* (London: Sage, 1982).

3. Im Hyug Baeg, “Han’guk minjuhwa sahoe habuijuui” (Democratization and Social Corporatism in Korea), in Kim Hojin et al., ed., *Saohabui jedowa chamyo minjujuui* (The Institution of Social Consultation and Participatory Democracy) (Seoul: Nanam, 2000), p. 65.

4. Kim et al., eds., *Saohabui jedowa chamyo minjujuui*.

5. Encompassing organizations are interest groups that encompass a substantial portion of the societies of which they are a part. They tend to promote the general interest and economic growth by internalizing externalities, because they are nationwide organizations. On the contrary, narrow and special interest groups tend to reduce economic growth because they divert attention from production to distributional struggles. Mancur Olson, *The Rise and Decline of Nations* (New Haven, Conn.: Yale University Press, 1982), p. 47.

Figure 1. Frequency of Labor Strikes in Korea



Source: Federation of Korean Industries, *FKI Issue Paper*, vol. 62 (Seoul: Federation of Korean Industries, 2006).

The following sections describe the theoretical conditions of the successful operation of corporatism and a social pact from case studies of the Netherlands, Germany, and Sweden; analyze the reasons why the encompassing-organization theory is relatively weak in the case of Korea; and demonstrates via case analyses that the formation of an encompassing organization hardly contributes to stabilizing industrial relations in Korea.

### The Failure of the Encompassing Organization

According to existing studies based upon Northern European cases, the structural conditions of installing and maintaining a corporatist interest mediation system and a social pact are five fold: a high unionization rate,<sup>6</sup> a small economy and labor population,<sup>7</sup> an open industrial structure with high dependence upon the international market,<sup>8</sup> a labor-friendly leftist govern-

6. John D. Stephens, *The Transformation from Capitalism to Socialism* (Urbana, Ill.: University of Illinois Press, 1979).  
 7. G. Lehbruch, "Consociational Democracy in the International System," *European Journal of Political Research*, vol. 3 (1975), pp. 377-91.  
 8. Peter Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, N.Y.: Cornell University Press, 1985).

ment,<sup>9</sup> and the formation of centrally-organized encompassing labor organizations.<sup>10</sup>

This study focuses upon the fifth of the aforementioned conditions. The theory of encompassing organizations assumes that a labor organization formed on a large scale (i.e., industry-wide or nation-wide scale) can better reduce the possibility of collective action in interest mediation between labor and business than can numerous small-scale (i.e., individual, firm-level) unions. The assumption is that the encompassing organization can also reduce the transaction costs that might occur during the process of interest collection and representation, since it can systematically collect the diverse interests of member unions and control their reckless interest representation. This serves as the core mechanism to operate corporatism.

The theory of the encompassing organization is based upon the collective action theory. Olson's collective action theory explains how an encompassing organization contributes to a corporatist system of interest mediation. It is summarized as follows:<sup>11</sup> First, it is more likely that a smaller group will commit to collective actions than a bigger group. This is because the benefits to be enjoyed by individuals in a smaller group will be greater than those in a bigger group. Therefore, interest groups seeking special interests will tend to be smaller. Second, special interest groups and the collusion among them tend to decrease economic efficiency. Third, in comparison with the special interest groups, encompassing organizations can maximize distribution to its members with a minimal additional cost, making the society stable and economically prosperous. Moreover, in case the cost of redistribution exceeds the benefit, the encompassing organization can stop redistribution in consideration of the

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9. David Cameron, "Social Democracy, Corporatism, Labour Quiescence and the Representation of Economic Interest in Advanced Capitalist Society," in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (London: Oxford University Press, 1984); P. Lange and G. Garrett, "The Politics of Growth: Strategic Interaction and Economic Performance in the Advanced Industrial Democracies," *Journal of Politics*, vol. 47, No. 3 (1985), pp. 792-827.

10. Olson, *The Rise and Decline of Nations*.

11. Mancur Olson, *The Logic of Collective Action* (Cambridge, Mass.: Harvard University Press, 1971); Olson, *The Rise and Decline of Nations*.

interest of the society as a whole. Fourth, the special interest group seeking a parochial interest of a part of the society will have a weaker motivation to sacrifice itself. It is more likely to struggle for bigger redistribution than is warranted by the additional production it has created. The rise of a redistributive coalition will hamper technological development and prolong the policy decision-making process to impede efficient economic growth.

Olson's theory accounts for why the United Kingdom and the United States, which were once dominated by parochial interest groups, experienced economic decline while the European countries that employed social corporatism to discourage the formation of special interest groups prospered.<sup>12</sup> Olson indirectly suggested that the interest representation of a corporatist pattern was more efficient than in a pluralist pattern with regard to saving transaction costs in interest collection and representation. His conclusion, then, is that a nation with encompassing labor organizations is likely to achieve higher and continuous economic growth.

However, it is doubtful that an encompassing labor organization will be better than special interest groups at considering the interests of society as a whole. In the advanced social corporatist countries of Europe such as Germany and Sweden, these organizations have also been subject to blame for forming distributive coalitions.<sup>13</sup> Thus the optimistic assumption of the encompassing organization should be reconsidered theoretically.

### *Korea as an Opposing Case*

In particular, Olsonian assumptions related to the encompassing organization hold little relevance in the case of newly industrializing countries of East Asia such as South Korea. The Korean case shows that the development of an encompassing

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12. Olson, *The Rise and Decline of Nations*.

13. Lee Yeonho, "Corporatism ui soetoe won'in" (The Cause of a Declining Corporatism, Secession of the Capital: Raising Theoretical Issues through a Case Study of Sweden and Neighboring Countries), *Isibilsegi chongch'i hakhoebo* (21st Century Political Science Review), vol. 16, No. 1 (2006), pp. 195-218.

organization is not a sufficient condition for stable industrial relations, and its existence can even function as a barrier to business and labor reaching an agreement. At the very least, Olson's theory is subject to several problems in a theoretical dimension in the Korean case.

First, it is not sufficiently supported that the encompassing organization will give top priority to the interests of the whole in deciding its policy directions. Olson's theory presumes that the efficiency of the conclusion-reaching process might increase with a smaller number of participants. Therefore, the more completely labor is unionized, the less likely a collective action problem is to occur. However, the Korean case shows that an encompassing organization often behaves against the interests of society by taking advantage of its stronger sociopolitical position. If an encompassing organization succeeds in augmenting its political influence to the degree that it can control the government to maximize its interest, it will find no reason for putting its policy priority on the improvement of the common good of society rather than on its own special interests. Moreover, if an encompassing organization is continually blamed by its members for losing in negotiations between business and labor, it will further adhere to labor's selfish interests instead of considering the overall interests of society.

Second, the proposition that an encompassing labor organization will reduce the possibility of collective actions is also weak. Even if encompassing organizations could reduce the frequency of collective labor actions, the magnitude of negative impacts that might be incurred from them could be much more serious. That is to say, the magnitude of the impact incurred by collective action might be a more important variable than the frequency of these actions. In the case of Korea, both collective actions and their negative impacts increased with the formation of encompassing labor organizations.

Third, encompassing labor organizations are often subject to principal-agent problems<sup>14</sup> that take place between them and

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14. In the principal-agent problem, a principal is a person in charge who must delegate some tasks to underlings. An agent is the person who acts on the principal's behalf, collecting information, implementing policies and evaluating performance. While acts of the agent have effects on the

their constituent unions. Despite the development of such organizations, the peak labor organizations in Korea have often failed to exercise leadership in controlling their sub-organizations.

Finally, one must not regard the encompassing organizations as cohesive, since diverse factional groups can exist within them. In the Korean case, factional competition often developed into political struggle and encouraged the politicization of industrial relations.

Olson's theory has even been challenged in traditionally social-democratic European countries. Empirical cases deny the proposition that an encompassing organization will be less likely to incur collective action problems and contribute to stable industrial relations. Sweden might be one of these examples. Sweden has often been cited as a mature corporatist country with a long tradition of social pacts such as the Saltsjobaden Treaty signed between Lo and SAF as early as 1938. But the centralized negotiation system of Sweden, based upon a solidarity wage policy, began to crack in the 1980s. Among the reasons for the breakdown of the corporatist negotiation system was the spread of a neo-liberal ideology. However, the most critical reason was the conflict between the business and labor organizations and, more importantly, the internal disruption within the encompassing labor unions. Interest mediation failed between the encompassing labor organizations covering the service and the manufacturing industries, respectively, which seriously destabilized the corporatist negotiation mechanism of Sweden. The powerfully politicized labor unions posed a threat to investors.<sup>15</sup> Fearing the power

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principal's interest, the principal is not able to watch or supervise the agent effectively. So in cases in which the agent pays for his or her own needs and often against the principal's interest, it is possibly inefficient from a social point of view. Barry R. Weingast, "The Congressional-Bureaucratic System: A Principal-Agent Perspective (with applications to the SEC)," in Alan Meltzer, Thomas Romer, and Howard Rosenthal, eds., *Carnegie Papers on Political Economy*, Special Supplement to Public Choice, vol. 44 (1984), p. 153; Bruce Bueno de Mesquita, *Principles of International Politics: People's Power, Preferences, and Perceptions* (Washington, D.C.: Congressional Quarterly Press, 2000), pp. 100-101.

15. Jelle Visser, "Corporatism beyond Repair? Industrial Relations in Sweden," in Joris Van Ruysseveldt and Jelle Visser, eds., *Industrial Relations in Europe: Traditions and Transitions* (London: Sage, 1996); Anders Kjellberg,

of labor unions, investors hesitated to make additional investment; some even left Sweden.

Korea can be distinguished from the Northern European corporatist countries in the sense that labor has been excluded from the alliance between the government and business. Strictly speaking, negotiation among the government, business, and labor did not take place under the authoritarian governments. The logic of "harmony between business and labor" (*Nosahwahap*) has been used more often to justify the patriarchal leadership of business and the obedience of labor.<sup>16</sup> Labor representatives felt a sense of deprivation under such a hierarchical social environment. They saw the tripartite mediation as the government's and capital's means of controlling labor institutionally. Under such circumstances, the encompassing labor organization functioned as a factor of instability rather than as a contributor to industrial peace.

The reason the Kim Dae-jung government's advocacy of participatory democracy encouraged the formation of an encompassing labor organization was basically to help labor gain the structural power necessary to negotiate with business and government on equal terms. More importantly, the government intended to induce labor, as a more responsible player, to consider the national interest more seriously when negotiating with business. However, the result was nearly, if not entirely, the opposite. Encompassing labor organizations in Korea formed a distributional coalition and intensified political struggles with their enhanced politico-economic influence, which interrupted the continuation of the existing social pact. Thus the Korean case shows the failure, rather than the success, of encompassing labor organizations.

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"Sweden: Restoring the Model?" in Anthony Ferner and Richard Hyman, eds., *Changing Industrial Relations in Europe* (Oxford: Blackwell, 1998).

16. Kim Sungchul, "Ilbon kuka kongdongche ui nosajong hwahap" (The Reconciliation of Labor, Business, and Government in the Japanese National Community), in Kang Myongse, ed., *Kyongje wigiwa sahoe hyopyak* (Economic Crisis and Social Pacts) (Sungnam: Sejong Institute, 1999).

## **The Evolution of Encompassing Labor Organizations in Korea: FKTU and KCTU**

The number of encompassing labor organizations in Korea is relatively low. Above all, the unionization rate of Korean labor as a whole is low—declining from 19.5 percent in 1988 to 10.3 percent in 2005 (see *Table 1*). Nonetheless, encompassing labor organizations have evolved in Korea with the advance of democratization. On a nationwide scale, two encompassing labor organizations have developed in Korea, namely the Federation of Korea Trade Unions (FKTU) and the Korean Confederation of Trade Unions (KCTU). As of 2005, the FKTU and the KCTU respectively accounted for 60.1 percent and 20.2 percent of the total number of labor unions. Despite the low unionization rate of Korean labor, most unions of big businesses are members of one of the two organizations.<sup>17</sup> Moreover, the number of participating associations such as industry-level nationwide unions has continued to increase (see *Table 1*). In this regard, the encompassing organizations of labor have advanced in Korea.

The FKTU had been the only regular encompassing labor organization until the KCTU was formed in 1995. It had been patronized by the authoritarian government with an oppressive labor control policy until the 1980s. It had also been pro-government and dependent in nature. With the patronage of the government, it even self-regulated the growth of a radical labor union. In the 1990s, however, FKTU's orientation began to change. It kept its distance from the government, although it actively participated in the government-led negotiation between business and labor.<sup>18</sup>

The KCTU, however, is an advocate of blue-collar labor. It has aimed at becoming an independent and democratic labor movement and has resisted the government's oppression of labor in radical fashion. Since its founding on November 11, 1995,<sup>19</sup>

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17. Korean Ministry of Labor, *The Status of Unionization 2005* (Seoul: The Ministry of Labor, 2006), online at [www.molab.go.kr](http://www.molab.go.kr); accessed April 14, 2007.

18. The Federation of Korean Trade Unions, *The 50 Years History of FKTU* (Seoul: The Federation of Korean Trade Unions, 2003).

19. The KCTU is composed of three federations of unions. One is the National Council of Trade Unions (NCTU), consisting of fourteen local associations based upon small and medium-sized manufacturing firms

Table 1. Trends of Labor Density in Korea

Year	No. of Labor Unions		No. of Union Members	Density (%)
	Associations	Labor Unions		
1987 (06/30)	16	2,725	1,050,201	15.7
1987 (12/31)	16	4,086	1,267,457	18.5
1988	21	5,598	1,707,456	19.5
1989	22	7,861	1,932,415	19.8
1990	22	7,698	1,886,884	18.4
1991	22	7,656	1,803,408	17.2
1992	22	7,531	1,734,598	16.4
1993	27	7,147	1,667,373	15.6
1994	27	7,025	1,659,011	14.5
1995	27	6,606	1,614,800	13.8
1996	27	6,424	1,598,558	13.3
1997	41	5,733	1,484,194	12.2
1998	43	5,560	1,401,940	12.6
1999	45	5,637	1,480,666	11.9
2000	46	5,698	1,526,995	12.0
2001	45	6,150	1,568,723	12.0
2002	43	6,506	1,538,499	11.0
2003	45	6,257	1,549,949	11.0
2004	44	6,017	1,536,843	10.6
2005	44	5,971	1,506,172	10.3

Note: Association includes industry-level nationwide labor unions.

Source: Korean Ministry of Labor, *The Status of Unionization 2005* (The Ministry of Labor, 2006), [www.molab.go.kr/](http://www.molab.go.kr/) (accessed April 14, 2007).

and more than 600 unions of white-collar workers. Another is the Congress of Industrial Unions, composed of federations and associations of non-manufacturing industry workers and service sectors, which did not join the NCTU. The third is the Large Plant Union Organization, which is an association of big manufacturing firm unions including unions of the *chaebol* affiliates such as the Federation of Trade Unions for the Hyundai Group. Kim Yoosun, *Nodong undong ui hyonhwang gwa gwaje* (The Current Status and Challenge of the Labor Organization Movement) (Seoul: Korea Labor Institute, 1998); Kim Keumsoo (edited by Korea University KULERI), *Minjuhwa ihaenggi ui nodong undong* (The Labor Movement in Democratic Transition Era: The 1987 Grand Labor Struggles and Inflammation of Labor Movement, 1987-1997) (Seoul: Jisik Madang, 2004), pp. 156-58.

the KCTU has integrated industry-level labor unions and converted individual corporate labor unions into industry-level organizations. In addition, while leading a political campaign to secure the basic rights of labor, it called for a major general strike.<sup>20</sup> On account of its radical behavior, it has been blamed for militant labor unionism.

As of 2005, 5,971 labor unions and 1,506,172 members are participating in the two major labor organizations. The FKTU governs 3,589 unions and 770,572 members, and the KCTU includes 1,205 unions and 642,053 members. Big businesses (employing more than 500 workers) account for merely 6 percent of the total number of unions. However, they account for 71 percent of unionized workers. By contrast, small businesses with fewer than 500 workers constitute 94 percent of the total number of labor unions, but they account for only 29.2 percent of unionized laborers.<sup>21</sup> In particular, there are thirty-four large labor unions with more than 5,000 members, accounting for a mere 0.6 percent of the total number of unions, although they constitute 43 percent of the total number of unionized workers (see *Table 2*).

*Table 2.* The Organizational Situation of Labor Unions in Korea

The Size of Unions	No. of Unions (%)	No. of Union Members
		Aggregate Nos. (%)
1~49 persons	2,976 (49.8)	50,446 (3.3)
50~99	1,041 (17.5)	74,206 (4.9)
100~299	1,350 (22.6)	223,547 (14.8)
300~499	235 (3.9)	91,187 (6.1)
500~999	183 (3.1)	124,925 (8.3)
1,000~4,999	152 (2.5)	291,713 (19.4)
More than 5,000	34 (0.6)	650,148 (43.2)
Total	5,971 (100)	1,506,172 (100)

Source: Korean Ministry of Labor, *The Status of Unionization 2005*.

20. The Korean Confederation of Trade Unions, *The History of Democratic Labor Organizations: The Struggles and Suppressions—Cases, Chronology and List of Names 1970-2000* (Seoul: The Future Created in Firms, 2001); Kim, *Minjuhwa ihaenggi ui nodong undong*, pp. 170-71.

21. Korean Ministry of Labor, *The Status of Unionization 2005*.

Table 3. FKTU vs. KCTU

Year	FKTU		KCTU		Non-participating	
	No. of Unions	No. of Union Members	No. of Unions	No. of Union Members	No. of Unions	No. of Union Members
1999	4,051 (71.9%)	888,503 (60.0%)	1,256 (22.3%)	564,774 (38.1%)	330 (5.8%)	27,389 (1.9%)
2000	3,754 (65.9%)	872,113 (57.1%)	1,362 (23.9%)	614,951 (40.3%)	582 (10.2%)	39,931 (2.6%)
2001	3,940 (64.1%)	877,827 (56.0%)	1,513 (24.6%)	643,506 (41.0%)	697 (11.3%)	47,390 (3.0%)
2002	4,063 (62.5%)	876,889 (54.6%)	1,529 (23.5%)	685,147 (42.7%)	914 (14.0%)	43,936 (2.7%)
2003	3,951 (63.1%)	831,660 (53.6%)	1,332 (21.3%)	673,880 (43.5%)	974 (15.6%)	44,409 (2.9%)
2004	3,714 (61.7%)	780,183 (50.8%)	1,256 (20.9%)	668,136 (43.5%)	1,047 (17.4%)	88,524 (5.7%)
2005	3,589 (60.1%)	770,572 (51.1%)	1,205 (20.2%)	642,053 (42.7%)	1,177 (19.7%)	93,547 (6.2%)

Source: Korean Ministry of Labor, *Labor White Paper* (The Ministry of Labor, 2000; 2002; 2003; 2004; 2005; 2006).

Democratization was the prime factor that induced labor unions to develop into encompassing organizations. In Korea, the democratic labor movement started with the Grand Democratic Protest of June 1987. Since then, the FKTU and the KCTU have attempted massive organizational expansion to become the leading nationwide advocates for white- and blue-collar workers, respectively. Their political influence was evidently proven when the two peak labor organizations jointly carried out a grand strike in December 1996 to demand re-amendment of the labor act, which had been irregularly passed by the ruling party (the New Korea Party). The government and business at last confirmed their regular presence in 1998 by inviting them to the Tripartite Commission as the representative body for labor unions.<sup>22</sup>

As the power of the Korean economy is concentrated in the

22. *Chosun Ilbo* (Seoul), February 7, 1998.

hands of the *chaebol*, so is the political and economic influence of Korean labor dominated by the unions of the big businesses participating in the two peak labor organizations. They have also continuously attempted political participation at an institutional level. Between them, the KCTU was remarkably successful in the 17th General Election of 2004. The Democratic Labor Party, founded upon the KCTU, occupied ten seats in the National Assembly and acquired 13.1 percent of the votes.

In summary, encompassing labor organizations exist in Korea, even if the entire labor sector is not inclusively organized. Then why do these organizations fail to bring about industrial peace? Why does the tripartite negotiation system fail to keep operating despite the development of these organizations?

### **The Failure of the Encompassing Labor Organizations in Korea**

#### *Encompassing Labor Organizations as Special Interest Seekers*

The purpose of the neo-liberal reform of labor conducted by the Kim Dae-jung government was to make corporate restructuring easier and the labor market more flexible. A large number of contract job workers was created as a consequence of the labor market reform. In some companies, they have been discriminated against with regard to wages, social security, and welfare. They also have been in constant fear of job instability, but they have not been able to benefit from the labor protection provided by the two peak labor organizations. The fruit of encompassing labor organizations has mainly been enjoyed by the unions of big businesses, yet has not been equally distributed to the majority of workers, in particular contract job workers.<sup>23</sup>

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23. The FKTU, the Korea Employers Federation, and the Ministry of Labor define irregular workers as atypical workers including temporary or contract workers, short-time workers, dispatched workers, and particular contract job workers (the agreement of May 2002 in the Tripartite Commission of the FKTU, the Korea Employers Federation and the Ministry of Labor). The government and the businesses estimated that there were about 4,610,000 irregular workers, 32.6 percent of the total number of workers (about 14,140,000) as of August 2003. However, the labor union claimed that the size of contingent workers was 56.3 percent (7,970,000

When it comes to the issue of contract job workers, the two encompassing labor organizations served as “special interest groups.” The KCTU and the FKTU, on the surface, have opposed discrimination against irregular workers since 2003, having demanded that they have the same status as that of regular workers. Especially since the self-immolation of Park Il-soo, a contract worker of Hyundai Heavy Industries, the issue of irregular job workers has stood out in bold relief.<sup>24</sup> The conflicts between the two became a major issue over the passing of a set of bills regarding contingent work.

Labor was strongly opposed to passing the bills, and wished to discuss the bills again in a tripartite convention. The bills included the Act of Dispatched Workers and the Act of Fixed-term and Part-time Employee Protection. These were passed two years after the government had originally proposed the legislation on September 9, 2004.<sup>25</sup> The official justification for the labor unions’ claim to withdraw the bills was apprehension over the perpetuation and legalization of contingent work.<sup>26</sup> However, the real reason for the withdrawal was that the income of regular job workers, who comprise the majority of members of the two major labor organizations, may shrink with increasing labor protection for contract job workers. Thus, the large unions rejected trading the interest of regular workers for that of irregular contract workers.

The interest of contract workers is seriously under-represented in the KCTU. As of February 2007, of all the 1,088 representatives of KCTU, the number of irregular worker representa-

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workers). The wages of the irregular workers were 49.7 percent of the wages of regular workers, and the unionization rate of irregular workers was merely 2.4 percent (190,000 of 7,840,000). The rate of the regular workers was 22.7 percent (14,300,000 of 63,100,000) as of 2003. Bank of Korea, “An Analysis of the Dualistic Status of Korean Labor Market,” *Statistical Research Monthly Report* (December, 2004); *Maeil Daily Economic News* (Seoul), December 5, 2004; *The Daily Labor News* (Seoul), November 20, 2003.

24. *Joongang Ilbo* (Seoul), February 14, 2004.

25. *Kyunghyang Daily News* (Seoul), November 30, 2006; Korean Ministry of Labor, *On the Issues Proposed by the Labor* (Seoul: The Ministry of Labor, 2004), online at [www.molab.go.kr](http://www.molab.go.kr).

26. *Daily Labor News*, October 10, 2004.

tives was merely 30 (3 percent).<sup>27</sup> The allocation system of high committee members and representatives for irregular workers in the KCTU has not passed for more than one year.

Another example of discrimination against contract job workers can be seen in a survey conducted in 2004 by the FKTU.<sup>28</sup> It reported that members of the FKTU who were regular workers put first priority on conditions of employment such as wage increases, welfare in companies (39.4 percent), and stability of employment (32.4 percent). Almost half of the respondents (44.9 percent of 1,193) were against making a concession to improve the wages of irregular workers. Additionally, 45.7 percent of respondents were against freezing or keeping the wages of large company workers low to improve those of small and medium-sized company workers.

Trade unions of regular workers tend to have little regard for contract workers in collective negotiations. The Hyundai Motor Company Labor Union is one of the largest unions among the KCTU member unions. In 2003, the company and the labor union came to an agreement to raise the basic pay by 98,000 won and to offer 100 percent of productivity improvement incentives and an extra bonus of 1,000,000 won to regular workers. With respect to irregular workers, both parties agreed to raise their basic pay by 73,000 won, pay 100 percent of productivity improvement incentives, and establish a new long-service allowance.<sup>29</sup> Since then, the increment of contract workers' wages has been pegged at 80 percent of that of regular workers. As a consequence, the wage disparity between the two has widened rather than narrowed. Even the KCTU is less enthusiastic about drastically improving the labor conditions of contract workers.

Discrimination against contract workers by regular workers is more evident in cases in which union leaders took bribes for employing temporary contract workers and partly used the money as campaign funds for a chairperson of a branch union.<sup>30</sup>

27. *Hankyoreh shinmun* (Seoul), January 23, 2007.

28. The Federation of Korean Trade Unions, *The Report on the Union Members' Attitude Survey 2004* (The Federation of Korean Trade Unions, 2004), online at [www.fktu.or.kr](http://www.fktu.or.kr).

29. *Chosun Ilbo*, August 6, 2003.

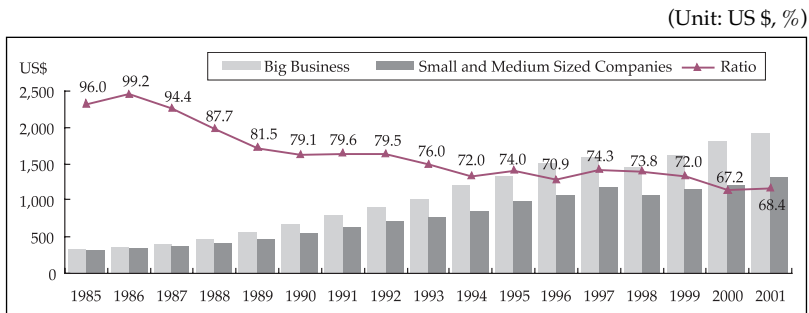
30. *Chosun Ilbo*, January 22, 2005; May 10, 2005.

It is an open secret that a union leader usually uses his power to intervene in the labor employment process. In these cases, however, the KCTU did not take any action against the wrongdoers and left the issues unsettled. Under the KCTU's virtual endorsement, other member unions also regarded those cases as customary practice and have even emulated them.

Moreover, both the KCTU and the FKTU have shown little regard for the issue of the national economy. Leaders of these organizations did not induce their leading member unions to come to agreements by providing guidelines for a comprehensive strategy for wages. Instead, they had key member unions reach agreements first, and then other members followed their practices. The two organizations' capability to lead wage negotiations at an encompassing organization level has been woefully lacking.

The data of the level of organization, wages, and welfare regarding small and medium-sized company workers show that the formation of encompassing organizations in Korea after the country's democratization in 1987 has not helped to increase benefits for general laborers and public interests. However, the two encompassing labor unions have tended to advocate the exclusive interest of "core unions," mostly founded upon big businesses. This itself exhibits a failure of the encompassing organizations in Korea.

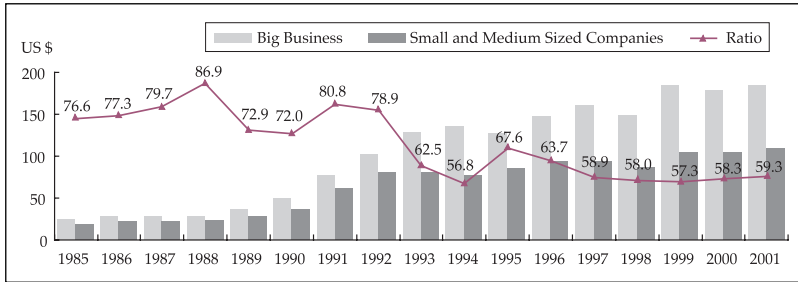
Figure 2. Increase in Wages and the Gap between Big and Small-Medium Businesses



Source: Korean Ministry of Labor, *The Report on the Employing Cost of Companies* (The Ministry of Labor, 1995; 1996; 1997; 1998; 1999; 2000; 2001) (various years).

Figure 3. The Gap in Corporate Welfare between Big and Small-Medium Businesses

(Unit: US \$, %)



Source: Korean Ministry of Labor, *Report on the Employing Cost of Companies*.

As Figures 2 and 3 illustrate, since democratization in 1987, the gap between the wages and welfare between companies has widened in relation to the size of the companies.<sup>31</sup> This has resulted from the increased bargaining power of the labor of big business that formed the core of the two peak labor organizations. That is to say, contract workers and those of small-medium sized firms did not benefit from the rise of encompassing labor organizations.

In sum, the advancement of the encompassing labor organizations ironically deepened the polarization of workers in Korea and aggravated the conflict between big and small labor unions. Little evidence exists to support the contribution of encompassing labor organizations to the stabilization of industrial relations in Korea. Likewise, these organizations do not seem to consider national interests. Overall, this demonstrates the failure of the encompassing labor organizations in Korea.

31. In Figures 2 and 3, the percentage is the ratio of wages and welfare of small and medium-sized companies at the company level to that of big businesses. In these tables, “big business” means a firm with more than 300 employees, and “small and medium-size” means one with less than 299 workers.

### *Factional Struggles and Politicization of the Encompassing Organizations*

The Korean case shows that the politicization of labor unions deepened with the development of the encompassing organization of these labor unions. Previous authoritarian regimes (with the developmental-state strategy of keeping the wages of labor low) had regarded labor as a target of political control. In Korea, the labor movement has been a kind of sociopolitical movement for democratization. The leaders of the labor organizations have not considered the economy of the entire nation, but have been more interested in winning the struggles among the opposing factions within the labor unions. These leaders also have tended to regard the organizations as a means to hold hegemony in the labor movement. The factional conflicts within the labor unions are deep-rooted, and they often escalate into the politicization of the labor movement.

One example is the factional dispute over the decision on whether the KCTU would attend the Tripartite Commission in 1998. The diverse political opinions in the KCTU were classified as roughly twofold. One was the faction of the "Social Corporatism Labor Movement," which claimed to want to attend the Tripartite Commission to minimize the damage to workers in corporate restructuring and to reform the social systems with measures such as securing basic rights for labor unions and social reformation. The other was the "Class and Political Labor Movement" faction, which claimed that the role of labor in the commission would be used merely as a "pawn." It argued that its participation might defeat the purpose of the labor movement, because the economic policy based on neo-liberalism in the flexible labor market was advised by the International Monetary Fund (IMF).<sup>32</sup> Eventually, antagonism between the two factions led to violence over the issue of social negotiations in a temporal representative meeting of the KCTU in 2005.<sup>33</sup>

"The Struggle Committee for Breaking the Social Pact and

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32. Ahn Chulheung, "Sahoejok chohapchuui in'ga, kyegupchok nodong undongin'ga?" (Social Corporatism or Proletarian Labor Movement?), *The Voice of People*, vol. 149 (November, 1998), pp. 122-25.

33. *Daily Labor News*, February 2, 2005; *Joongang Ilbo*, February 3, 2005.

the Consultation of the Labor, Business and Government," a hard-line faction within the KCTU composed of thirty labor organizations and company unions, claimed that labor unions could participate in the tripartite negotiation when labor held a dominant position vis-à-vis the government and business. Otherwise, it argued, they would simply be exploited. On the issue of attending the social negotiation, sharp conflicts between the hawks and the doves continue to deepen.

Internal discord over the social negotiation within the KCTU originated from the historically deep-rooted confrontation between its factions. The factions in the KCTU are classified into the National Faction (*kug'minpa*), the Central Faction (*chung'angpa*), and the Field Faction (*hyunjangpa*). The last two factions are of a leftist nature. In particular, among the factions, the "Labors' Power" of the Field faction has been the most hawkish. It strongly refuses any talks or compromises under this regime, arguing instead that it should block the incumbent leaders' attempts to return to the Tripartite Commission. Owing to such factional struggles, talks and compromises have been denied and results achieved through struggles without compromises have been regarded as a legitimate practice.<sup>34</sup>

These conflicts have prevented the encompassing organizations from collecting interests evenly, which limits the functions of the encompassing organizations. The internal clash over the political orientation of the KCTU makes labor strikes more frequent and fierce. A factional interest dominates over that of the KCTU as well as that of society as a whole.

### *The Conflicts between the Encompassing Labor Organizations*

In Korea from the 1960s to the 1980s, the authoritarian regimes, which kept up the individual firm-based labor organization policy as an effective control on labor, had recognized the FKTU as the only legal labor organization at the national level. It is natural for the FKTU and the KCTU to be very heterogeneous. The former has been on a reformist line with a conciliatory attitude toward the labor policy of successive regimes. The latter, however, emerged with the labor movement in 1987 as a sepa-

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34. *Chosun Ilbo*, February 3, 2005.

rate organization that adhered to a revolutionary line. The conflict between the two has gradually been aggravated. However, it seemed to dissolve during a "general strike against the New Korea Party (NKP)," which was the ruling party in 1996. It took only seven minutes for the NKP to exclude the opposition parties and rush through several bills, including the Labor Law and the Law on the Agency for National Security Planning. This general strike was initiated by the KCTU with the full support of the FKTU, and they succeeded in getting the Labor Law amended. Subsequently, they were able to finally sit together at the Tripartite Commission, which consisted of the government, business, and the (two encompassing) labor unions in January 1998.

Despite the collaboration, the ideological conflicts between the two have been expressed in their lineups and in the lines of the movement, acting on an underlying cause against the solidarity of the labor class. First, the FKTU is mostly composed of public and governmental institutions and small and medium-sized company unions, including the financial, public service, fabric distribution, and mining industries. In contrast, the KCTU is mostly composed of large-sized companies in manufacturing, including the metal and chemical industries. This structural difference encourages the two to take their own lines. The FKTU has been receptive to the government's policy and has conducted both a moderate and a corporative labor movement, whereas the KCTU tends to conduct a strong militant union movement based on its systematic power in firms.

Over political lines, a relatively wide gap has developed. Acquiescing to the political lines of regimes, the FKTU adopted its basic policy to support a pro-labor candidate in the fifteenth presidential election, Kim Dae-jung, the candidate of the National Congress for New Politics Party. However, rather than support any of the existing parties, the KCTU decided to establish a new political party to support its democratic union movement. As a result, the KCTU has conducted a political movement to obtain public support through its own policies on the basis of its morality and democratic features and not through money and organizations.

These separate political lines brought about antithetical results in the seventeenth general election in 2004, and the political positions have rapidly changed. With a total of twenty-eight

candidates running for the election under the Green Social Democratic Party, the FKTU could not win even one seat in the National Assembly. The fact that the party with more than 800,000 members got just a 0.5 percent approval rating means that it could not get support even from its own members. However, the KCTU-based Korea Democratic Labor Party (KDLP) emerged as the third-largest party with a 13.1 percent party approval rating and ten seats in the Assembly.

The headquarters of the two organizations have even competed to support candidates running for chairpersons of local and company unions. Additionally, the agreement to introduce bills together was broken and antagonism was expressed when bills were introduced solely by the KDLP-KCTU.<sup>35</sup>

An extremely wide gap has developed between these groups, especially over the passing of the bill regarding contingent work. On the whole, the FKTU was broadly positive about passing the bill and actively participated in social conversations and in negotiations with several layers of governments. In contrast, the KCTU was vehemently opposed to passing the bill, arguing that it would make contingent work legal and increase the number of contract workers. The KCTU declared the uselessness of the Tripartite Commission in its provisional representative meeting on September 19, 2006, one and a half years after its first participation on April 4, 2004.<sup>36</sup> It also claimed that the bill would lead to the abuse of irregular workers, since it was not accompanied by a clause limiting the reason for using temporal workers.<sup>37</sup>

Both organizations know the benefits of cooperation. However, the fear that the rival organization could pursue exclusive interests only deepens the conflicts between the two. In sum, the hypothesis that the progress of the encompassing organizations should make them recognize their social responsibilities and go into negotiations more seriously has little relevance in Korea. Rather, the progress of trade unions made the negotiation game more radical and expensive and did not contribute to increasing trust.

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35. *Daily Labor News*, July 31, 2004.

36. *Daily Labor News*, September 19, 2006.

37. *Kyungnyang Daily News*, November 30, 2006.

*The Conflicts between the Central Organizations and the Member Unions*

One of the big problems of the encompassing organizations is their weak grip on their branch unions. A typical case is the confrontation between the Hyundai Heavy Industries Union and the Federation of Korean Metal Workers Trade Unions (FKMWTU), the backbone organization of the KCTU, which took place in February 2004 and was sparked when Park Il-soo, a subcontracting worker within the firm of Hyundai Heavy Industries, burned himself to death. After calling him a hero on the basis of a note that said "Stop discrimination against contract job workers!" the federation attempted to trigger a nationwide struggle. However, attempting to cope with the situation passively, the branch union argued that the federation was making things worse by its intervention; otherwise, the issues could have been solved by the branch itself. The conflict was aggravated, and on September 15, 2004, the federation banished the branch union from the list as a legal measure against its self-serving behavior and as a way to tighten its discipline. The branch union had once initiated the KCTU and its militant labor movement such as the sit-downs on the Goliath Crane in 1990. However, it gradually took a more moderate approach from the militant struggles of the KCTU, instead seeking economic utility such as wage and job stability.

The second example is that of the 2004 clash between the Seoul National University Hospital Workers' Union (SNUHWU) and its parent organization, the Korean Health and Medical Workers' Union (KHMWU). The branch, displeased by the details of an agreement at the industrial level between the KHMWU and the Korean Hospital Association, persisted in striking to demand negotiations at the branch level. The KHMWU reprimanded Kim Ae-ran, the chairperson of the branch, for behaving selfishly. The SNUHWU strongly reacted to article 2, chapter 10 in the agreement, saying "Regarding the wages and a drop in working hours, the agreement at the industrial level is superior to that at the branch level," because this article would block negotiations at the branch level.<sup>38</sup> The SNUHWU, the biggest of the 120 KHMWU

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38. Joohee Lee, "Evaluation on the Industry Level Negotiation of Hospital

unions, finally seceded from the KHMWU and returned to the individual firm-based labor union system.<sup>39</sup>

Another example is the decision of GS Caltex (formerly the LG Caltex Refinery) Union to leave the KCTU in its temporal representative meeting. It had trouble with the KCTU owing to the aftermath of a general strike staged for eighteen days starting on July 19, 2004. The union accepted that its labor strike was politicized with the KCTU's intervention, and it was a grave mistake that it did not focus on the internal issues.<sup>40</sup>

A more recent case is the 2007 conflict between the Hyundai Motor Company's local union and the Korea Metal Workers' Federation (KMWF), the industry-level union under the umbrella of the KCTU. The KMWF ordered the Hyundai Motor Union to back a strike being held by the KCTU against the Korea-U.S. FTA (Free Trade Agreement). However, nearly two thirds of the union members of the Hyundai Motor Company Union did not join in the strike (the absentee rate was 65 percent on June 28 and 63.4 percent on June 29). Union members of the Hyundai Motor Company's maintenance sector even put a veto on the strike after the general strike guidelines were issued by the KMWF. This demonstrated the limits of the leadership of the upper labor organization (which forced the political strike) to override the opinions of the union members.<sup>41</sup>

The confrontation between the higher and lower level organizations has intensified with the weakening of leadership of encompassing labor organizations. This can be explained by the principal-agent theory. Confrontations happen because the KCTU, an agent in commission, neglects the interests of the principal, its branch unions, in an attempt to pursue its own interests or political goals. That is, if an agent seeks its own selfish interest against the principal's will, the principal would dismiss the agent. The Hyundai Heavy Industries Union, the Hyundai Motor Company Union, and the Seoul National Uni-

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Industry," *An Evaluation on the Industrial Relation of the Participatory Government and the Future Task—Concentrating on the Industrial Relations of the First Half Year of 2004*, Forum of Korea Industrial Relation Study Group (Korea Labor Institute, 2004), p. 8.

39. *Korea Economic Daily*, April 22, 2005.

40. *Joongang Ilbo*, December 24, 2004.

41. *Joongang Ilbo*, June 30, 2007.

versity Hospital Workers Union are relatively important principals in the FKMWTU (or KMWF) and the KHMWU.

These kinds of deviations have been well observed in the representative meetings of the KCTU. The meetings, composed of member union representatives allocated by the number of members who pay dues to the KCTU, are the highest legislative organ in the KCTU. The meetings have been held eleven times from 2004 to 2006, but they have functioned well only three of these times. Two of them were to elect leaders, two failed to meet the quorum, another two meetings were adjourned by secession of the representatives, and three meetings were crippled by violence. This is a direct example of how the leadership of the KCTU is not well authorized by its members and how the interests of its member unions are not in agreement with the central organizations.<sup>42</sup>

In sum, the confrontation between the member unions and their higher organizations developed because the former did not agree with the political actions of the latter agent. The Korean case shows the possibility that confrontations between the higher and lower organizations can worsen with the progress of encompassing organizations. Rather, the encompassing organization can be aggravated by principal-agent problems. The confrontation within encompassing organizations can bring about greater social costs than might occur under the individual firm-based union systems.

## Conclusion

Olson's theory supposes that when labor unions are organized in an encompassing manner at the industrial and national levels, they can better prevent problems of collective action and bring about more stable industrial relations. This theory regards the encompassing labor organization as a positive institution, and assumes that well-organized encompassing organizations have a strict internal order and the ability to consider the interests of the entire society.

The Kim Dae-jung government attempted to install a Tri-

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42. *Hankyoreh shinmun*, January 23, 2007.

partite Commission in Korea because of its expectation of a positive influence of the encompassing organization of labor. The government, which was advocating a participatory democracy, intended to establish more stable industrial relations by institutionalizing talks between business and labor. Consequently, the organization of nationwide and industry-level unionization has advanced in Korea despite its decreasing unionization rate. However, from 1998 to 2006, the institutionalized tripartite talk did not contribute to establishing stable industrial relations. In some respects, the situation only became worse.

This study reports the failure of the encompassing organizations of labor in Korea. The encompassing labor organizations pursued their exclusive interests rather than those of society as a whole; conflicts between the peak labor organizations became more substantial and their negative impact on society larger; confrontations between higher- and lower-level unions within the labor organizations became more frequent and intense; while internal factionalism and politicization grew more rampant. Such problems are supposed to be tackled, not exacerbated, through the encompassing organization of labor unions.

The Korean case suggests that the optimistic presuppositions of encompassing organizations of labor need to be careful reassessed in Asia. In the case of Korea, parliamentarianism and representative democracy have been threatened by the excessive politicization of civic groups. If encompassing labor organizations also grow politicized, the attempts at social corporatism and a social pact will make political parties weaker with increasing political transaction costs. In East Asia, which has no experience with consociational democracy and calm and interest-calculating group negotiations, the development of encompassing labor organizations may intensify the confrontation between the government, business, and labor.

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