



KLI Working Paper

October 30, 2017

**For Inquiry:** KLI International Cooperation & Information Office

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Employment and Labor Policies in Transition : Employment

# Reducing Actual Working Hours for Work-Life Balance

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## I. Introduction

“History of labor movement is that of reducing working time.” The annual hours worked in Korea have been steadily decreasing from over 2,700 in 1980 to 2,497 in 2000 following the 1989 revision of the Labor Standard Act.<sup>1)</sup> It further went down to 2,210 in 2015 after the 2003 amended Labor Standard Act<sup>2)</sup> was gradually expanded in coverage by workplace size.<sup>3)</sup> Although it was shorter by as much as 399 hours (15.9%), going from 2,512 in 2000 to 2,113 in 2015, it was still 347 hours longer than the OECD average of 1,766.<sup>4)</sup>

There has been an ongoing dialogue on the possible reduction of working hours and its associated issues. The Tripartite Commission declared, in the Tripartite Agreement on Improving Long Working Time and Working Culture on Sept. 30, 2010, “Long working time obstructs further advancement of the Korean society by lowering productivity and undermining the quality of work, weakening the basis of job creation, and leading to low birthrate.” It went on to agree, “Labor, management and government...will actively cooperate to reduce the annual average working time to 1,800 hours across all industries by 2020.” It was reaffirmed in the Sept. 15, 2015 “Tripar-

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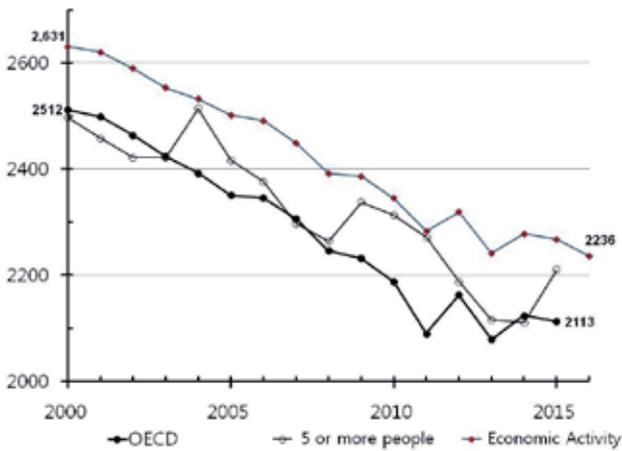
1) The statutory regular working hours was reduced from 48 hours per week to 44. It allowed Saturday to be a day off every other week.

2) The statutory regular working hours was redefined at 40 hours per week. It ushered in the 5-day workweek, which has now almost become the norm.

3) See Figure 1. Data from *Status Survey on Working Conditions by Employment Type* (on workplaces with over 5 employees) by the Ministry of Employment and Labor. The trend is almost identical with the trend in annual working time as captured in the *Economically Active Population Survey* and estimations using OECD standard, although to a differing degree.

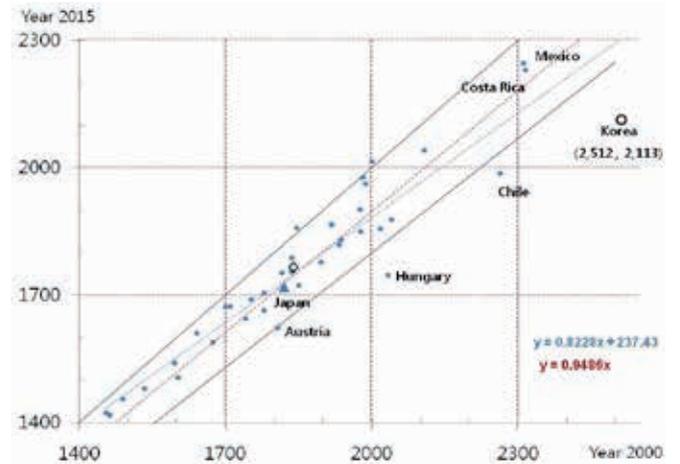
4) See Figure 2 based on the OECD Statistics as of February 2017. It is longer than Japan's by 394 hours and by 742 hours than Germany's, which is the shortest in the world. Other countries where working time was cut by over 10% in the same period are: Hungary (14.0%), Chile (12.2%) and Austria (10.1%). The OECD average reduction in the same period was 4.0%.

Figure 1. Trends in Annual Working Hours (2000-2016)  
(Unit: Hours/year)



Source: National Statistics Portal by Statistics Korea.

Figure 2. Annual Working Hours in OECD Member States (2000 and 2015)  
(Unit: Hours/year)



Source: OECD Statistics (February 2017).

tite Agreement on Improving the Labor Market Structure - a Social Compact.”<sup>5)</sup>

In its roadmap for 70% employment rate (announced on June 4, 2013), the previous government observed, “Long work is prevalent in the labor market centered on male workers and full-time jobs, labor productivity is quite low, and the use of flexi-work such as part-time is very rare.” It then offered the target of “reducing the actual hours worked per year to below 1,900 hours by 2017, to create incremental jobs (0.6% per year).”<sup>6)</sup>

Such discussion is based on the facts in the Figure 3 and Figure 4. The rationale was that since 100-hour reduction in annual working hours would raise the employment rate by an average of 1.9%p (based on the situation of the time), reducing it to 1,873 hours could help achieve 70% employment rate. Since 1%p rise in part-time jobs raises

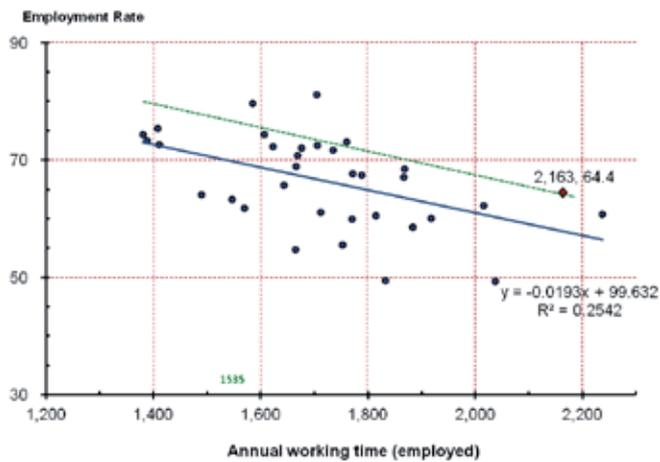
overall employment rate by 0.54%p, if share of part-time exceeds 20%, it could also help achieve 70%. Therefore, it was a positive outlook and a blueprint for labor market policy that the employment rate could reach 70% by increasing part-time and reducing working hours.

Despite such initiatives, however, long working time remains the norm today, so much so that in a recent survey conducted by the Korea Women’s Development Institute, “Changing the long-hour practice” (22%) was picked as the “policy priority for the government to achieve work-life balance.”<sup>7)</sup>

This study reviews the different circumstances that cause long working hours to be the norm and presents a number of policy tasks to achieve better work-life balance (WLB).

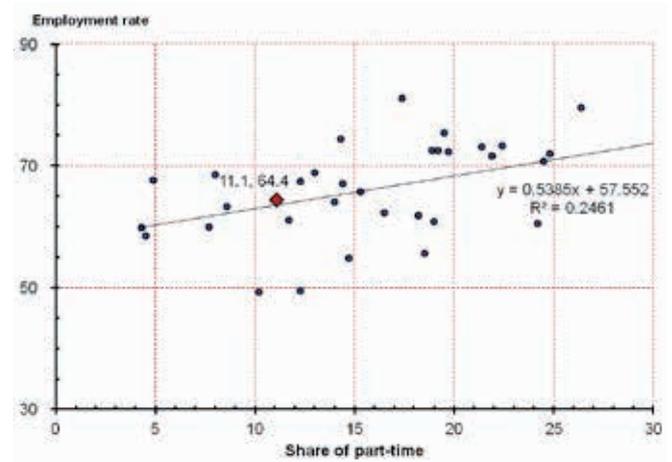
5) A number of options are being proposed to meet this goal: counting holiday work as overtime (gradual application, “special overtime work,” etc.), reducing exceptions from working time rule (from current 26 sectors to 10), improving the working-time exception regulations (for workplaces with fewer than 5 employees, agriculture, etc.), eliminating working-time regulatory loopholes, introducing flexible working hours, discretionary working hours and using up annual paid leave.  
 6) Of the 4 major strategies, “Reforming the working practice and working time” included the following key challenges: changing the long-hour practice, creating decent part-time jobs and promoting flexible working hours. As for changing the long-hour practice, the following tasks were identified: counting holiday work as overtime work, reasonable adjustment of current exceptions to the working hour rule, applying the Labor Standard Act’s working hour provisions to workplaces with fewer than 5 employees, and promoting the use of annual paid leave. For creating decent part-time jobs: the public sector to lead the way in creating decent part-time jobs, and disseminating it to the private sector; guaranteeing the right to shorter working time and eliminating discrimination against part-time work (including non-coverage of the 4 major social insurance).  
 7) Published on Feb. 13, 2017. This share was much higher (29%) in large companies with over 300 employees than micro enterprises with 5-9 employees (19%). The next in percentage is “promoting flexible working arrangements such as flex-time, at-home work and part-time,” (14%) “public campaign to improve social perceptions and corporate culture” (13%). “Broadening maternity protection” was less than 5%.

Figure 3. Annual Working Hours and Employment Rate in OECD Members  
(Unit: Hours/year)



Note: Korea is marked in diamond (as of 2012).

Figure 4. Part-time Share and Employment Rate in OECD Members  
(Unit: Hours/year)



## II. Long Working Time: Status in Korea

### 1. Working hours in Korea<sup>8)</sup>

#### A. Working hours

Working hours is found to be 192 hours/month on average,<sup>9)</sup> with only 42% working fewer than 178 hours/month on average (40 hours/week). It indicates that a considerable number of workplaces have overtime work with close to 10% recording over 231 hours/month (52 hour/week).<sup>10)</sup>

Among 74% of the workplaces, the official working time is 40 hours/week, but 44% of them, 48.5% of workers work 23 hours/month overtime, with 7% of them actually reporting over 54 hours/month in overtime (12 hours/week). Moreover, 33% of the workplaces, 40% of their employees work over 25 hours/month on holidays (5.6

hours/week).<sup>11)</sup>

#### B. Annual paid leave

Annual paid leave allowed is 14.7 days on average, with only 9.9 days actually being used, for a paltry 67% uptake.<sup>12)</sup> Meanwhile, 61% of the work places gave only 3.4 days of summer vacation on average. Reasons for not using up the annual paid leave were found to be “Difficulty finding substitutes,” (41%) and “Employees wished to earn additional allowance” (31%). There are 58% of the workplaces that pay out allowance for the unused part of the annual paid leave.

A majority of the workplaces are aware of the program to promote use of annual paid leave (61%), but only 54% of them were actually implementing it. Of those that are not implementing them, 57% responded, “No need to promote use of annual paid leave.”

8) Most of the results here are cited from the *Status Survey on Working Time* conducted by the Korea Labor Institute in 2016 on 1,570 non-agriculture companies with 5 employees or more.

9) It is equivalent to 43.3 hours/week, and 2,300 hours/year. It is around 2,123 hours when accounting for 2 weeks of statutory holidays and 2 weeks of annual paid leave.

10) The usual working days are 5.3 per week. Working 5 days was 65%, while 6-7 days also took up 19%.

11) Main reasons for overtime (holiday) work are: “Unavoidable because of the job specificities” (42%, 48%) and “Temporary increase in orders or demand” (30%, 23%). This reveals a tendency to absorb additional work with the minimum size of workforce rather than through more efficient HR management. As for the appropriateness of the working time, only 20% thought it was “(Quite) long.”

12) In 5.9% of the workplaces, no annual paid leave was given, while 49% gave 15 days, and 21% allowed over 15 days. Including the no-vacation workplaces, the average annual paid leave is 13.8 days. The average uptake is 9.1 days, including the 7.7% of the employees who took no annual paid leave at all.

### C. Flexible working arrangement, etc.

Though 63% to 73% of the workplaces were aware of flexible working arrangements, such as flex-time, selective working hours, discretionary working hours, etc., the uptake was still highly limited, with only 3~9% actually utilizing them.

Only 8.2% of companies employed part-time workers and the average share of part-time workers among them was 16%. Main reasons for not using part-time work arrangement are: “Few jobs appropriate for part-time work” (58%) and “Difficulty maintaining work continuity” (24%). This result is indicative of corporate practices still centered on full-time work. Of the responding workplaces, 47% believed that 15% of all tasks could be performed through part-time work. Notably, the number was higher (23%) in the companies that were actually using part-time workers.

## 2. Low use of part-time jobs

Supplementary Survey to the Economically Active Population Survey (as of Aug.) showed an increase in the share of part-time workers out of all wage earners, from 5.8% in 2002 to 11.6% in 2015 and 12.8% in 2016 (2.48 million). But it is still low compared to its OECD average of 16.8% in 2015 and much lower than those countries with relatively high employment rates.<sup>13)</sup>

Such low use of part-time work is attributable to its adverse features - low wage rate, insufficient coverage of social insurance and other benefits, and deficient employment security.<sup>14)</sup> Average monthly earning of part-time workers is 740,000 Korean won, only 27% of full-time regular workers’ (2.8 million won), equivalent to

relative hourly wage of 59%. Social insurance coverage, at 15~21%, is far lower than regular workers’ at 82~86%, while benefits coverage, at 9~18%, is also significantly lower than regular workers’ at 74~86%.

## 3. Exceptions from Labor Standard Act

The Labor Standard Act, aimed at “Promoting a balanced national economy by securing and enhancing basic livelihood of workers by regulating the standard of working conditions in accordance with the Constitution,” allows a number of exceptions on various grounds. By doing so, it creates loopholes and ultimately grants justification for long working hours.

The main provisions granting exceptions to working time rule are: Article 11-4 on Applicability where exceptions from working time and annual paid leave are granted to “Business or place of business employing 4 or fewer workers on a permanent basis”; Article 63 on Exceptions where exceptions from working time, break time and annual paid leave are granted for the primary industry, security and monitoring workers; and Article 59 on Special Exceptions from Working Time and Break Time where overtime work more than 12 hours per week are allowed for some sectors.

In addition, Article 18 on Working Conditions for Part-Time Workers allow exceptions from important working conditions like paid holidays and annual paid leave for those whose regular working hours is less than 15 hours per week, serving as a disincentive against part-time work. And the administrative interpretation that holiday work is not counted as overtime work also essentially legalized long working hours up to 68 hours per week.

13) The Netherlands (38.5%), Switzerland (26.8%), Australia (25.2%), Japan (22.7%), UK (24.0%), Germany (22.2%), Denmark (20.0%).

14) Employees who responded that they had job security went up slightly from 54% in 2011 to 57% in 2016, but it is still low. And the average tenure, at only 1 year and 8 months, is much shorter than the 2 years and 6 months of temporary workers and 7 years and 5 months of non-typical workers. Voluntary choice of part-time work was 58%, lower than the 76% for regular work, but similar to that for temporary work (57%), and higher than that for non-typical work (38%).

### III. Policy Options for Reducing Actual Working Hours

Reducing the actual working hours must move in the trajectory of guaranteeing right to health and work-life balance for workers while securing business soundness for companies by allowing more efficient working time management. Creating additional jobs is an expected by-product of such efforts. Discussions on how to make it possible have matured enough and all that is needed now is the will to implement them.

#### 1. Simple calculation of working hour reduction

Here is a simple scenario. There are long working time (60 hours per week), normal working time (40 hours per week) and part-time (30 hours per week), with each accounting for 25%, 65% and 10%, respectively. With 2 weeks a year out of 52 being public holidays, the total annual working hours would be 2,200. If 1-2 weeks of annual leave is used, it becomes 2,156 or 2,112 hours (similar to the OECD's 2015 statistic).

Let's assume only working hours of the long working group are reduced from 60 to 52, with no change in the workers' composition. This would bring down their working hours to 2,100 when annual paid leave is not accounted for and further to 2,058 or 2,016 with using 1-2 weeks of annual paid leave.

In addition, let's assume that the percentage of long working group goes down to 10%, the normal working group goes up to 70%, and the part-time group goes up to 20%. Even with no annual paid leave used, the total annual working hours are reduced to 1,960. With use of 1-2

weeks of annual paid leave, it is further reduced to 1,921 or 1,882. If all of the minimum 15 days prescribed in the Labor Standard Act are used, it further goes down to 1,842.

This shows that simply by limiting the hours to 52 a week, easing long working time, promoting part-time work and securing/using up statutory annual paid leave, can bring down the annual working hours to the currently talked-about goal of 1,800s.

#### 2. Counting holiday work into overtime work, revising the Labor Standard Act

##### A. Including holiday work in calculation of overtime work limit

One topic where the discussion is almost concluded is counting holiday work as overtime work. One option that was considered in the course of discussion was to allow special overtime work (8 hours per week). But doing so would allow up to 60 hours per week, negating the significance and benefits of reducing the actual working time. Thus, it would be better to maintain the current limit on working time set by the Labor Standard Act.

##### B. Improving holiday and paid leave arrangements

Holiday and paid leave arrangements need to be improved.<sup>15)</sup> When a public holiday falls on the weekend, alternative holidays should be used to guarantee the day off (already being partially used). Statutory annual paid leave should be reasonably granted to "all" employees, and its use should be encouraged by prohibiting financial compensation for the unused portion.<sup>16)</sup>

##### C. Abolishing exceptions to the Labor Standard Act

Revising the Labor Standard Act in the way that abol-

15) The 5-day workweek means there are 2 days off in a week, but one day is a paid day off and the other is non-paid, which is causing some confusion. It also seems necessary to start discussion on how to make reasonable improvement.

16) For instance, for fixed-term contract under 1 year, annual leave equivalent to one day per month can be given. If the employee has worked over 80% of 1 year (9.6 months), it could be calculated as: (Contract term (months) / 12) x 15 days.

ishes its numerous exceptions would make it applicable to “all” workers. Going further, the laws on social insurance, which are based on criterion of the Labor Standard Act, should also be revised to make social insurance applicable to “all” workers. There are no compelling reasons why workers in small enterprises (with fewer than 5 employees), in agriculture and fishery, or security/monitoring sectors should be exempt from working time regulation.

For example, exceptions are given to certain sectors for their need to be available to consumers at all times (24-7 in an extreme example), but each worker’s working time limit can still be met while providing such all-time availability.<sup>17)</sup> And the 3 team/3 shift system (8 hours a day, 56 hours a week) would also exceed the working time limit. Changes need to be made to be legally compliant.<sup>18)</sup>

#### D. Perceptions on broadening the Labor Standard Act coverage

The *Status Survey on Broadening the Labor Standard Act Converge* (Korea Labor Institute, 2016) revealed varying views depending on the Act’s articles. The result showed that 43% of the businesses with fewer than 5 employees (1,239) were already compliant with the statutory maximum working hours of 40 hours per week (8 hours a day), and 23% were compliant with the maximum 12 hours of overtime. With regards to broadening the coverage, 37% were feeling burdened and, for paid annual leave, only 21% were already implementing it while 61% felt burdened.

In contrast, most of the businesses in exempt sectors responded that they were already compliant with the maximum 12-hour overtime. And 46% of the businesses in the primary sector also responded that they were compliant

with the statutory working time, and 30% with the overtime rule, while 45% were feeling burdened by broader coverage. Main reason for seeing broader coverage as a burden is the additional wage. This appears to stem from employers’ perception that strict application of the working time rule could weigh down on their business profitability.

#### E. Need to increase labor supervisors

Broadening the legal coverage of the working time rule means more businesses to be supervised, and the current size of labor supervisors, who have quasi-judicial authority, would not suffice to ensure strict compliance. Thus, it would necessitate increase in the personnel supervising labor affairs, in whatever position. Given the social value to be gained by reducing actual working time, such increased staffing appears to be crucial.

### 3. Promoting part-time work

#### A. Eliminating discrimination

Although part-time work has the benefit of improving individuals’ utility (satisfaction) and employment rate by enabling labor supply while circumventing time constraint,<sup>19)</sup> there is only passive supply of part-time labor due to the aforementioned undesirable characteristics.<sup>20)</sup> Thus, to promote part-time jobs, what has to precede all else is to eliminate discrimination by employment type. To that end, guaranteeing working conditions, social insurance coverage and benefits for part-time work on a *pro rata* principle would be essential. The working time requirement under Social Insurance Act should be eliminated, and dual coverage should be allowed. For Employ-

17) If there are 2.5 employees working 68 hours per week, totaling 168 hours worked per week, it would require 3.3 employees working 52 hours or 4.2 employees working 40 hours to achieve the same hours. This would create 31% and 70% new jobs respectively.

18) If translated to identical effective labor, all other conditions being equal, there would be 7.1% new jobs created.

19) Literature review reveals that part-time work is chosen by young people who are studying and exploring career at the same time, women burdened with house work and childcare and older adults who are on the path to exiting the labor market.

20) Even if one’s optimum working time is 32 hours a week, absent the choice of part-time work, he/she must choose between full-time (40 hours per week) or no work (0 hours). The utility (satisfaction) from either would be lower than the optimum, and would pull down employment rate.

ment Insurance, this means that a partial unemployment benefit program has to be designed.

#### B. Public sector leading the way: Part-Time Conversion Requirement<sup>21</sup>

After announcing the employment roadmap, the government has been selecting “part-time civil servants” on a separate track. But there are controversies regarding their civil servant status, such as promotion and pension coverage. And even if changing their work-time arrangement is legally possible, it was highly unlikely to be chosen due to fear of disadvantages in promotion.

Thus, it is necessary to mandate conversion between part-time and full-time in the public sector, including the government. In other words, every 10 years out of the 30 years of working life, everyone should be required to change to part-time work for 1 year<sup>22</sup> so that no one would be disadvantaged, while the public sector can utilize 10% of its workforce in decent part-time jobs.<sup>23</sup>

#### C. Dissemination to the private sector

The private sector would see decent, non-discriminatory part-time work as a source of cost increase, which would actually reduce demand for such labor. But with strict enforcement of the 52-hour weekly limit, it is quite likely that passive demand for part-time work increase.

The low uptake of part-time work and results of the status survey show that there is still widespread vague anxiety over part-time work, but it should be noted that the workplaces that have experienced part-time work have less anxiety.

That is, incentives should be given to encourage use of part-time work, for example by giving corporate income tax benefits for a certain period (e.g. 3 years) for conver-

sion of full-time to part-time and for creating new decent part-time jobs. After companies experience the benefits of part-time work, they could voluntarily choose to continue or expand. Meanwhile, there should also be incentives for workers to opt for part-time work as a reasonable alternative, for example by granting social insurance premium benefits and income tax break.

#### D. Introducing the right to change working time arrangement

Particularly to promote part-time conversion, the right to reduce working time for various reasons should be guaranteed (“the right to part-time work”). For such scheme to be firmly entrenched, the right to return to the original working time should also be guaranteed once the reason for part-time is no longer in effect (“right to full-time work”). The right to convert to either working time would require more sophisticated working time management by the employer, which would be relatively easier for large companies compared to SMEs. Thus, any tax breaks to be granted as incentives should be differentiated by company size, and active support should be given for smaller companies that cannot help but use substitute workers.

## IV. Conclusion

The last two rounds of amendment to the Labor Standard Act have reduced the statutory working hours, and the discussion on further reduction continues today. The focus now is to bring it down to around 1,800 hours, to protect workers’ right to health, improve quality of labor and secure room to create more jobs in this era of low birthrate and population aging. A number of major ac-

21) Use of part-time work in the public sector is much less than in the private sector.

22) Part-time work can be used to allow time for childcare after the first 10 years, to prepare for promotion (self-development, training and education, etc.) after 20 years, then to prepare for reemployment (displacement service, etc.) after 30 years.

23) This scenario means that whereas they used 19 full-time workers, they can now use 18 full-time and 2 part-time workers, which would increase the public workforce by 5.3% over the long term.

tions have been discussed and agreed on in this process. Based on the discussion so far, this study presented ways to improve regulations on the labor market (including the Labor Standard Act) and to change the mindset among employers and workers.

Last discussion is on reduction of actual working hours from the perspective of lifetime work. The so-called “law on retirement at age 60” was enacted in 2013, to be effective in all workplaces this year, and the statutory retirement age is likely to be keep getting pushed up to the National Pension entitlement age or even abolished, as

Korea becomes a super-aged society. This means general extension in the working life. It is thus reasonable, unless other conditions change, to reduce the working hours of today to maintain the same lifetime income.<sup>24)</sup>

Reducing the actual working time, promoting decent part-time jobs, and extending or abolishing the mandatory retirement age would lay the groundwork for achieving work-life balance. Efforts to upgrade HR managements, ensure robust business operations, and labor-management efforts to improve labor productivity along the way would enable an overall upgrade in Korea’s working culture.

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24) Compared to the working life today, which generally begins at 27 and ends at 57, retirement at 60 would increase the working life by 10%, retirement at 65 by 26.7%. If working 44 hours per week for 30 years is optimum for retirement at 57, to bring the same lifetime income means 40 hours per week for 33 years when retirement is at 60, or 34.7 hours for 38 years when retirement is at 65.