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Employment and Labor Policies in Transition : Social Policy

Overview : Changes in the Labor Market and Social Policy Responses

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I. Diversification of Employment Types

The labor market is changing. In December 2016 when the so-called “Non-regular Workers Act” was legislated in response to an increasing number of non-regular workers in Korea, the term “non-regular worker” was generally used to refer to a fixed-term employee. Although the term technically covers any worker in various types of employment who falls outside the definition of a regular worker—a worker who has signed a non-fixed term employment contract and provides labor directly to the employer on the contract, the issues of non-regular workers were often perceived as those related to the job security of contingent workers. In just a decade, however, the issues have taken on different and much more complex forms.

There was a recent newspaper article about certain

workers who, while working at one workplace for three years, experienced a change of hiring entity four times as well as in employment status from “being employed by a contractor” to “a contract worker of the principal employer,” to “a freelancer” and then back to “being employed by a contractor” (The Korea Daily Labor News, 21 April 2014, page 2). The story reveals the harsh reality faced by non-regular workers today.

Although Statistics Korea’s Economically Active Population Survey indicates that non-regular workers account for less than 35% of all wage workers, it is assumed that their ratio would be much higher if they include workers involved in indirect employment and those who stand on the borderline between wage and non-wage labor (Jiyeun Chang, 2016). According to the employment type disclosure data released by the Ministry of Employment

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and Labor, the number of workers hired by in-house contractors on establishments with 300 employees or more stood at 930,000. However, it should be noted that this number includes neither the workers hired by in-house contractors on smaller establishments nor those working for external contractors that operate in separate establishments but whose working conditions and procedures are controlled by the principal employer. The number of persons in special types of employment is reported to be approximately 500,000 based on the Economically Active Population Survey, but Don-Moon Cho et al. (2016) estimated the number of non-regular workers in special types of employment at 2.27 million.

Given the term “non-regular workers” has been defined as a subset of wage workers, it cannot adequately represent workers in newly emerging types of employment. Perhaps, the term “precariat” which has been used since the 1980s to refer to all those in non-traditional forms of employment may be a more appropriate term. According to Guy Standing (2014), the precariat refers to a group of people that do not share the characteristics of the traditional working class, facing lives of insecurity and performing precarious work, e.g. temporary workers, independent and dependent contractors, and those engaged in non-standard work.

II. Mechanism that Brings About Changes

Low-wage jobs exist not only in sectors that have long been known to have low productivity but also in sectors that have newly emerged as a result of changes in technology and industrial structure. It has been suggested that there are three major factors that give rise to low-wage, precarious jobs: globalization, the shift to a service econ-

omy, and technological change. In addition, it appears that Korea’s job market has been significantly affected by intense low-wage competition resulting from its participation in the global value chain which includes rapidly industrializing East Asian economies such as China.

Among various factors, this paper focuses on the impact of technological change. The polarization of the labor force is considered to be caused by changes in technology that favor skilled over unskilled labor or that place emphasis on replacing repetitive tasks. Furthermore, advances in digital technology have helped replace not only human’s physical labor but also intellectual labor. These trends gave rise to a small group of high-income earners on one end, and a huge number of low-wage precarious workers on the other. It is observed that growth in both productivity and GDP is putting downward pressure on the median wage (Brynjolfsson and McAfee, 2015). Today, the group of low-wage precarious workers includes not only small, self-employed businessmen, franchise owners, and workers in special types of employment but also those in new types of employment, such as “crowd workers” and “mobile app workers.”¹⁾ This paper places more focus on the diversification of employment types, going beyond the issues of low wages and job insecurity.

The emergence of low-wage, precarious workers can be explained to a large extent by increased capital mobility resulting from globalization and the replacement of jobs by digital technology. However, these factors do not fully explain the diversification of employment types as an intermediate mechanism. Brandeis University economics professor David Weil (2016), who led the Wage and Hour Division of the U.S. Department of Labor under the Obama administration, calls the phenomenon resulting from the widespread use of contracting, franchising, third-party management, and outsourcing “the fissured

1) Advances in digital technology have created new jobs based on the internet platform. For instance, the “on-demand economy” is made of companies such as Uber that use digital platforms and digital networks to provide labor services to customers. “Crowd work” describes the outsourcing of certain tasks by companies to an undefined mass of people as a value creation process. Workers involved in these types of jobs are called “the digital precariat” (Krause, 2017).

workplace” or “the practice of companies shedding their own workers.” While large employers of the past developed internal labor markets to dominate employment practices and economize on transaction costs, those in the era of digital economy based on advanced network are able to provide standardized products and services even after shedding employment to other parties.

It is noteworthy that even companies doing business in sectors with a less developed network have actively employed an outsourcing strategy in Korea. It has been perceived that externalizing workers and business functions frees employers from various liabilities and the need to address wage fairness concerns. The existing industrial relations practices, which only offer protection for a limited scope of workers, have failed to curb such trends. In fact, advances in digital technology have accelerated such trends, even contributing to the increasing use of independent contractors in recent times, going beyond the practice of simple contracting.

Workers in indirect employment or special types of employment or freelancers that at one point would have been within the boundaries of conglomerate corporations now exist as precarious workers, uncertain of where they really belong. The consequences include negative externalities such as accidents and injuries; distributional inequality due to shifting surplus generated by businesses away from the workforce and to investors; and more often, violations of basic labor standards (Weil, 2016). It is necessary to address these issues through labor, employment, and social policies.

III. Responding through Social Policies

There can be different social responses to the changes in the labor market caused by advances in digital technology. For instance, whether the precariat is able to articulate demands with one voice, and whether organized labor can

work with a spirit of solidarity differ by country. Also, the ultimate interest lies in what policies will be selected by the government in response to the demands of civil society. However, all of these processes will be affected by path dependency of the existing system—regardless of whether the system has specific policy programs or long-standing practices. Although the policy directions required to address the changes in environment are clear, it is not easy to find measures to materialize and implement them.

The current changes in environment require a social security system that is “universal.” In today’s society, workers are involved in a variety of relationships with capitals, making it almost impossible for the government to build the so-called “customized” or “targeted” social protection system. Under such circumstances, universalism that ensures a basic standard of living for all citizens with no questions asked is indeed the only solution. However, it should be noted that Korea’s current social insurance system was designed during the industrialization period in order to protect wage workers. And, that is the starting point of building the social policy paradigm.

Without a doubt, the existing social protection system has to improve significantly to become truly universal. However, a universal social protection system is not, in itself, equivalent to a basic income. Basic income is a system in which a set amount of money is provided to all citizens regardless their past work experience, social insurance contribution, or job search effort. At this juncture, society needs to introduce universal cash benefits, going beyond social insurance benefits, which are also in line with the spirit of basic income.

However, introducing a high level of basic income right now is neither feasible nor desirable. The reason for saying it is not desirable is not simply because basic income—and social allowances such as child benefits—come with the risk of reducing the motivation to work. In fact, its demotivating effect upon workers may be lower than the cash benefit system which requires a person to provide proof of

“not-employed status.” The real issue is that the provision of cash benefits in the form of basic income may not be helpful for vulnerable population groups in need of special protection, resulting in persistent disparities in lifestyles according to income. For instance, a person who receives basic income of 1 million KRW per month would still be in need materially if he falls sick and requires expensive hospital treatment. Even in less extreme situations, basic income alone would not be sufficient in today’s society where people receive differential education or medical services depending on their income level. Therefore, the policy priority of universal cash benefit system cannot be higher than universal social services (or benefits in-kind). In achieving the goal to build a society where all citizens can receive quality education and medical services and the housing problems of low-income groups are resolved, the adoption of universal social allowances seems to be a viable option as a re-distributional system.

Although we are living in an era of fourth industrial revolution, universal cash benefits cannot be a panacea for underlying problems. The fact that Korean society has put a lot of effort into developing the current social insurance system and public assistance programs and produced visible outcomes needs to be acknowledged when designing the new social policy paradigm. At the same time, the changes in the labor market, that is, the great diversification of relationships between labor and capitals, have to be taken into account when setting the direction for re-establishing social insurance policies.

Korea’s national pension and employment insurance are currently designed to benefit low-income households.²⁾ The social insurance system, in itself, promotes a spirit of solidarity. However, there is no way to provide assistance for those outside the scope of legal protection. Therefore, the policy priority should be given on ensuring all citizens

come under the government’s social protection system. That can be achieved by pursuing a two-track approach of expanding the eligibility criteria and minimizing the number of non-participants.

Expanding the legal eligibility for social protection is a policy task directly related to the issue of diversification of employment types. In particular, employment insurance under the existing system covers only wage workers who can clearly identify who the employer is. Workers in special types of employment who have the characteristics of both a wage worker and a self-employed person are not eligible for employment insurance. The number of those in special types of employment is likely to be higher than our expectation, and is expected to increase rapidly in the future with the development of digital technology. Furthermore, franchise owners are neither recognized as workers in special types of employment nor considered to be the traditional self-employed. Thus, expanding the eligibility criteria of social insurance always involves the task of “setting the boundaries.” Assuming that the digital economy will continue to develop and expand, if we fail to build a social insurance system that covers all economically active population, the system will continue to remain as an income maintenance system with serious “flaws.”

The problem of non-participation is attributed to employment instability and low income. Often, workers whose employment contract is short term or whose wage is very low, or who are employed in small establishments, are not participating in employment insurance even if they are legally required to do so. It has been reported that such workers account for 25% of all who are eligible for employment insurance. Expanding the legal eligibility in the future may lead to a higher ratio of non-participants, but that problem can be resolved considerably by means of changing the insurance premium collection system,

2) There are claims that, since high-income people are associated with longer life expectancy, the total amount of pension benefits paid to them is higher than that paid to low-income class. However, that weakness can be addressed by such methods as raising the lower limit on pension benefits.

which depends to a large degree on the willingness of the government. Meanwhile, efforts should be made to add momentum to the implementation of the system which uses the general account budget to subsidize social insurance premiums for low-income individuals, who may find the overall premiums a huge financial burden.

So far, we have discussed the significance of implementing universal benefits in-kind and universal benefits in-cash as a social protection system in the era of digital economy and the possibility of expanding the eligibility criteria for social insurance programs. It should be noted, however, that public assistance programs will continue to play a role for the time being. Under the existing system with a limited scope of universal benefits and social insurance, the need for public assistance programs is obvious and significant. Meanwhile, under any social protection system, the group that is most likely to be overlooked is young people who have just entered society. Efforts should be made to design an adequate income maintenance system for them as they have no work experience.

Another problem which has emerged amidst the increased use of in-house contracting, outsourcing and freelancers is industrial accidents. The widespread adoption

of these new forms of employment aimed at economizing on transaction costs has led companies to shift the responsibility for health and safety to contractors or individual workers. Outsourcing business activities has not only led to the outsourcing of the risk but also increased the risk itself in absolute terms. Now, we are faced with the challenge of guaranteeing workplace safety and workers' health by clarifying the responsible parties.

With the perspective of social protection alone, it is not possible to fully cope with various changes in the labor market including the diversification of employment types and the rise in low-wage workers. More than ever, the importance of minimum wage policy and active labor market policy is being recognized in the process of developing labor market policies. Also, the issues related to industrial relations such as expanding the scope of labor-management talks and collective bargaining beyond individual firms are becoming more and more significant. Lastly, the most difficult challenge is to secure employment stability. Although finding the responsible parties for wages, social insurance premiums and workplace safety is far from an easy task, addressing the issue of employment stability is likely to be an even more difficult problem.

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