

Earnings Differences in the South Korean Labor Market: Decomposing the Gender Wage Gap, 1988-98

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We examine gender differences in earnings among South Korean workers in 1988 and 1998. In 1988, the South Korean National Assembly enacted the *Equal Employment Opportunity Act*. Using OWS data, we explore the gender wage gap. Following Ronald Oaxaca's (1973) work, we decompose male-female wage differentials. We also calculate a discrimination coefficient. Our work shows that gender earning differences decreased between 1988 and 1998. In 1988, men enjoyed a wage that was 208% of women's wages. In 1998, men earned a wage that was only 165% of women's wages. While men continue to earn a higher wage than women in South Korea, the wage gap has improved over time.

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I. Introduction

Labor markets, in South Korea, are characterized by occupational sex segregation, which simply means that women and men are not typically employed in the same types of occupations or industries. The majority of working women tend to be employed in a limited number of occupational categories. In the 1998 *Occupational Wage Survey* data, collected by the South Korean government, most

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(61.2%) employed women are in three broad occupational categories (sales, transportation, and service). Occupational categories dominated by women are generally paid more poorly than those dominated by men even when differences in education and skill are taken into account (see Choi 1994; Chung 1994; Lee and Phillips 1997; Rodgers 1998; Monk-Turner and Turner 2000; Monk-Turner and Turner 2001; Seguíno 1997). In this paper, we decompose the gender wage gap between 1988 and 1998. Notably, in 1988, South Korea passed its first equal opportunity legislation.

In South Korea, women have lower human capital investments, specifically education and work experience, compared to men. Human capital theorists argue that those with less human capital investments will earn less than others all else equal (see Becker 1985). Women in South Korea acquire less education, on average, than do men. By the late 1990s, South Korean men had completed an average of 10.55 years of schooling; for women the figure was 8.58. Women account for less than one fourth of all students enrolled in colleges and universities. In higher education, women concentrate on linguistics, home economics, the arts, and education. Few women study engineering, law, or agriculture (Statistical Yearbook 2003; Won 1994). By the late 1990s, female labor force participation (15 years and over) rose to 47.7% (up from 26.8% in 1960) (see Yoo 2003). After the age of 20, the majority of Korean women are in the labor force (save a dip in participation rates for women aged 25-29 as well as for women over the age of 60) (Roh 1994; Yoo 2003; Kim 2005). The participation rate of women remains lower than that for men. The vast majority of men (73.9%) are active labor-force participants (Roh 1994). Women's participation is higher in farm households than in non-farm households. In farm households, labor-force participation among older women has risen, a phenomenon primarily attributed to the migration of young people from rural to urban areas (Yang 1989). Rural-urban migration in South Korea, Lee and Phillips (1997) argue, generally benefits the individual, as earning opportunities in urban areas tend to exceed those found in rural ones.

Choi (1994) and Won (1994) maintain that the cultural ideal of the "wise mother," a well-educated woman whose prime job is to rear her children, holds strong in Korean society. Likewise, Bae and Form (1986) define the Confucian ethic of authority as one of four primary factors influencing the Korean labor market. Specifically,

they write that traditional relationships sanctioned by Confucian ethics of hierarchy, such as hierarchical relations between husband and wife, shape labor market outcomes in South Korea. Prior to 1998, there were few legal protections for equality within the labor market. Notably, in 1980 the International Labor Organization (ILO) noted that South Korea discriminated most against women in the labor market (for which data were available) (see Amsden 1990). Kim (1992) and Palley (1994) note contradictions and role strain between traditional values and women's roles in the economic expansion in modern South Korea. It was not until the early 1990s that women's disadvantaged position (compared with that of men) within the family law system was revised (see Palley 1994). As Palley (1994) writes, while the drafting of the Korean Constitution was heavily influenced by Western values of democracy and equality, the division between the goal of equality and traditional family values in Korean society remain deep. Gender equality may well be a cultural ideal in South Korea, but behavioral culture lags far behind. There is a chasm in South Korean society between the democratic ideal of equality, an idea in part brought to the country from outside, and the traditional taken-for-granted reality and understanding of life deeply imbedded within the psyche of the country. Sectors of Korean society have utilized the legal openings to introduce legislation, such as the *Equal Employment Opportunity Act (EEOA)*, to ensure greater gender equality in the workplace as well as in other realms of society. Still, a basic contradiction between relatively the new ideals of gender equality and traditional thinking about appropriate gender roles continues to characterize the country.

The South Korean economy is dominated by a few large firms (*chaebols*). They are generally family firms run by the family patriarch. Non-family stockholders are few and have little voting power (Biggart 1990). *Chaebols* rely on favorable access to government credit for their capital needs and generally receive preferential treatment in other matters. In the past, the government has acted to crush a *chaebol* whose leader has caused problems by cutting off its credit (Kearney 1991). The top ten *chaebols* account for both 12 percent of employment in manufacturing and 30 percent of manufacturing sales in South Korea (see Monk-Turner and Turner 1994). Since *chaebols* exercise much control of the market, we explore labor-market differences by gender and firm

size. We expect that men will enjoy a wage benefit from working in a large firm compared to comparable men.

We analyze gender differences in earnings among full time permanent workers in South Korea in 1988 and 1998. In 1988, the South Korean National Assembly enacted the *Equal Employment Opportunity Act (EEOA)* which was amended in March 1989. The *Equal Employment Opportunity Act* aims to guarantee equality between women and men in employment. The goal of equal pay for equal work is included in the act as well as job protection on the basis of marital status and child rearing. The act authorized penalties of up to two year's jail time and fines ranging to five million won for employers found in violation. To ensure the effectiveness of the *EEOA*, Roh (1994) argues that: Provisions of the act must be made more publicly known; a clear standard of what constitutes equal work should be defined; the Mediation Committee, should be given wider legal authority; and women should receive education in issues relating to worker rights and be formally encouraged to put forward cases of work discrimination. Because of problems that remain with implementing the *EEOA* coupled with strain between traditional values and women's role in economic expansion in modern South Korea, we expect to observe marked gender wage differences in the South Korean labor market. Specifically, we expect that men will enjoy higher earnings, on average, than women in both 1988 and 1998. Nevertheless, we also believe that the gender wage gap will be significantly lower in 1998 than in 1988.

II. The Model

The data set we used was the 1988 and 1998 *OWS (Occupational Wage Bargaining Survey on the Actual Condition)* which was carried out by the South Korean government and provided to us by a colleague at the Korean Tax Institute. There were 28,756 observations in our 1988 sample; in 1998, 37,877. The survey covers 3,700 establishments selected randomly from those employing 10 or more regular workers. As Rogers (1998) notes, the *OWS* under-represents service workers (as well as trade sectors) and has a sampling bias toward the manufacturing sector. Thus, older women, many of whom are service workers are excluded,

TABLE 1
VARIABLE CONSTRUCTION

WAGES	Hourly wages derived by: Regular payments/Regular hours worked.
LWAGE	Natural logarithm of hourly WAGES.
AGE	Age in years.
Marital Status	Marital status of worker= 1 if married; 0 otherwise.
Firm Size	Size of firm= 1 if more than 1,000 employees; 0 otherwise.
Professional OCC	Equals 1 if R is a professional, managerial, or administrative worker; 0 otherwise.
Years of ED	Years of schooling completed.
Union Status	Equals 1 if R is in a union; 0 otherwise.
Time in Occupation	Duration of occupations ranges between 1-5 where 1 equals less than one year; 2 equals between one to two years; 3 equals between three to four years; 4 equals between five to 9 years; and 5 equals over ten years.
Gender	Equal 1 if R is male; 0 if female.

while younger men, who tend to be in manufacturing, are over-represented. This should not have a strong effect on partial derivatives, however, it might bias upwards the overall relative pay of women. Thus, *our analysis of the gender wage gap is a conservative one*. Since it is generally assumed that wage disparities are best understood when looking at differences between full-time (35 or more hours per week) permanent workers, our sample was restricted to these workers (see Bergmann 1986). We also restricted our sample to those between the ages 16 to 65. The vast majority (98%) of the full sample were full time (in both 1988 and 1998) workers (see Table 1 for Variable Construction).

This survey seemed particularly appropriate for our study, not only because 1988 saw passage of the *EEOA* but because in that year the South Korean economy was booming. Real gross domestic product (GDP) was up 11.4%. Unemployment was approximately 3%. The balance of payments on current account was 14 billion dollars. The economy was experiencing 7% inflation on the consumer level (International Financial Statistics 1991). In 1998, we look at wage differences ten years after the passage of the *EEOA*. In mid 1997, a financial crisis struck South Korea; therefore, wages (in 1998) must be examined in light of this economic downturn (see

Thurbon 2003; Lee and Kim 2000; Kakwani and Son 2000; Betcherman and Islam 2001).

III. Analysis

We present a basic model with log hourly wage as the dependent variable. We analyze wage differences separately for women and men. Since log hourly wage is the dependent variable, coefficients can be interpreted as $d\ln W/dX$, where X is the independent variable. When $d\ln W$ is small, this can be interpreted as a percentage change in the wage due to dX . We follow Oaxaca's (1973) approach to decomposing male-female wage differentials. If the payoffs for individual characteristics were the same for women and men, then a regression of log wage on these characteristics would yield the same coefficients for both genders. In that event, some of the wage gap could be estimated as a function of the differences in individual characteristics of each group. For instance, since years of education yields higher wages, if men on average have a higher level of education than women, this explains part of the wage gap. However, it is possible that the payoff for individual characteristics will be different for men and for women. Oaxaca (1973) thus uses regressions of log wage on individual characteristics separately for women and for men. After performing separate regressions of log hourly wage for men and women, we test to see if the coefficients of the regression equations are different.

Variable means are presented in Table 2. The average age of the sample increased between the two periods. The mean age for women rose by six years; however, the mean age for men increased by only three years. Significantly more women were married in 1998 (44%), in our sample, than in 1988 (only 21% of women were married). The significance of this change in the percentage of married women in the South Korean labor force is difficult to overstate. Married women no longer drop out of the labor market as they tended to do in the past. Rather, as one of our reviewers notes, the advancement of highly educated married women in the labor force helps shape the narrowing of the gender wage gap.

In 1998, fewer women (38%) were employed in a large firm than was true in 1988 (when 45% of women were employed by a large firm). The most striking change in mean variable values, between

TABLE 2
 VARIABLE MEAN AND STANDARD DEVIATION, KOREA (OWS) 1988, 1998

	1988			1998		
	Total Sample	Women	Men	Total Sample	Women	Men
Age	30.44 (9.45)	25.11 (8.62)	33.63 (8.42)	35.48 (9.92)	31.30 (10.99)	36.98 (9.04)
Marital Status	.53 (.49)	.21 (.41)	.72 (.44)	.68 (.46)	.44 (.49)	.77 (.41)
Firm Size	.42 (.49)	.45 (.49)	.41 (.49)	.41 (.49)	.38 (.48)	.43 (.49)
Professional Worker	.02 (.15)	.003 (.06)	.03 (.18)	.18 (.38)	.11 (.32)	.21 (.41)
Year of Education	11.10 (2.91)	10.17 (2.53)	11.67 (2.98)	12.69 (2.87)	11.73 (2.86)	13.03 (2.79)
Union Status	.63 (.48)	.58 (.49)	.66 (.47)	.61 (.48)	.52 (.49)	.64 (.47)
Time in Current Job	3.08 (1.31)	2.48 (1.08)	3.46 (1.30)	3.82 (1.17)	3.32 (1.22)	4.01 (1.10)
N	28756	10034	17821	37877	10003	27874

1988 and 1998, is among professional workers. Overall, in 1998, 18% of the sample were employed as professional workers (11% of women; 21% of men). In 1988, only 2% of all workers in our sample were professionals (.3% of women; 3% of men). The change is in the number of administrative workers (who are classified as professional workers) in the sample in 1998 (increasing from 782, in 1988, to 5,963, in 1998). The jump was large for both women (increasing from 11 workers to 1,150) and men (rising from 771 to 4,813). Korean workers, in 1998, have on the average an additional 1.59 years of educational experience compared to 1988. Women have 1.56 more years and men 1.36 more years than in 1988. In 1998, fewer workers were union members than was true in 1988. Finally, workers in 1998 have more on the job experience than in 1988.

As the reader can see in Table 3, all the regression coefficients are significant at the .0001 level (save professional occupation for women and union status for men in 1988 only). In 1988, men enjoyed a higher economic return, compared to women, for being

TABLE 3
 HOURLY WAGE REGRESSIONS FOR THE TOTAL SAMPLE AND
 FOR WOMEN AND MEN IN 1988, 1998

	1988				1998			
	Total Sample	Women	Men	Delta ³⁾	Total Sample	Women	Men	Delta
Constant	5.279 (.011)	5.513 (.016)	5.418 (.017)	.095* (.0233)	6.648 (.013)	6.697 (.025)	6.854 (.016)	-.157* (.029)
Age	.011 (.0003)	.005 (.0005)	.014 (.0004)	-.009* (.0006)	.009 (.0002)	.005 (.0004)	.012 (.0002)	-.007* (.00045)
Marital Status	.085 (.006)	.068 (.011)	.106 (.007)	-.038* (.0013)	.057 (.004)	.043 (.008)	.091 (.005)	-.048* (.0094)
Firm Size	.082 (.004)	.037 (.005)	.105 (.005)	-.068* (.0071)	.068 (.003)	.034 (.006)	.081 (.004)	-.047* (.0072)
In a Union	.020 (.004)	.028 (.005)	.009 (.006)	.019 (.0078)	.038 (.003)	.062 (.006)	.019 (.004)	.043* (.0072)
Professional Occupation	.317 (.013)	.007 (.044)	.329 (.014)	-.322* (.0462)	.228 (.005)	.262 (.011)	.227 (.005)	.035* (.0121)
Years of Education	.087 (.0007)	.082 (.001)	.088 (.0009)	-.006* (.0013)	.069 (.0007)	.080 (.001)	.062 (.0008)	.018* (.0013)
Time in Current Job	.127 (.001)	.118 (.002)	.121 (.002)	-.003 (.0028)	.113 (.001)	.104 (.002)	.109 (.002)	-.005 (.0028)
Gender	.272 (.004)				.226 (.004)			
R^2	.6582	.4433	.5173		.5707	.4724	.4816	
N	28756	10034	17821		37877	10003	27874	

Notes: 1) Standard errors in parentheses.

2) All variables in all models significant at the .01 level, save professional occupation for women and union status for men (in 1988).

3) Delta = women's regression coefficient minus men's regression coefficient. * Starred Delta's are significant at the .01 level.

older, being married, working in a large firm, being in a professional occupation, and having additional current job experience. In 1998, men continue to enjoy a higher economic return on being older, being married, and working in a larger firm compared to women. Thus, we found empirical support for our hypothesis that

TABLE 4
CHANGE IN REGRESSION COEFFICIENTS BETWEEN 1998 AND 1988,
FOR THE TOTAL SAMPLE AND FOR WOMEN AND MEN

	Total Sample Difference 1998-1988	Women Difference 1998-1988	Men Difference 1998-1988
Age	-.002*	0	-.002*
Marital Status	-.028*	-.025	-.015
Firm Size	-.014*	-.003	-.024*
In a Union	.018*	.034*	.01
Professional Occupation	-.089*	.255*	-.102*
Years of Education	-.018*	-.002	-.026*
Time in Current Job	-.014*	-.014*	-.012*
Gender	-.046*		

Notes: 1) * Starred differences are significant at the .01 level.

2) Differences for Women and Men for Marital Status are significant at the .05 level.

3) Critical values at $p < .01 = 2.576$; at $p < .05 = 1.96$.

men would benefit economically more than women from working in a large firm. Women workers benefit more than men, in 1998, from being in a union, being a professional worker and completing additional years of education. In 1988, only being in a union carried more of a wage benefit for women compared to men.

We found that the economic return to years of education is approximately the same for women, in 1998 (8% for each additional year), as in 1988 (see Table 4 for differences in regression coefficients in 1988 and 1998). For men, economic returns to education are significantly lower in 1998 (6.2%) than in 1988 (8.8%). In 1998, there is a significantly higher economic return for women professional workers than was true in 1988 (in 1998 professional women enjoyed a 26.2% return compared to .7% in 1988). Further, women in a professional occupational category enjoyed a significantly higher economic return compared to professional men (26.2% vs. 22.7%). This is a reversal of fortune for professional women compared to the 1988 period. In 1988, male professional workers enjoyed a wage advantage compared to like females (32.9% vs. .7%). Both married women and men benefit economically compared to their unmarried counterparts. The

marriage benefit, though, is significantly less for women in 1998 than in 1988 (4.3% vs. 6.8%). It is important to keep in mind that our sample under-represents women working in service and trade sectors of the South Korean economy (growth sectors of the economy). In the past, many female labor force participants worked in these sectors of the labor market (or in wholesale trades) as self-employed or unpaid family workers. Today, more women, including highly educated and married women, work in salaried jobs. Because our sample over-represents the manufacturing sector (which has lost share of total employment in South Korea), the change in the gender difference that we report here is not precise.

In Tables 3 and 5, we present the results of a decomposition of the differences in wages for men and women in South Korea in 1988 and 1998. In 1988, the average man in South Korea had a wage 208% of the average woman's wage ($\ln 2.08 = .7324$). In 1998, the average man had a wage 165% of the average woman's wage ($\ln 1.65 = .501$). Thus, our data support the proposition that men enjoy an economic advantage over women in South Korea. We follow Ronald Oaxaca's (1973) approach in our decomposition. In Table 3, we calculated the difference between the regression coefficients for men only and women only in 1988 and 1998. This difference, which is labeled *delta* is calculated as the regression coefficient for women minus the regression coefficient for men in the same sample period. These differences are significantly different (at the .01 level) except for the effect of a union (in 1988) and the effect of time in current job (in 1998). Consequently, calculated effects of differences in characteristics of men and women will give different results depending on which regression coefficients are used. Thus, our regressions on the full sample with only a coefficient for gender will fail to capture the full effects of discrimination.

In his work, Oaxaca (1973, pp. 694-7) develops a discrimination coefficient (*D*). The discrimination coefficient is the ratio of the actual male/female wage ratio less the non-discriminating male/female wage ratio relative to the non-discriminating male/female wage ratio. Oaxaca's approach assumes that differences in male and female characteristics explain part of the wage gap and that overt discrimination explains the rest. Using both female regression results and male regression results helps to establish a range of possible values (Oaxaca 1973, p. 697).

TABLE 5
EFFECTS OF DISCRIMINATION AND DIFFERENCES IN CHARACTERISTICS
(SOUTH KOREA)

	Regression Weights 1988				Regression Weights 1998			
	Female		Male		Female		Male	
	ln	Percent	ln	Percent	ln	Percent	ln	Percent
Wage Differential	.732	100	.724	100	.501	100	.501	100
Age	-.043	-5.9	-.119	-16.2	-.028	-5.6	-.068	-13.6
Marital Status	-.035	-4.8	-.054	-7.4	-.014	-2.8	-.030	-6.0
Firm Size	.001	.1	.004	.5	-.002	-.4	-.004	-.8
In a Union	-.002	-2.7	-.001	-.1	-.007	-1.4	-.002	-.4
Professional Occupation	-.0002	-.03	-.009	-1.2	-.026	-5.2	-.023	-4.6
Years of Education	-.123	-16.8	-.132	-18.0	-.104	-20.8	-.081	-16.2
Time in Current Job	-.026	-3.5	-.027	-3.7	-.072	-14.4	-.075	-15.0
ln(D+1)	.504	68.8	.394	53.9	.248	49.5	.218	-53.5
D=	.656		.483		.281		.244	

The first column of Table 5 gives the wage differential as $[(\ln(G+1))]$, where $G=(W_m-W_f)/(W_f)$, and the independent characteristics that vary by sex. This column shows the adjustment to the wage differential that can be explained by $-\beta_f \dot{E}Z$; where β_f is the estimated female regression coefficients and $\dot{E}Z=Z_m-Z_f$. That is $-\beta_f \dot{E}Z$ shows the logarithmic adjustment to the wage differential due to gender differences in personal characteristics. The second column shows the adjustments as a percentage of the wage differential.

Examining the 1988 sample using the female regression results, differences in years of education explains 16.8% of the wage differential between men and women. Differences in age explain 5.9% of the differential and marital status differences another 4.8%.

Over half (68.8%) of the differential is unexplained and thus attributed to discrimination leaving $\ln(D+1)=.504$. Thus, $D=.656$ using women's regression results in 1988. This means that men with the same characteristics as women would earn 165.0% of the woman's wage or women would earn 60 Won for every 100 Won earned by men with the same characteristics.

If we use male regression weights, 18% of the wage differential in 1988 is explained by differences in education, 16.2% by differences in age, and 7.4% is explained by marital status. Much (53.9%) of the wage differential is left unexplained yielding $\ln(D+1)=.394$. Thus, $D=.483$ using men's regression results in 1988. Men would earn 148.3% of a woman's wage or women would earn 67.4 Won for every 100 Won earned by men with the same characteristics.

In 1998, using female wage regression coefficients, differences in years of education explain 20.8% of the wage differential. Differences in the time in current job explains 14.4% of the differential, 5.6% is explained by differences in the time in current job, 5.6% by differences in age, and 5.2% by differences in professional occupational status. About half (49.5%) of the wage differential is unexplained by the variables in our equation which leaves $\ln(D+1)=.248$. Thus, $D=.281$. Men earn 128.1% of a woman's wage or women would earn 78.1 Won for every 100 Won earned by comparable men.

Using male regression coefficients in 1998, 16.2% of the wage differential is explained by differences in education, 15% is explained by differences in time in current job, 13.6% by differences in age, and 6% explained by differences in marital status. Again half (53.5%) of the wage differential is left unexplained. Thus, $D=.244$. The average man earns 124.4% of a woman with the same characteristics or a woman earns 80.4 Won for every 100 Won earned by a comparable man. In this study, we did not include occupational categories. In other work where this was included there were still substantial gender differences. Further, as noted by one of our reviewers, it is arguable that gender differences in omitted variables reflect past discrimination. We believe that the change in D , the discrimination coefficient, reflects a real change in discrimination in the South Korean labor market.

As hypothesized, we found that South Korea's gender earnings differential decreased between 1988 and 1998. In 1988, women

earned 48 Won to every 100 Won earned by a Korean male. In 1998, women earned 60.7 Won to every 100 Won earned by men (this compares to national figures). Thus, men earned a wage that was 165% of women's wages in 1998.

IV. Conclusion

Men in South Korea enjoy a wage advantage over comparable women workers. Still, the gender wage gap narrowed between 1988 and 1998. In 1998 and 1998, men enjoyed a higher economic return, compared to women, for being older, being married and working in a large firm. However, in 1998, we no longer observed a wage benefit for men to being in a professional occupation. Notably, how professional workers were classified changed significantly between 1988 and 1998. Specifically, in 1988 only .3% of all women workers in our sample were professional workers; however, by 1998, 11% of women workers fell in this category. The change was in the number of administrative workers, classified as professional workers, whose numbers increased from 11 (in 1988) to 1,150 (in 1998). This change in classification also saw the rise in the number of male administrative workers as well. Thus, more women and men were classified as professional workers in 1998 than 1988 because of this change. Therefore, the wage benefit men enjoyed for being professionally employed in 1988, but not in 1998, may well be shaped by this change in definition of occupational categories. Further work needs to explore how the classification of professional workers in South Korea shapes the gender wage gap over time.

In both 1988 and 1998, women benefit more economically from being in a union compared to comparable male workers. In fact, in 1988, being in a union was the only variable the enhanced women's wages compared to comparable male workers. Clearly, union membership benefits women workers in South Korea. Future work is needed to better understand how union membership positively shapes women's wages compared to men's wages. Initially, it would appear that having some sort of legal protection is significantly beneficial for women workers in the South Korean labor market. In light of this finding, we posit that the EEOA (passed in 1988) may be part of what is shaping the declining

gender wage gap in South Korea.

Notably, in 1998 economic returns to education were higher for women than men. This may well drive more women into the higher educational system. As women recognize the wage advantage associated with higher levels of education, more women may take advantage of this opportunity to enhance wages in the paid labor market. In light of this finding, we expect to observe a continued narrowing of the gender wage gap in South Korea.

Women are clearly making gains in the labor market in South Korea. Married women are more likely to participate in the labor force than was true even in the recent past (past 15 years). This change has pushed the average age of women in the South Korean labor force upwards. All these changes, coupled with higher returns to professional work and education, will undoubtedly continue to drive more women into the labor force. How much these social changes shape the narrowing of the gender wage gap in South Korea, *vs.* implementation of the *EEOA*, is a challenge to unravel. Nevertheless, if South Korea aims to maintain and further improve its gender wage gap, it would be wise to continue with social and political changes that have played a part in improving women's lives in the work world.

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