Korean Social Sciences Review | Vol. 2, No. 2, 2012: 35-62

Labor Flexibilization after the Foreign Exchange Crisis and Changing Corporate Welfare in Korea*

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The purpose of this study was to empirically test whether corporate welfare in Korea has grown since the mid 1990's. The result of this study shows that after the IMF fiscal crisis, the labor flexibilization policies within labor markets initiated flexible forms of employer-provided benefits. These benefits included cafeteria plan or profit-based funds, which ultimately led to a decline of corporate welfare rather than growth. Existing studies do not agree on a trade-off of statutory and voluntary social provisions since the crisis of welfare state.

Existing studies show that some nations experienced a decline of corporate welfare that coincided with a growth of state welfare, while other nations experienced a decline of state welfare coincident with a growth of corporate welfare.

Usng the case of Korea, this study suggests an archetypal development of a welfare system that experienced a decline of corporate welfare alongside a growth of state welfare provisions.

Keywords: *Corporate Welfare, Labor Flexibilization, IMF Fiscal Crisis, Korea*

I. INTRODUCTION

Unlike Western countries, Korea has a much more developed corporate welfare system than a state welfare system. The significant difference in the development between state welfare and corporate welfare has been cited as one of the characteristics of Korea's social welfare (Song, H. 1992; Choi, G.

* Translated from the article published in *Korean Journal of Social Welfare* 58(2), 143-166, 2006 with permission from Korea Association for Social Welfare Studies.

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1992a; 1992b; Lee, J. 1999). There is also the possibility that corporate welfare will continue to grow (Choi, G. 1992a; 1992b). Choi, G. (1992a) argues that one of the reasons why corporate welfare has developed more than state welfare is that the state relegated the survival of workers and their families to the responsibility of the market (i.e. corporations).

In order to control the working class as they became post-politicalized and demobilized. He argues that if state welfare is limited in its growth, corporate welfare will continue to expand. In addition, some view it as desirable to establish a Korean social welfare model centering on corporate welfare as the state welfare's development will be limited (Lee, G. 1986).

Others have argued that corporate welfare in Korea will experience contraction rather than expansion (Song, H. 1992). Song, H. (1992) reasons that in Korea, the state has intervened in economic activity in various forms including wage control and resource allocation. Corporations have benefited greatly from it these interventions, contributing to the expansion of corporate welfare because corporations felt obligated to pay back for these benefits. He argues however that if corporations' competitiveness falls to a risky level, the national economy falls into a recession, or corporations have little to gain from government-backed economic liberalization, that sense of obligation would shrink dramatically.

Will corporate welfare in Korea continue to grow as it has and serve as one of the most important cornerstones of Korea's social welfare? Or will it stop growing and take another form in line with changes in the economic system? Indeed in the wake of the 1997 financial crisis, many corporations in Korea have started shifting away from a seniority based wage system to the annual salary system in an attempt to make the labor market more flexible. As part of this wave, there has been movement towards reducing the non-wage labor cost of the corporate welfare system. Within this system, the amount of the employee welfare fund that is linked to performance has been gradually increasing. In addition, the adoption of cafeteria plans, where the corporation's performance is linked to its corporate welfare costs to increase flexibility have also risen. This suggests that corporate welfare in Korea is changing from an institution of fixed-cost which is given in exchange for employment to one that is flexible and market-friendly and is greatly dependent on corporate management.

This study analyzes how the labor flexibilization strategy in the wake of the foreign exchange crisis has changed corporate welfare in Korea. I use the Esping-Andersen's argument, which attributes changes in corporate welfare to labor flexibilization, resulting from a production paradigm towards post-Fordism. Esping-Andersen (1996) argues that a shift to post-Fordism caused stagnant growth in corporate pensions in the 1980s and a decrease in the pension beneficiaries. In short, I analyze the impact of labor flexibilization on corporate welfare in Korea amid a shift towards post Fordism using an Esping-Andersen framework.

One study by Kim, J. (1999) on corporate welfare changes after the foreign exchange crisis is restricted to just 1998; this makes it difficult to gauge changes caused by labor flexibilization over the long term. In contrast, Kim, J., Park, C. and Oh, H. (2004) charted the effects of the crisis from its beginning through 2001. Their study (2004), however, does not systematically observe the changes in terms of labor flexibilization. Our study differs in that I examine the changes wrought by labor flexibilization from the beginning of the foreign exchange crisis to 2003.

Section 2 withwill establish the theoretical background of how labor flexibilization following changes in the production paradigm of post-Fordism changed corporate welfare. Sections 3 and 4 will analyze how corporate welfare changed before and after the foreign exchange crisis in Korea. I will also argue that such changes were caused by the labor flexibilization strategy in the wake of the crisis. Section 5 will present the conclusion. Here I will propose that Korea's shrinking corporate welfare can be understood as a sign of international convergence. That convergence isevidenced by Scandinavian's shrinking state welfare, increasing corporate welfare as well as the United States' expanding state welfare and shrinking corporate welfare systems..

II. THEORETICAL BACKGROUND: LABOR FLEXIBILIZATION STRATEGY AND CHANGES IN CORPORATE WELFARE

In this section, I will look into the decrease in corporate welfare as the result of the labor flexibilization strategy. This strategy followed a shift in the production paradigm and the development of a flexible welfare benefit system which coincided with an expansion of performance,based corporate welfare compensation.

1) The Concept of Flexible Use of Labor

Post-Fordism is a new paradigm that helps corporations improve their competitiveness. This is done through a flexible production system, defined as flexible specialization combined with lean production (Park, S. 1994: 275; Cho, M. 1995). The change in the production paradigm resulted from higher flexibility in the production system. These changes were made to cope with microelectronic automation, in which small quantity batch production replaced mass production, as well as the dramatic changes which occurred in demand (Park, S. 1994: 275; Koo, J. 1998: 640).

Post-Fordism is separated into three types of flexibility: flexibility in labor use, flexibility in production technology, and flexibility in industrial organization and capital structure (Park, S. 1994; Cho, M. 1995). Flexibility in labor use forms consists of functional flexibility, numerical flexibility, and financial flexibility (Park, S. 1994: 275). Functional flexibility refers to the placement and functions of labor within the workplace that improve the level of employees' skillfulness. Numerical flexibility is an adjustment of the amount of employment and working hours. This tactic regulates the demand for labor over a short period of time (Cho, D. 2001). Financial flexibility refers to differentiating worker's wages depending upon their ability and performance. Wage differentiation is in turn subject to the corporation's financial capability and the supply and demand in the labor market. In short, labor flexibility is a multidimensional concept involving qualitative and quantitative aspect of human resources combined with wages (Eo, S. 1994).

2) Relationship between Labor Flexibilization Strategy and Corporate Welfare

Financial flexibilization as one form of labor flexibilization strategies involves both regulating the absolute level of waves via wage freezing or reduction in the short term along with linking wages to ability or performance, diversifying the wage system and flexibilizing welfare benefits as a long term indirect strategy (Ryu, G. 1998). We will now examine the concepts of reducing welfare costs, expanding variable wages and flexibilizing welfare benefit systems as a means of labor flexibilization.

(1) Reducing Non-Wage Costs (Welfare Benefit Costs) as a Means of Labor Flexibilization

Flexibilizing labor through financial flexibilization is achieved through curtailing labor cost increases (Park, D. 2004: 124). Limiting the rise in labor costs can be achieved in two ways: through unit labor cost and non-wage labor cost. There are different strategies for limiting unit labor costs. These include increasing productivity, improving the wage system, and diversifying wage levels. Controlling non-wage labor costs can be achieved primarily by reducing welfare benefit cost. In other words curtailing of non-wage labor costs also reduces welfare costs, which can in turn help change the corporate welfare system.

As referred to above, Korea witnessed a decrease in the growth of corporate welfare costs following the foreign exchange crisis. That crisis resulted from corporations flexibilizing their labor flexibilization. Exactly how that corporate welfare changed and its relationship with labor flexibilization will be discussed in Sections 3 and 4 in greater detail.

(2) Flexibilization of the Welfare Benefit System as a Part of Labor Flexibilization

Under the existing welfare benefit system, all employees receive additional welfare benefits per union rules, which raise overall benefit costs. The flexible welfare benefit system allocates a certain amount of welfare for each worker and lets him or her choose (Kim, J. 2004). In this way, workers needs are met while welfare benefit costs can be predicted to a certain degree. The corporation, meanwhile, is able to regulate the level of the total welfare costs as well as labor costs (Argument in Writing 2011: 38). Welfare costs are included in the overall budget, which gives corporations ultimate control. This means corporations are able to reduce the total welfare benefit budget and instead allocate funds to individuals in order to curtail rising labor costs during recessions. Thus corporations enters adopt and proliferate flexible welfare systems as part of a financial flexibility strategy to control total labor costs. Korean corporations' adoption of the flexible welfare benefit systems can thus be viewed as part of a financial flexibility strategy to be discussed further in Sections 3 and 4.

The various forms of flexible welfare benefits are collectively called the cafeteria welfare system or a selective welfare benefit system. The flexible benefit plan allows individual employees to choose from multiple welfare menus (i.e. medical support, housing subsidies, scholarships for children, self-development, and pension subsidies) within a fixed budget just as one chooses what to eat in a cafeteria (Song, G. and Park, G. 1997). Some corporations offer flat sum selective welfare system, but most provide a flat rate system that takes into account years of service, position and recent performance. Such differences highlight the differences between corporate welfare systems and facilitates competition amongst workers (Cho, G. 2001).

(3) Expansion of Performance-Sharing as a Means of Labor Flexibilization

Another financial flexibilization strategy is linking the wage system to corporate performance (Ryu, G. 1998). This particular strategy regulates total labor costs (Park, W. 1998), and is known as a performance sharing system. Sharing can be in the form of cash or stocks, distributed as either a bonus or in a welfare fund raised for later use (Ryu, G. 1998). Performance sharing to flexibilize labor use can impact the creation and development of the corporate welfare fund system.

In Korea, the employee welfare fund system was also a part of labor flexibilization strategy. I will discuss further how the labor flexibilization strategy affected the expansion of the employee welfare fund system.

While other corporate welfare costs are either quasi-fixed or fixed, depending upon employment rather than unit labor, employee welfare funds are deemed variable costs that depend on the amount of labor put in by the corporation (Shin, B. 2003). In other words, corporate welfare such as housing subsidies and scholarshipa are determined by whether a worker is employed or not whereas employee welfare funds are based on profits. Those depend on the number of hours worked and the intensity of labor input, which is why employee welfare funds are considered a type of compensation for labor (Shin, B. 2003). After the economic crisis, corporations decided to expand employee

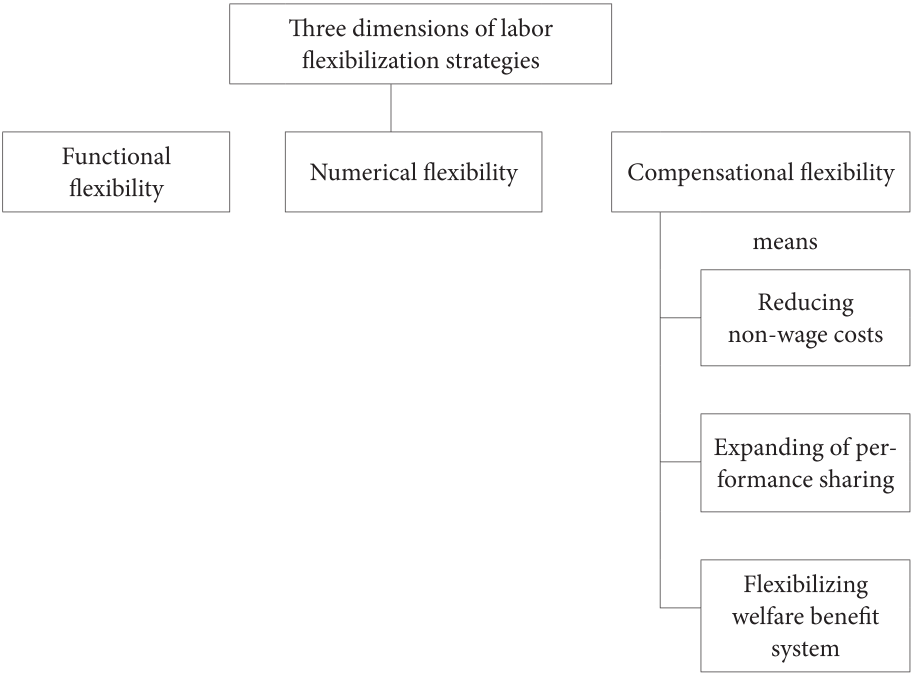

Figure 1. The relationship between the labor flexibilization strategy and corporate welfare

welfare funds, which were linked to performance to flexibilize their labor relationship. This was more desirable than simply raising wages or bonuses since that would give them less options in certain situations. Specifically, raising wages or bonuses would limit their options in situations such as paying out severance packages, so instead many corporations opted to reserve part of unexpected revenues in the form of employee welfare benefits instead.

Developed nations such as the U.S. adopted a performance sharing scheme that links productivity to wages in response to the stagnant or decreasing labor productivity that began during the 1980's (Nam, S. 1993; Lee, S. 1994). Performance sharing systems smooth out the impact of unstable economic fluctuations because they can be adjusted depending on the size of both planned and achieved performance (Kang, D. 1993: 19). The relationship between labor flexibilization, financial flexibilization, decreasing corporate welfare costs, flexible welfare benefit systems, and performance sharing employee welfare funds is illustrated below.

III. HOW COPRORATE WELFARE CHANGED AFTER THE FOREIGN EXCHANGE CRISIS

In the previous section, I examined reducing corporate welfare costs, the adoption of a flexible corporate welfare system, and the expansion of performance sharing corporate welfare as aspects of a labor flexibilization strategy. In this section I will discuss how corporate welfare costs changed. Specifically, I explore how a selective welfare benefit system as a type of flexible corporate welfare was adopted, as well as how the employee welfare fund system expanded. I will subsequently argue that all these changes emerged as part of labor flexibilization.

I will use the "Report on Labor Costs of Corporations" to analyze how corporate welfare changed. First, I will explain how the increase in corporate welfare costs while the ratio of corporate welfare to total labor costs began to decrease. Secondly, I will show how that selective welfare system began to be adopted and then expanded after the crisis. Thirdly, I will show that corporate welfare in Korea contains more variable costs (current) nature (performance sharing nature) by demonstrating that proportionally, employee welfare funds began to increase.

1) Slower Corporate Welfare Growth and Decreasing Ratio of Corporate Welfare Proportional to Total Labor Costs

Figure 2 shows that corporate welfare in Korea continued to rise until 1992, stabilized between 1993 and 1995, slightly rose from 1995 to 1997 and decreased after 1997 when the foreign crisis erupted.

Table 1 confirms this trend. In the table, the ratio of corporate welfare to the total labor costs increased from 5.8 percent in 1987 through 6.0 percent in 1990, 8.5 percent in 1992 to 9.3 percent in 1993. Then it started to decrease in 1994 until it reached as low as 6.1 percent in 1998. Afterwards, it stabilized until 2001 before it rose to 7 percent in 2002, which was still lower than the 8 percent in the early 1990s (see Figure 3).

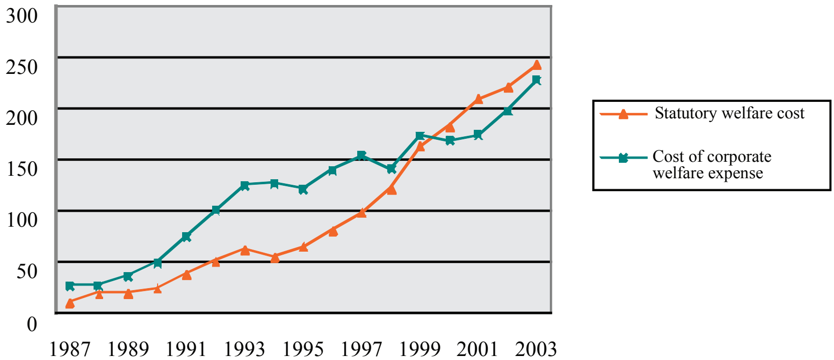

Figure 2. Changes in corporate welfare expenditure

Table 1. Ratio total labor costs vs. total cash wages by year

Unit: KW 1,000 (%)

	Total labor costs	Total cash wages	Legal welfare expense	Corporate welfare expense
1987	468.6 (100)	393.2	10.8 (2.3)	27.1 (5.8)
1988	546.3 (100)	458.1	18.8 (3.4)	26.3 (4.8)
1989	659.7 (100)	554.7	19.7 (3.0)	35.7 (5.4)
1990	816.3 (100)	667.3	24.0 (2.9)	49.1 (6.0)
1991	1,011.5 (100)	781.1	37.9 (3.7)	75.3 (7.4)
1992	1,179.5 (100)	891.0	50.9 (4.3)	99.7 (8.5)
1993	1,336.8 (100)	989.3	61.9 (4.6)	124.5 (9.3)
1994	1,501.9 (100)	1,132.3	55.1 (3.7)	126.4 (8.4)
1995	1,726.7 (100)	1294.9	64.8 (3.7)	120.8 (7.0)
1996	1,870.5 (100)	1456.0	81.0 (4.3)	139.5 (7.5)
1997	2,082.1 (100)	1542.9	98.1 (4.7)	154.0 (7.4)
1998	2,324.7 (100)	1409.4	121.3 (5.2)	140.8 (6.1)
1999	2,370.8 (100)	1550.0	163.0 (6.9)	173.5 (7.3)
2000	2,777.3 (100)	1740.7	182.2 (6.6)	168.7 (6.1)
2001	2,661.1 (100)	1840.4	209.2 (7.9)	173.7 (6.5)
2002	2,827.6 (100)	2053.5	220.5 (7.8)	197.3 (7.0)
2003	3,206 (100)	2293.3	242.8 (7.6)	227.3 (7.1)

Data: Ministry of Employment and Labor, *Survey report on labor cost of enterprise*, 1987-2003.

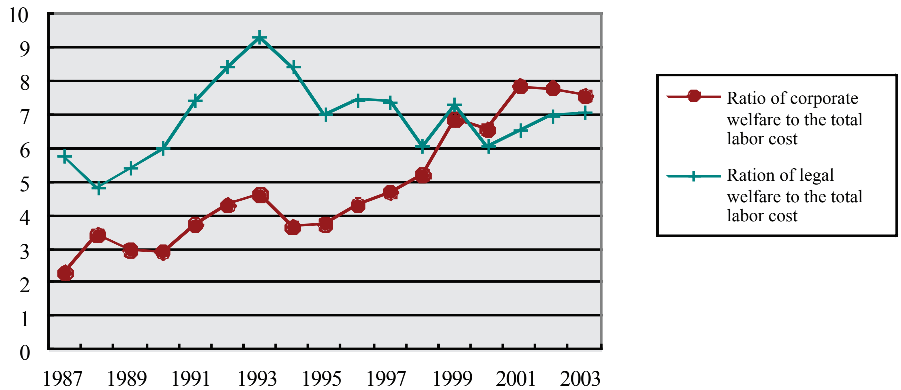

Figure 3. Changes in the ratio of corporate welfare to the total labor cost

2) Expansion of the Selective Welfare-Benefit System

Another change in corporate welfare in Korea was the adoption of a selective welfare benefit system. The flexible benefit plan flexibilizes non-wage benefits and reportedly was first introduced in Korea by IBM Korea in January 1997, followed by Cheil Jedang in July in the same year. This received significant attention from Korean corporations following the foreign exchange crisis (Wage Study 1997).

A recent survey reveals that 44 out of 424 respondents, or 15 percent, are preparing to adopt a selective welfare benefit system, 86 percent of which will adopt it within three years. This suggests that the adoption of this system will accelerate in years to come (Samsung Life Insurance & Watson Wyatt 2000). A series of research reports has come out from private and government research institutes which deal with flexible benefit plans (Song, G. 1997; Yu, G. and Cho, G. 1999; Korea Labor Institute 2002). The Wage Study, a publication issued by the Korea Employers Federation, carried a feature article about the selective welfare system, reflecting the increasing interest in the system amongst corporations (Park, W. 2001).

Table 2. The proportion of employee welfare fund from 1994 to 2003

Unit: KW 1,000 (%)

	Total corporate welfare costs (A)	Employee welfare fund (B)	Other corporate welfare costs (A-B)
1994	126.4 (100)	13.8 (10.9)	112.6 (89.1)
1995	120.8 (100)	9.8 (8.1)	111.0 (91.9)
1996	139.5 (100)	9.5 (6.8)	130.0 (93.2)
1997	154.0 (100)	10.4 (6.7)	143.6 (93.3)
1998	140.8 (100)	8.7 (6.1)	132.1 (93.7)
1999	173.5 (100)	27.5 (15.8)	146.0 (84.2)
2000	168.7 (100)	28.3 (16.8)	140.4 (83.2)
2001	173.7 (100)	19.7 (11.3)	154.0 (88.7)
2002	197.3 (100)	20.6 (10.4)	176.7 (89.6)
2003	227.3 (100)	34.2 (15.0)	193.1 (85.0)

Data: Ministry of Employment and Labor, *Report on Enterprise Labor Cost Survey*, 1994-2003.

3) Increasing Employee- Elfare Fund of Performance Sharing Nature

As shown in Table 2, employee welfare funds comprised less than 10 percent of total costs between 1994 and 1998; they then rose sharply, from between 10.4 to 16.8 percent between 1999 and 2003. One of the reasons why employee welfare funds started to increase in comparison to other welfare costs is that other welfare costs are hard to reduce once they increase. On the other hand, employee welfare funds can be readily increased or decreased each year depending on the performance of the corporation. In other words, employee welfare fund are more suited to meeting a corporation's goal of flexible, elastic labor management.

As shown in Figure 4, corporate welfare costs excluding employee welfare funds remained stable between 1997 and 2000. However, when employee welfare funds are included, they increased abruptly from 1998. This suggests that employee welfare funds are one of the most significant driving forces behind increasing corporate welfare costs. Indeed, as shown in Figure 4, employee welfare funds rose sharply after 1998. Figure 4 also shows that corporate welfare costs rose sharply between 2002 and 2003, during which time employee welfare funds increased accordingly. Based on the evidence

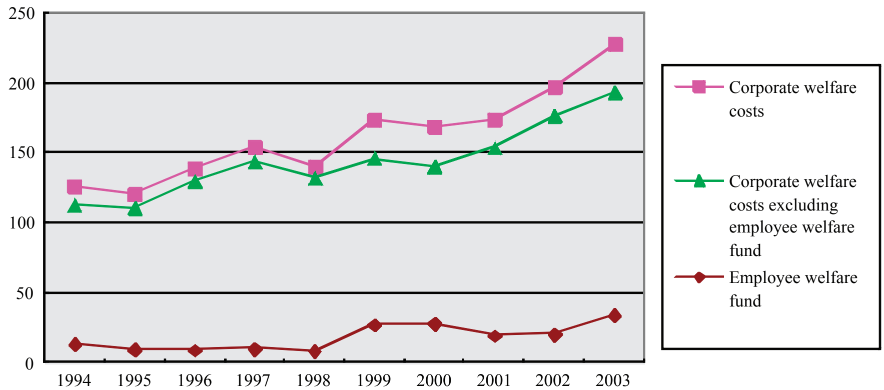

Figure 4. Changes in employee welfare fund

Table 3. The ranks of items comprising corporate welfare costs

	Housing costs	Meal costs	Educational aid costs	Employee welfare fund	Others
1994	2	1	4	3	6
1995	4	1	2	5	3
1996	4	1	2	6	3
1997	4	1	2	5	3
1998	4	1	3	5	2
1999	5	1	4	2	3
2000	5	1	4	2	3
2001	5	1	3	4	2
2002	5	1	3	4	2
2003	6	1	4	3	2

Data(Reconfiguration): Ministry of Employment and Labor, *Report on Enterprise Labor Cost Survey*, 1994-2003.

shown above, one of the most significant causes of increasing corporate welfare costs after 1997 areis employee welfare funds. This suggests that corporate welfare costs are becoming more and more timely.

Table 3 shows the proportions of items comprising corporate welfare costs. Over the period from 1994 and 1998, employee welfare costs ranked between 3rd to 6th in terms of how much they comprised corporate welfare costs. After 1999, however, it rose to 2nd to 4th after meal costs, and in some years, it even ranked first. The proportionally faster increase of employee welfare funds compared to corporate welfare costs, which are more akin to fixed costs, suggests that the nature of corporate welfare in Korea changed and continues to change.

IV. LABOR FLEXIBILIZATION AND CHANGE IN CORPORATE WELFARE IN KOREA

In Section 3, I analyzed how corporate welfare changed in Korea in the wake of the foreign exchange crisis. In this section, I will show that the change in corporate welfare in the wake of the crisis was ignited by labor flexibilization.

1) Adoption and Expansion of Labor Flexibilization in Korea

Faced with a rapidly changing market environment and in response to a trend of small quantity batch production, a movement called management rationalization erupted, especially among large corporations beginning in1987. The core of the movement was to set up a new labor management strategy to make the best of human resources within an organization (Park, S. 1994). New HR and labor management systems adopted by major conglomerates from 1987 were different from their predecessors in that they were based on different strategic considerations. In terms of labor force management, the new labor management practices featured: 1) pursuit of more functional flexibility through consolidation and multi-functionalization, 2) improvement of the promotion system and HR management based on a merit system, 3) incentive-based personnel evaluation and emphasis on normative and integrative factors and 4) pursuit of more quantitative flexibility through vertical subcontracting and more use of dispatched workers (Park, S. 1994: 299).

As shown above, employment flexibilization started to be adopted in a piecemeal manner by some private large corporations and public corporations late in the 1980s and on a larger scale by POSCO, Korea Electronics and a few other large corporations. Labor flexibilization started to be adopted widely across the industry in the mid-1990s as one of the core strategies to raise corporate competitiveness (Park, H. 1997).

2) Changes in Corporate Welfare as a Result of Labor Flexibilization in Korea

In this section, I will discuss how corporate welfare changed after the 1990s when labor flexibilization unfolded on a wider scale in Korea.

(1) Welfare Adjustment and Corporate Welfare Shrinkage as a Result of Financial Flexibility Strategy

As mentioned in Section 2, financial flexibility strategy involves the curtailed growth of non-wage labor costs, which in turn entails a reduction in welfare benefit costs. In Korea, there was a move to curtail the growth in non-wage labor costs presumably lead to a slower increase in corporate welfare cost and a reduction in the ratio of corporate welfare costs to total labor costs. I will now look at how curtailed growth of labor costs affected the change in corporate welfare in a greater detail.

Table 4 reveals that labor flexibilization from December 1997 to March 1998 occurred at a faster rate than from January to November 1997 as a result of the IMF bailout and the subsequent recession. During the former period, 181 out of 300 corporations, or 60.3 percent, had employment restructuring, 28 percent higher than that during the Jan to Nov 1997 period. As shown in Table 4, the two most widely used methods of labor flexibilization in response to worsening corporate performance is changing the number of employees and wage control.

The percentage of companies which implemented labor flexibilization was less than 20 percent before the IMF crisis, but it jumped to 38.7 percent afterwards. It skyrocketed to as high as 78.9 percent during the period between April to October 1998. To look more in detail into how they implemented wage cuts during the period between Apr to Oct 1998, 61.1 percent of them froze wages, 57.7 percent cut wages including bonuses, and 47.3 percent shrank non-wage labor costs including welfare benefits and training subsidies (See Table 4). In addition, Kim, Y. (1999) finds that from the end of 1997 to November 1998, 8.4 percent of the total corporate respondents used reducing welfare benefits as a key means of controlling

Table 4. The change in corporate welfare in the wake of the foreign exchange crisis (Multiple responses)

Unit: piece (%)

	Employment adjustment			
	1994-96	1997. 1-11.	1997. 12-1998. 3	1998. 4-10.
Employment hours adjustment	244 (40.7)	60 (20)	110 (36.7)	199 (56.1)
Reducing overtime hours	89 (14.8)	18 (6.0)	52 (17.3)	82 (23.1)
Reducing regular working hours		4 (1.3)	13 (4.3)	22 (6.2)
Increasing holidays		27 (9.0)	29 (9.7)	58 (16.3)
Recommending use holidays		41 (13.7)	94 (31.3)	169 (47.6)
Temporary closing	10 (1.7)	4 (1.3)	8 (2.7)	26 (7.3)
Temporary leave of absence			3 (1.0)	16 (4.5)
Changing the number of employees		59 (19.7)	131 (43.7)	247 (69.6)
Replacing irregular workers		7 (2.3)	15 (5.0)	56 (15.8)
Hiring freeze or cut	146 (24.3)	45 (15.0)	116 (38.7)	199 (56.1)
Conducting early retirement	69 (11.5)	17 (5.7)	24 (8.0)	83 (23.4)
Reducing temporary workers	39 (6.5)	11 (3.7)	38 (12.7)	62 (17.5)
Layoffs	26 (4.3)	21 (7.0)	52 (17.3)	87 (24.5)
Functional adjustment	152 (25.3)	38 (12.7)	73 (24.3)	106 (29.9)
Internal & external education/training		5 (1.7)	12 (4.0)	32 (9.0)
Transposition	96 (16)	31 (10.3)	60 (20.0)	83 (23.4)
Dispatch		1 (0.3)	2 (0.7)	11 (3.1)
Transferring to affiliates	73 (12.2)	7 (2.3)	13 (4.3)	31 (8.7)
Company reconstructing	167 (27.8)	18 (6.0)	34 (11.3)	109 (30.7)
Expanding subcontracts	62 (10.3)	6 (2.0)	9 (3.0)	41 (11.5)
Closing business or moving overseas	26 (4.3)	3 (1.0)	6 (2.0)	32 (9.0)
M&A		1 (0.3)	-	19 (5.4)
Reducing divisions		9 (3.0)	21 (7.0)	57 (16.1)
Small business owner system	120 (20.0)	3 (1.0)	4 (1.3)	23 (6.5)
Wage adjustment	117 (19.5)	32 (10.7)	116 (38.7)	280 (78.9)
Wage freezing		20 (6.7)	75 (25.0)	217 (61.1)
Bonus & wage cut		18 (6.0)	86 (28.7)	205 (57.7)
Reforming wage system		1 (0.3)	10 (3.3)	42 (11.8)
Other wage cut[1)]				168 (47.3)
Number of companies conducting employment adjustment	312 (52)	97 (32.3)	181 (60.3)	168 (47.3)
Total number of companies surveyed	600	300	300	304 (85.6)

Notes: 1) This data was added to the October 1998 survey
( ) Ratio of the total number of companies surveyed
Data: Reconstructed from tables of Choi, K. and Lee, G. (1998), Choi, K. (1999).

wages.

What has been found so far can be summarized as follows. First, many corporations implemented employment adjustment using flexibilization in the wake of the foreign exchange crisis. Secondly, wage adjustment was used as a key means of labor flexibilization, which includes cutting welfare benefits. Third, the majority of respondents used non-wage cost reduction such as cutting welfare benefits to control their wage level. Based on such findings, it can be concluded that changes in the corporate welfare system including the curtailed growth of corporate welfare costs and the decreasing ratio of corporate welfare to the total wage costs resulted from wage control as part of labor flexibilization.

The reason for shrinking corporate welfare—which is a type of wage—is that unions focused more on job stability rather than wage increases. Unions' top priority was job security and thus had no interest in other working conditions. Consequently, the proportion of negotiations that included unions' right to participate in changing or revising the wage system was 37.5 percent in 1996, but it went down to 15.6 percent right after the crisis (Moon, M. 2001: 243). Labor disputes were largely attributed to collective bargaining over unions' participation in management and job security rather than to wage increases (Lee, J. 2001). All these conditions suggest that shrinking corporate welfare took place a lot more readily after the crisis compared to before it.

(2) Layoffs As A Result Of Quantitative Flexibilization Strategy And Shrinking Corporate Welfare As A Result Of Efforts To Avoid Layoffs

As discussed in Section 2, quantitative flexibilization as labor flexibilization involves controlling the amount of employment (number of employees and working time) to regulate demand for labor within a given time period. Layoffs were also used to regulate labor. Corporations, however, had to use wage control tactics including reducing their corporate welfare before laying off their employees. This certainly led to a reduction in corporate welfare.

From this point on, I will discuss how labor flexibilization after the crisis affected shrinkage in corporate welfare.

The IMF demanded, among other things, that the Korean capital and financial market be fully open and the labor market be more flexible. The

Table 5. Efforts to avoid layoff before layoffs were conducted (Multiple responses)

Unit: piece (%)

	1994-1996	1997. 1-11	1997. 12-1998. 3	1998. 4-10
Recruitment control	12 (61.5)	17 (81.0)	44 (84.6)	68 (78.2)
Bonus & wage cut	5 (19.2)	9 (38.1)	33 (63.5)	67 (77.0)
Transposition	16 (61.5)	5 (23.8)	19 (36.5)	33 (37.9)
Recruiting retirees	9 (34.6)	4 (19.0)	14 (26.9)	32 (36.8)
Reducing working hours	6 (23.1)	1 (4.8)	17 (32.7)	23 (26.4)
Reducing temporary workers	6 (23.1)	6 (28.6)	19 (36.5)	22 (25.3)
Dispatch	10 (38.5)	2 (9.5)	6 (11.5)	13 (14.9)
No efforts	3 (11.5)	1 (4.8)	2 (3.8)	-
Others	2 (7.7)	-	1 (1.9)	-
Total	26	21	52	87

( ) Ratio of the companies that conducted effort to avoid layoffs

Data: Choi, K. (1999). Status of corporate employment adjustment in Korea; Focusing on the second half of the 1998 survey.

launch of the Labor, Employer and Government Committee (Jan 15, 1998) and the 'Social Pact of Feb 2' paved a way for regulatory framework for making the labor market more flexible to be officially adopted (Lee, J. 2002). On March 13, 1997, labor laws were revised to make layoffs easier. This provided a legal framework for corporations to adopt flexible work hours, and different working systems including selective ones would make working hours more flexible (Eo, S. 1994). On Feb 22, 1998 the clause stipulating a 2 year grace period for the adoption of layoffs was deleted to make the system immediately take effect. The Labor Standards Act, revised in 1997, however, stipulates that employers should make efforts first to avoid any layoffs (Yang, J. 2003). Consequently, corporations had to make efforts until the last moment before they went for quantitative flexibilization such as layoffs.

As shown in Table 5, one of the most notable changes in avoiding layoffs is that more and more corporations who chose wage cuts that included bonuses increased significantly. The proportion of corporations using wage (including bonus) cuts during the 1994-1996 period was 19.2 percent and 38.1 percent during the Jan to Nov 1997 period, respectively. It jumped to 63.5 percent during the Dec 1997 to Mar 1998 period and 77 percent during the Apr to

Oct 1998 period. Consequently, the proportion of wage cuts reached the same level as suspending new recruitment, one of the most widely used means for corporations to use to avoid layoffs. Though not shown in Table 5 specifically, it can be presumed that a reduction in corporate welfare was included in the 'wage cut' item. Yang, J. (2003) and Kim, Y. (1999: 106) find that the most widely used methods to avoid layoffs included curtailing wage increases by reducing bonuses, diversifying the wage system included increasing performance-based pay and reducing non-wage labor costs. Here, reducing non-wage labor costs meant shrinking corporate welfare.

(3) Increased Provision for Employee Welfare Fund as Part of the Financial Flexibilization Strategy

In Section 2, I mentioned another method of labor flexibilization, which is changing wage structure towards compensation linked to performance; this can increase the provision for employee welfare funds which are a type of compensation for labor. Korea experienced a shift towards performance compensating wage structures as part of labor flexibilizations, which led to an increase in employee welfare funds. From this point on, I will examine how the performance sharing system, a type of labor flexibilization, affected corporate welfare in terms of enlarged employee funds.

One of the significant changes seen in Korea's labor market during a recession after 1987 were efforts to raise productivity by improving wage structures (Lee, S. 1994). Awareness of performance sharing proliferated rapidly after the 6.29 Declaration in 1987, and many corporations started considering linking their employees' wage to performance; many eventually did adopt ttemhis system, contributing considerably to an increase in productivity (Nam, S. 1993; Lee, S. 1994).

The government excluded performance sharing bonuses from total wage calculations. This was meant to encourage corporations to adopt performance sharing schemes in order to curtail the sharp wage increases which erupted after the 6.29 Declaration in 1987 (Nam, S. 1993: Monthly Management World 2000). Behind the government's drive for a performance sharing system was its intention to stabilize wage increases sweeping through the entire country at that time. Employee welfare funds, another type of performance sharing, were adopted under the government's drive in 1992.

Corporations, however, adopted the performance sharing schemes voluntarily to improve their employees' productivity by giving work incentives in the run-up to overcoming the crisis (Management World, May). With the possibility of low growth imminent after the foreign exchange crisis, performance-linked systems emerged as key criteria for HR management, and more and more corporations chose to adopt annual salary systems and performance sharing systems (Kim, J., Park, I., and Gwang, Y. 2001).

In 1996 when the Ministry of Labor first conducted a survey, only 1.6 percent of the respondents had adopted an annual salary system and only 5.7 percent of them had performance-sharing in place. A survey of 5,116 companies with employees of 100 or more conducted in 2000 showed that much greater proportion of the respondents had adopted performance sharing (Wage Study 2000). In 2001, the proportion of those with performance sharing in place was 21.8 percent (Lee, S. 2002). Another study shows that the proportion of corporations with performance sharing in 2005 was 32.1 percent (Kim, D. and Jeong, J. 2005).

According to a survey by the Ministry of Labor, 92.6 percent of corporations with performance sharing responded that they make payments in the form of bonuses, suggesting that most corporations pay cash in distributing their profit. Still, 3.5 percent of the respondents answered that they make provisions for employee welfare funds. Assuming that the proportion of corporations with employee welfare funds, amongst those who had performance sharing up and running between 1996 and 2005 remained the same, the proportion of corporations who adopted performance sharing during the same period increased from 5.7 percent to 32.1 percent. This suggests that the number of corporations who chose employee welfare funds for performance sharing increased significantly.

Assuming that the proportion of corporations with employee welfare funds amongst those who had performance sharing remained the same as 3.5 percent between 1996 and 2005, the proportion of corporations that adopted performance sharing during the same period increased from 5.7 percent to 32.1 percent. This suggests that the number of corporations that instated performance sharing through employee welfare fund increased significantly.

What can be inferred from this finding is that employ welfare funds proliferated as performance sharing became widespread in the wake of the foreign exchange crisis. As mentioned in Section 4, the driving force behind the sharp increase in the adoption of employee welfare fund is the proliferation of performance sharing as part of a labor flexibilization strategy.

4) Adoption and Proliferation of Selective Welfare Benefit System

As mentioned in Section 2, corporations adopt and expand flexible welfare benefit systems that allow easy control of total labor cost and cost effectiveness as part of their labor flexibilization strategy. Korea saw a shift towards flexible benefit plans part of labor flexibilization after the foreign exchange crisis, which in turn led to an increase in the flexible welfare benefit system. From this point on, I will look into why corporations choose to adopt flexible benefit plans and what impact the labor flexibilization movement has had on the adoption of selective welfare benefit systems.

The entry of a low growth regime and the shift towards management emphasis after the foreign exchange crisis made corporations feel the need for an improvement in their welfare benefit systems (Park, W. 2001: 5). Amid a changing business environment, there were many corporations who considered improving their welfare benefit system to raise their cost effectiveness, and many set their eyes on the flexible benefit plans (Park, W. 2001: 6; Yu, G. and Cho, G. 1999: 2). In addition, there arose a need for cost split linked to performance because welfare benefit costs are deemed a part of total labor costs, and there has been a consensus that those who have performed better deserve greater welfare benefits. Many Korean corporations chose to adopt flexible benefit plan over their existing ones (Kim, H. 2001).

IBM, the first corporation in Korea to adopt a flexible benefit plan in 1999, wanted to meet the diversifying needs of their employees on a limited budget (Ministry of Labor 2002). LG Distribution designed its welfare benefit system modeling upon IBM and Cheiljedang's and started preparation for full-fledged adoption in September 1998 (Park, W. 2001: 16-17). In compliance with the policy of the LG Group, its parent company, LG Distribution decided to shrink its spending on welfare benefits for their employees, which cause a significant drop in their satisfaction level. Given that, the corporation considered the adoption of a selective welfare system to make spending on welfare benefits predictable while meeting employees' needs for welfare benefits (Park, W. and Lee, C. 1999). Dongyang Confectioneries adopted the flexible benefit planin 2000. Behind the adoption was the recognition that it is almost impossible to increase welfare benefits for all of its employees equally at the same rate and a need to use limited resources to meet the needs of all the employees (Lee, J. 2011: 97).

As part of this shift, personnel management focusing on seniority and lifelong employment diminished and merit and new, performance-based personnel management was adopted. In addition, the welfare benefit system changed to a selective welfare system, where benefits were differentiated across positions and years of service (Park, W. 2001: 21-22). IBM Korea and Haan Soft run a flat sum system while most of the others run a flat rate system (Written Argument 2001: 35). As shown in the motivation of several corporations to adopt the selective welfare system, the reason why flexible benefit plans proliferated is that they allow for cost control and are cost effective. Consequently, the flexible benefit plans were adopted to flexibilize corporations' labor use.

V. CONCLUSION

In this paper, I argue that labor flexibilization in the wake of foreign exchange crisis has shrunk corporate welfare and increased the proportion of employee welfare funds, which are similar to performance sharing. I also showed that flexible welfare benefit system which allows for easier cost control and higher cost effectiveness as part of labor flexibilization.

I used corporate welfare cost per regular worker, while analysis of the total corporate welfare cost was calculated by multiplying corporate welfare cost per worker with the total number of workers revealing more reduced corporate welfare after the IMF crisis. That is because the proportion of irregular workers excluded from receiving corporate welfare increased significantly. The prediction made in the early- and mid-1990's that corporate welfare in Korea would continue to rise proved wrong, as was the notion that Korea needed to establish a social welfare model centering on corporate welfare.

It is not plausible that corporate welfare in Korea will continue to rise.

That is because corporations, who could reduce their corporate welfare with the consent of labor unions in the wake of the IMF crisis, know very well that corporate welfare has a nature of fixed cost, which, once adopted, is difficult if not impossible to abandon (Park, H. 2002). In addition, corporations are moving fast to control their total labor costs which include not only cash wages but also corporate welfare costs in an era where cost reduction is the key to improving the competitiveness of both the national economy and their own (Kim, J. et al. 2004: 35). Corporations will try to cut down on corporate welfare which is paid regardless of performance and increase the proportion of wages in an era where performance and evaluation are linked very closely (Cho, G. 2001: Park, W. 2001: 5). There is a movement in government as well, which is set to newly impose tax on some type of corporate welfare such as housing loans or reducing the limit of tax benefits (Kim. J. et al. 2004: 38). The government, in particular, maintains a negative stance about corporate welfare by curtailing corporate welfare costs and taking them into account for evaluation for state-run or state-participated corporations.

In addition, corporations bearing statutory welfare costs, which are relatively high, make it difficult to develop a corporate welfare system, which is their voluntary employee welfare program. As shown in Table 1, the proportion of statutory welfare costs to the total costs increased from 2.3 percent in 1987, 4.3 percent in 1992, 5.2 percent in 1998 and 7.6 percent in 2003. Rising statutory welfare costs often result in corporations aiming to control total labor costs to reduce corporate welfare, which can be deemed as their pure welfare benefit systems.

Shrinking corporate welfare and rising statutory welfare in Korea where corporate welfare is well developed can be understood within an international context. In the U.S. where corporate welfare is much more advanced, large corporations tend to prefer a national medical insurance system while they are active in dismantling corporate welfare (Esping-Andersen 1996). In contrast, the UK and Scandinavia, where state welfare is well developed, have seen movements to hand over their welfare responsibilities to the market, which in turn gave birth to corporate pension markets (Mares 2003; Pearson and Martin 2005). In other words, states where corporate welfare is developed witness an increase in state welfare while those where state welfare is developed see a growth in corporate welfare. This suggests that an era of international convergence might be under way (Esping-Andersen 1996).

It seems however that corporate welfare in Korea will be reduced to those in other countries where state welfare is developed. This is because, as pointed out in the analysis of corporate welfare in western countries, welfare activity of corporations depends not only on change in state welfare but also on taxation policy or legal frameworks applicable to corporate welfare (Adema and Einerhand 1998; Pearson and Martin 2005). Given that, Korea sees little room for a reduction in corporate welfare because most of the corporate welfare programs in Korea are directed by legal requirements and administrative instructions (Song, J. 1997). Evaluation of labor market flexibility based on non-wage factors in labor costs reveals that Japan is the most flexible with a rate of 18.3 percent followed by the U.S. (27.4), Korea (30.8%) and Germany (44.9) (Park, D. 2004). This suggests that Korea's degree of flexibility through wage regulations is still low and has its gap with advanced countries' unfilled.

Korea has used means developmental state means in which the welfare of workers is left to the hands of the market to detach the working class from politics. A shift towards post Fordism and labor market flexibilization now changes the landscape of Korea's social welfare where corporate welfare plays an important role. This paper tried to reveal the instability of Korea's social welfare model based on corporate welfare. It also tried to contribute to the development of theories about the developmental path of diverse corporate welfare models after the IMF crisis by looking into Korea's unique experience in shrinking corporate welfare, which is different from its counterpart in the Western world.

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