

# Social inequality worsening in South Korea

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President Lee Myung-bak's speech last month commemorating Korea's liberation from Japan's colonial rule in 1945 turned out to be an exercise in deception, seeking to play down the increasing hardships and inequality facing South Korean workers. At the same time, it revealed something of the ruling elite's fears of a social explosion.

Lee delivered a grim picture of world capitalism: "[U]ncertainties are higher than at any time before. The symptoms associated with crises are spreading. It is hard to see even an inch ahead in the current economic fog. The global fiscal crisis is throwing the world into turbulence. Food and energy crises are devastating millions around the world. Countries are suffering from soaring prices. Many countries are fighting against widening disparities in wealth and high unemployment."

The president indicated that, like many leaders in Asia, he was deeply disturbed by the mass uprisings in Egypt and Tunisia and rising protests and strikes in Europe and America, spearheaded by students and young workers. Lee warned: "Young people, who will shoulder the responsibility for the next generation, are particularly uncertain about the future."

Like governments around the world, however, Lee made clear that the burden of the crisis would be imposed on working people. He called for greater sacrifice from the working class, in the name of national unity. "During the 2008 financial crisis, we shared the pain believing that the united efforts of 10 people would make it easier to help one person. Through the 'job-sharing' program, which is not found in other countries, and intensive assistance for small and medium-sized enterprises, Korea was able to ride out the crisis without massive layoffs and a chain of bankruptcies," he said.

"Job-sharing" served to subordinate workers to the demands of the corporate elite and slash living standards.

The program was initiated by Lee in 2009, first in the public sector, then in major corporations like Samsung and Ssangyong, with the collaboration of the trade unions. It meant wage cuts of up to 30 percent as well as tax breaks for employers to take on unemployed workers or college graduates at much lower wages than previous entrants to the workforce.

The program did nothing to prevent rising unemployment. South Korea was able to avoid mass joblessness only due to continuing demand from China for industrial components and capital goods.

The largest corporations in particular have enjoyed higher profits by implementing job-sharing. The *Korea Herald* reported on August 23 that in 2010, the combined sales of the 539 manufacturing affiliates of the country's top 10 conglomerates reached 756 trillion won (\$US680 billion), or 41.1 percent of the manufacturing sector's total. The share values of the top business groups reached 698.7 trillion won (\$628 billion) as of August 1, accounting for more than 52 percent of the total listed on the stock exchange—up from 44.5 percent in 2008.

South Korea is heading into a new economic maelstrom. The latest International Monetary Fund world economic report last Tuesday forecast the country's gross domestic product growth to be just 4 percent this year, down from previously estimated 4.5 percent, citing "unusual uncertainty in the external environment." With 42 percent of South Korea's exports going to the US in the first half, the economy is vulnerable to any American slide into another serious recession.

During the financial turmoil in recent months triggered by the US credit downgrade and the deepening debt crisis in the Europe, the South Korean share market has been much more volatile than other Asia countries, due particularly to a precarious financial position.

Since the Asian financial crisis in 1997-98, the government has encouraged banks to issue as many credit cards as possible in order to boost consumer spending. The *Korea Herald* reported that as a result of this reckless practice, household debt reached record levels in June, totalling 876.3 trillion won (\$762 billion). According to Reuters on August 25, average debt reached 155 percent of disposable income—exceeding the 138 percent level in the US at the beginning of the subprime crisis in 2007.

Like American workers, South Korean workers have been forced to take on more and more debt due to declining wages. According to figures from the National Tax Service last August, per capita earnings for the lowest 20 percent of workers liable for general income tax decreased by 35 percent between 1999 and 2009.

In no small part, this decline in wages came from casualisation of employment. The number of irregular workers—workers without contracts—has risen sharply since 1998. Today, more than half of the workforce, or 17 million people, are considered irregular, earning an average of just 1.35 million won a month (\$1,145), or 57 percent of the regular average wage. Irregular workers are also subjected to workplace discrimination and firing at the whim of employers.

The chief architect of this “labour flexibility” was Democrat President Kim Dae-jung, elected in 1998, who imposed the conditions set by the International Monetary Fund for a \$10 billion bailout in the midst of the 1997-98 Asian financial crisis.

Kim’s successor, Roh Moo-hyun, continued to develop the Democratic Party’s anti-working class policy, introducing the falsely named Irregular Worker Protection Act in 2007. Employers were required to offer contracts to workers who remained for two years. However, companies exploited loopholes that allowed them to fire their irregular workers before the completion of their two years. After Lee came to power in 2008, he maintained the loopholes.

The result has been a rapid expansion of cheap labour. International Labour Organisation statistics show that workers earning two-thirds less than median wage comprise 25.6 percent of the workforce, compared to 24.8 percent in the US and 15 percent in Japan.

The so-called “poor class”—defined by the Organisation for Economic Cooperation and Development as households earning less than 50 percent of the median income—increased to 3.52 million or over 20 percent of the total in 2009, double the OECD average of 10.6 percent. The so-called middle classes, earning 50-150 percent of the median income, declined from 60.4 percent in 2003 to 55.5 percent in 2009, according to Statistics Korea.

By sharp contrast, the top corporate executives—including President Lee, a former Hyundai CEO—have made extraordinary fortunes. The 2011 list of the 40 richest individuals in South Korea saw a record of 21 US dollar billionaires, up from 11 in 2010 and 5 in 2009. Last year, they added more than \$20 billion to their collective wealth, now worth \$65.6 billion.

Samsung’s Lee Kun-hee is No.1, with net wealth of \$9.3 billion, ahead of Hyundai Motor’s Chung Mong-koo, whose fortune jumped 80 percent to \$7.4 billion last year. That was not the most dramatic rise. Nexon online gaming owner Kim Jung-ju leapt 260 percent to \$2.06 billion, while Mirae Asset Management Group’s Park Hyeon-joo tripled his worth to \$1.5 billion.

Sections of the ruling elite are warning about the explosive consequences of this sharp polarisation between the powerful corporate elite and millions of poorly-paid workers. Former Premier Chung Un-chan warned in July that the gap between rich and poor had reached such a “grave level” that there was a “possibility of our society collapsing.” This was “a more serious matter than relations with North Korea,” he said.

As his Liberation Day speech indicated, President Lee shares these fears that the working class will be propelled into political struggle, along with workers in the Middle East, Europe and the US.



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