

The State Against Labor Segmentation: Union Wage Effects in the Manufacturing Industries

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I INTRODUCTION

Every authoritarian state believes that control of organized labor in one way or another is inevitable to assure a favorable industrial environment for economic growth. This paper addresses union wage effects in South Korea (henceforth, Korea), in which the state implements repressive labor policies in an attempt to eliminate the political and economic functions of unionism on labor markets.

Korea's labor repression aims at preventing organized labor from interfering with earnings determination, and thereby at eliminating institutional wage gains without favoring any segment of workers. In contrast to Latin American corporatist regimes¹, the Korean state has developed a labor system of 'non-corporative exclusionary' repression. It produces totally different outcomes contrasted to the corporatist labor regime as well as to advanced capitalist countries such as the United States and most European countries. Korea's labor repression eliminates institutional impacts -- here, labor unions -- on earnings determination so as to reinforce the neoclassical market principles. Whereas labor unionism is a decisive institutional force to fragment labor markets in both corporatist labor regimes and liberal, democratic labor regimes, the Korean unionism is conspicuous in strengthening the overall trend toward structural homogeneity in the working-class labor market. This paper demonstrates how Korea's labor repression prevents industrial workers from being institutionalized along with labor unions through the analysis of union effects on earnings determination.

Labor unions affect labor markets in various ways. Theoretically, there can be two sources of union wage effects: the political and economic power of labor unions. Most research by labor economists has

1) Latin Americanists' effort to extend the corporative framework to labor control of the East Asian NICs should be subject to a rigorous empirical analysis in this respect. Unlike Latin American corporative regimes, East Asian NICs do not develop patron-client relationships between the state and labor (cf., Schmitter 1971, 1974; Choi 1983; Frederic Deyo 1987).

concentrated on the economic power of labor unions, treating trade unions as a labor market institution. The institutionalist approach assumes, at the outset, the relative autonomy of trade unionism in a liberal capitalist society (e.g., Dunlop 1957; Levinson 1967; Rees 1961; Gregg 1963; Freeman and Medoff 1984). This approach is useful to capture the economic effects of unionism as 'a web of industrial rules' (Kerr and Siegel 1955) as compared to nonunion settings. Nevertheless, it suffers from theoretical limits in configuring the linkage of 'the web of industrial rules' to political rules of a society.

On the contrary, political research on trade unionism is mainly focused on the pattern of politicization of organized labor and its consequences on regime stability (e.g., Schmitter 1971; Collier and Collier 1977; Ruth Collier 1982). Political study of trade unions, faithful to the tradition of political economy, is also useful to explore the intrinsic mechanism of how political rules affect and shape institutional settings of trade unionism. However, most research following this tradition has rarely examined union wage effects empirically as a consequence of either preempted or repressed unionism in authoritarian settings.

Considering the two sources of union wage effects, the central aim of this paper is to estimate union wage effects empirically from survey data in the presence of political repression of organized labor. Union wage effects are observable even within countries practicing labor repression, but they appear in different forms: either in the form of cooptation and preemption in exchange for political support of dominant groups, or in the form of state benevolence to the working poor. The analysis is focused on explaining how repressive labor control distorts union wage effects in the Korean manufacturing industries relative to what might exist in the absence of labor repression. Two different hypotheses will be drawn from the political and economic approaches to trade unionism, and will be closely examined in the Korean industrial setting.

II SOURCES OF UNION WAGE EFFECTS

Union Wage Effects as Economic Power

The effect of unionism has long been a research topic of labor economics, which treats wages as a function of workers' economic power in labor markets. Labor economists have conceived of union organizations as a major institutional means for workers to take part in wage determination in labor markets. However, in spite of the multifaceted nature of unionism (Rees 1961), institutional economists have made their most important contribution in elaborating the relationship between characteristics of product markets and the strength of trade unions in labor markets (e.g., Rees 1961; Segal 1961; Lewis 1963; Weiss 1966).

The institutional approach commonly assumes strong correlations among market factors such as the degree of industrial concentration, the extent of union strength, and interindustry rates of wage increase. It is argued that oligopolistic and/or monopoly positions in product markets are more likely to induce favorable settings for unionization of workers, which in turn engender wage advantages for those sectors (see Levinson 1967). However, the relationships among these factors remain controversial. There are so many different empirical findings that it is difficult to establish consistent relationships among these factors. For instance, questioning the relationship of unionism and industrial concentration, Rees argues that since the strength of employers' resistance to unionism hinders strength of unions in the monopoly sector, union wage effects tend to be smaller in monopoly industries than in competitive industries (Rees 1961). Dalton and Ford present empirical evidence in support of a positive relationship between wage gains and oligopolistic industries, but the wage effects of unionization in those industries remain inconsistent in their research (Dalton and Ford 1977). It seems likely that the relationship of monopoly position and wage gains has been more consistently sustained than that of unionism and wage advantages in the early institu-

tionalist works.

However, the neo-institutionalists pay more attention to the debatable issue of the unionism-wage advantage relationship, shifting the analytical focus to organizational characteristics of the closed system, i.e., trade unions. In line with the early institutional approach, Doeringer and Piore laid a basis for interpreting union wage effects from a more sociologically-oriented perspective (Doeringer and Piore 1971). They define trade unions as craft internal labor markets, which develop administrative rules to govern the allocation of market resources and to have judicial control over job ports. Trade unions are an institutionalized market with a definite boundary, as contrasted to unstructured external markets. Obviously, such a conceptualization enriches the theoretical basis for studies of the varying effects of unionism on worker earnings.

Finally, Freeman and Medoff examine the complicated interactions of these three factors most comprehensibly in their recent study on unionism (Freeman and Medoff 1984). Their study begins by separating the meaning of trade unions into two faces: "a monopoly face, associated with their monopolistic power to raise wages; and a collective voice/institutional response face, associated with their representation of organized workers within enterprises" (Ibid, pp.6-18). These two faces of unions are based on different views and principles and thus, bring about contradictory effects in labor markets. Of these conflicting functions of unionism, which function takes priority over the other is still open to debate. In any case, their cross-sectional analysis apparently supports the positive contribution of industrial concentration to unionization (Ibid, p.33) on the one hand, and wage gains for unionized workers relative to ununionized workers on the other (Ibid, pp.43-60). Nonetheless, there have been many empirical studies disagreeing with these positive relationships (Aschenfelter 1978; Hirsch and Addison 1986).

The economic analysis, as a whole, concentrates on highlighting the environmental and institutional features of labor unions in search

of the economic sources of union wage effects. Although contradictory findings coexist, most works share a common assumption that those market factors are correlated in one way or another. For heuristic purposes, we draw a hypothesis regarding the economic sources of union wage effects, which assumes a positive relationship among market factors.

Hypothesis I: Industrial concentration is positively related to unionization, and unionization is also positively related to wage advantages in Korea.

Union Wage Effects as Political Power

The institutional approach, however, reveals theoretical limits in an industrial context in which strong political repression on unionism exists. As stated briefly above, this approach presupposes the relative autonomy of unionism in liberal, democratic, and capitalist societies such as United States and most European countries. Empirical study of wage movements as a function of the extent of unionization, for instance, cannot be adequately interpreted unless the autonomy of labor unions is presupposed (e.g., Freeman et al. 1981). The existence of political coercion of unionism significantly reduces the adequacy of this approach. In reality, political repression on organized labor is a common phenomenon in most authoritarian countries like South Korea. Economic functions of unionism are subject to labor politics in those countries. As a result, studies of political economy are useful as an alternative approach to the impacts of unionism in the presence of political coercion.

There is a growing body of literature by Latin Americanists examining the patterns of working-class mobilization into national politics in terms of interest representation (Schmitter 1971, 1974; Collier et al. 1977; O'Donnell 1977; Stepan 1978). Basing their work on major cross-national studies of working-class incorporation into politics, Latin Americanists describe the systems of labor politics in these countries as 'corporative,' most of which are explicitly directed

to induce docility of organized labor in a repressive manner. Corporatism, as one way of organizing state-society relations, means the system of interest representation (Schmitter 1974). A detailed analysis of political incorporation of organized labor goes beyond the scope of this paper. What interests us most here is the state preemption of organized labor under repressive corporatist regimes. Of the three types of mechanisms of corporatism such as structuring, subsidy, and control (Collier et al. 1977), what attracts our attention as to the impact of unionism is the subsidy granted to organized labor in return for pledging loyalty to the state domination.

The preempted segments of organized labor are discernible from otherwise comparable workers in terms of social insurance and wages. Particularly under the populist regimes in Brazil and Mexico, insurance programs served as an effective lever for the state to deradicalize and depoliticize the working class. As Erickson and Middlebrook describe this politicization in Brazil, "the 'officialist' labor organizations tend to benefits disproportionately in the actual distribution of benefits to workers" (Erickson and Middlebrook 1982, p. 243). Labor leaders were offered political and bureaucratic power to decide access to insurance benefits.² In Brazil, the divisive and preemptive control has maintained the ingrained subordination of organized labor to the state by compartmentalizing workers into industrial (vertical) and occupational (horizontal) segments. Malloy describes the politics of social insurance as a flexible means of sustaining the corporative system of labor controls (Malloy 1979, p.58):

Labor was legally conceptualized as a series of discrete functional categories defined in terms of occupational and/or economic sector, for example, industrial workers and transport workers. (...) Aside from defining the basic categories themselves, the ministry had the power to decide which workers fit into which

2) The insurance benefits are valuable and attractive enough to induce industrial workers to participate in state-guided rallies or strikes. Erickson notes that workers who are pushed to join strikes hope for improved access to social-insurance services by winning favor with union leaders (Erickson 1985).

category. This latter power was significant in the previdencia social system (state-enforced obligatory insurance) since benefits could vary widely from category to category. (underline for emphasis)

The divisive and preemptive control of unionism precipitates a sharp division between the state-sponsored union (so-called pelegos in Brazil) and the rest.

The same is true of wage premiums for the officialist labor organization. State patronage of industrial workers has fragmented labor markets in most of Latin American corporatism into a dualistic structure: between agrarian and industrial sectors, and between unionized-modern and nonunionized-traditional sectors within the industrial sector. The sharp dualism instigated workers' demand for higher wages, particularly in high-paid, skilled, unionized labor markets. Although empirical measurement of wage gains is lacking (but see Bacha 1976), there Bacha 1976), there are abundant studies supporting the argument that the corporatist labor control generates wage advantages for unionized workers (Fishlow 1973; Skidmore 1978; Morley 1982; Humphrey 1982). For instance, the premise that unionized workers enjoyed high wages is taken as a pivot to account for the rise of "democratic unionism" in Humphrey's excellent study on the Brazilian labor movements of the 1970s (Humphrey 1982). His effort to explain the rise of anti-statism in the high-wage industry, i.e., auto industry, departs with a premise that high-paid unionized workers under authoritarian regimes tend to be less tolerant of wage repression than otherwise comparable workers. In other words, his argument implicitly assumes that automobile workers enjoyed high wage advantages as a result of state preemption prior to wage-repression policies.

Again, corporatist labor control is associated with the existence of preempted segments of unionized workers and labor leaders, who enjoy political and economic advantages offered by the state. This convinces us of the existence of union wage effects even in the presence of labor repression, which cannot be adequately interpreted by economic analysis. In this respect, we obtain another hypothesis

regarding the political sources of union wage effects.

Hypothesis II: Union wage advantages are also existent in the presence of political repression of organized labor. As in corporatist labor regimes, wage advantages for high-paid, skilled, and unionized workers are noticeable in authoritarian Korea.

III UNIONISM WITHOUT AUTONOMY: PREREQUISITES FOR THE ANALYSIS OF UNION WAGE EFFECTS IN KOREA

Our main theme is to measure union wage effects, if any, by shedding some light on the pattern of labor repression and its labor market outcomes. What makes the analysis intriguing in the Korean case is the fact that although labor unions are more likely to emerge in the oligopolistic industries and firms, unions in that sector are more susceptible to labor repression. The state intensifies political pressure on union organizations in monopoly industries to prevent the development of worker power in that sector. For this reason, the analysis of the impacts of labor unions in Korea should neglect neither the economic approach nor the political approach. The tenets of these two approaches are selectively and flexibly employed in this analysis: the analytical strategy is mainly referred to as the economic approach, and interpretation of empirical findings is referred to as the political approach. Before specifying research questions, it is necessary to outline briefly the structure of labor unions and labor repression in Korea.

Enterprise Unionism

The basic unit of union organization in Korea is not industry but enterprise. After the military coup of 1961, the state reorganized and consolidated enterprise unionism strategically, uniting the workers in one plant or company, rather than by trade unions associating people in different companies doing similar jobs. Not individual workers but

enterprise unions are members of industry-wide unions, and all seventeen industry-wide unions constitute the peak national union organization, the Federation of Korean Trade Unions (FKTU). The links of enterprise unions to industry-wide unions or the FKTU are perfunctory, due to the state's successful control over national union leaders and interruption of organizational and institutional ties between the FKTU and rank-and-file workers.

Enterprise Unions without Monopoly Face

Enterprise unions in Korea are by no means identical with 'crafts internal labor markets (Doeringer et al. 1971)', so that unionized workers are substantially exposed to competition with workers in external labor markets. This means that unionized workers are not permitted to exert judicial control over job ports.³ Because of the political restraint on workers' participation in the process of employment and dismissal, the institutional boundary of enterprise unions remains unclear. Enterprise unions are deprived of the institutional function of protecting workers from falling into external markets.

The Structure of Collective Bargaining

The pattern of collective bargaining directly reflects the balance of power between the state and organized labor. The authoritarian state attempts to hold complete control over collective bargaining, particularly with regard to wage-related issues. Collective bargaining is substantially decentralized since the state legally prohibits intervention by the national union organization in any form of conflict at the local level.⁴ The prevalence of enterprise unions also hampers workers' struggle for centralized negotiation. Thus, wage negotiation

3) The organizational boundary of trade unions is very strong in other countries, for example, Britain, Mexico and Senegal, so as to restrict qualifications to union memberships by either inheritance or consensus of local-union members (see Dore 1981).

4) Two branches of the federation of textile labor unions sustain centralized bargaining: raw-silk spinning and woolen-fabrics locals.

is mainly conducted between the employer and union leaders, or through the state-sponsored factory council, i.e., the Labor-Manager Cooperative Council, at the enterprise level. Even though the state legalizes collective bargaining at the enterprise level, firms with collective agreements accounted for only 2.4% of all firms operating in 1984 (1,649 among 66,000 firms), according to a FKTU report (FKTU 1984). This means that the bargaining power of enterprise unions has virtually been nonexistent.

Export-Promotion Strategy

The state intensified its repressive control of organized labor from 1967, when a series of industrial-deepening policies were launched on the basis of the success of export promotion over the previous few year (Ogle 1973).⁵ In this respect, industrial-deepening policies for export promotion enhanced the political coercion of organized labor in Korea. There is solid evidence supporting the link between export-promotion strategy and labor repression: first, the enactment of special law which aimed at preventing labor disputes and work stoppages in firms heavily associated with foreign capital investment, and second, the government's development of a draft for wage regulation through bureaucratic administration. Throughout the 1970s and onward, repressive labor control has fostered the state's initiative to ensure profitable feedback of state subsidies to economic growth and to curb rising wages. It should be noted that, although egalitarianism-oriented state elites have repressed wage-earners without favoring any segment of workers, the extent of labor repression -- e.g., police surveillance, arrest, violent crack-downs on strikes, destruction of union activity,

5) The Democratic Republican Party (DRP), the ruling party, moved in 1967 to co-opt labor leaders and to incorporate them into the party. That year was a benchmark in both the Korean labor politics and the spur of economic growth, in that the government completed institutional reforms of its export trade regime (Ogle 1973).

and so on -- has differed by the market type with which a firm or a industry identifies itself: the more export-oriented, the more exposed to labor repression. This point will be detailed later.

IV RESEARCH DESIGN AND VARIABLES

Research Question

These four essential features characterizing Korea's labor unionism taken into account, the analysis of this chapter addresses three questions. The first and second questions examine the hypotheses regarding economic and political sources of union wage effects in a heuristic sense, and the third question addresses the role of Korea's labor repression in generating or suppressing structural segmentation. These research questions are as follows.

- (A) How far is the positive relationship of industrial concentration-unionization-wage advantages relevant in the Korean manufacturing industries?
- (B) What pattern of earnings inequality does the labor repression create? Does labor repression entail preemptive wage gains as in corporatist labor regimes?
- (C) Do such union wage functions strengthen the structural segmentation of labor markets, or delay it?

Earnings Model

The analysis of union wage effects is based on the earnings model which includes two groups of variables -- personal and structural -- as follows:

$\ln(\text{Earnings}) = f(I, IC, DV, U)$, where

$\ln(\text{Earnings})$: The natural logarithm of hourly earnings,

I: Individual variables, e.g., schooling, age, firm-specific experience, sex, and job skill,

IC: The three-sector division by the extent of industrial concentration -- highly moderately, and poorly concentrated sectors,

DV: The market division of firms between the domestic and the export markets,

U: The dichotomy between unionized and ununionized workers.

The earning model serves for a two-fold analysis. First, the earnings model estimates the variation of union wage effects by demographic groups and industrial sectors. This procedure is an account of hypotheses I and II, which concern associational patterns among personal endowments, unionization, industrial sectors, and union wage gains. Second, we proceed to observe the relationship of Korea's export-promotion strategy and union wage gains by introducing the market type with which a firm identifies itself in terms of its major sales market. As many scholars note that labor repression in the East Asian NICs is closely related to the pursuit of export-oriented industrialization (see Deyo, Haggard, and Koo 1987), the impacts of the export-promotion strategy on labor unionism in Korea are worth studying carefully. This second analysis takes account of the Korean pattern of union wage gains, which has no parallel in both corporative labor regimes and liberal, democratic labor regimes, but is an outcome of non-corporative egalitarian labor repression.

Data Sources and Variables

This analysis uses the 'Survey of Labor Demand Behavior of Korean Manufacturing Firms' (henceforth, SLDB), which the Economic Institute of Seoul National University conducted in cooperation with the International Labor Organization in 1976. Since the Korean system of labor control, though some variations in the intensity of repression according to political climate, has lasted unchanged during the past two decades of economic expansion, the selected year of 1976 is pertinent to our purpose to capture the essential features of repressed labor unionism under the authoritarian rules. This survey data contains all information required for our pooled model. The SLDB investigates working conditions and job-related information in manufacturing industries in the Kyong-In Industrial Belt. This industrial belt, located around metropolitan Seoul and built up since the Japanese colonial period, is

best suited for analyses of the development pattern of the Korean economy due to its amalgamated structure of old and new and small- and large-scale firms. The SLDB contains 1,115 respondents selected from 271 firms.

Variables in the analysis are defined and operationalized as follows. The logarithm of hourly earnings is used as the dependent variable. Hourly earnings are obtained by dividing regular monthly earnings by total hours worked. In addition, there are two groups of independent variables. The first group of independent variables is that of personal endowments. In consideration of the importance of credentialism in a meritocratic society such as Korea, years of schooling are classified into four categories: elementary school, middle school, high school, and college. Age groups are divided by five-year intervals, yielding four groups: below 20, 21-25, 26-30, over 30. Tenure or firm-specific experience has five subcategories: below 1, 1-3, 3-5, 5-7, over 7 years. Sex is scored 0 for males and 1 for females. The level of skill and kinds of licence are used to define job skill, yielding three categories: laborers, operatives, and craftsmen.

The second group of independent variables is that of structural variables. First, industries are grouped into two categories -- durables and nondurables -- on the basis of the three-digit classification in the SLDB dataset. Establishment size, measured by the number of employees, is also dichotomized into small (199 employees or fewer) and large (200 employees or more) firms. Given the lack of full information for industrial concentration, the industry and the size dichotomies are used to create three different sectors in the hierarchy of industrial concentration. Three sectors are: highly concentrated, moderately concentrated, and poorly concentrated industrial sectors.

The market division is based on a continuous variable for the extent of firm involvement in export market or the ratio of firm exports to total production. In order to highlight to impacts of the

export-promotion strategy on the structure of labor markets, the present analysis uses a dichotomous market division, contrasting the domestic-market-oriented (henceforth, DMO) firms to the export-market-oriented (henceforth, EMO) firms. Unionization is scored 0 for ununionized workers and 1 for unionized workers. See Appendix for a detailed description.

V RESULTS OF ANALYSIS

Distribution of the Union Members

First of all, it is necessary to closely look into the distribution of union members. The overall shape of distribution will give some valuable information on what kind of workers are more likely to be affiliated with unions in the presence of political repression of unionism. Table 1 displays the distribution of the union members by industry and demographic groups.

(Table 1 about here)

A fairly interesting pattern is found in Table 1. First, when demographic groups by individual endowments are considered, workers with higher quality are more likely to be union members than otherwise comparable workers with lower quality. The more educated, experienced, and skilled they are, the more likely they become union members. Second, union membership grows with industrial concentration, showing a sharp division between the poorly concentrated industrial sector and the rest. Industrial concentration is positively associated with unionization in Korea. Thirdly, union members are more likely to appear in domestic-market-oriented firms than in export-market-oriented firms. DMO firms are larger by 8% than EMO firms in unionization in 1976. How, then, can such a distributive pattern of union membership be explained in the presence of political repression?

Unionization is a function of worker willingness to have a union in the workplace, in spite of the state regulation and employer

resistance to unionization. These are most important preconditions determining unionization. Thus, these conflicting forces can be taken as determinants for the Korean case, Worker willingness increases unionization, while the state regulation and employer resistance become a strong barrier to it. The latter exerts a enormous constraint on unionization in Korea because the formation of an enterprise union requires official approval of the bureaucratic administration under the control of the Ministry of Labor. In spite of the labor legislation which guarantees the state approval for workers' requests satisfying some intrigue procedural qualifications, the state approval mechanism is extremely biased in favor of employers and thus functions as an institutional barrier to establishing union organization.

In this respect, the increasing rate of unionization paralleling the level of personal endowments is indicative of the tendency that worker willingness to have unions grows as they move to more advantageous positions in labor markets. Alternatively, the state and employers are less resistant to demands of higher-quality workers for unionization. Granted that individual endowments are directly translated into market power, workers who are positioned in the primary market tend to gain more concessions from the state and employers. Expressed from the standpoint of both workers and the state, the stronger the workers' market power, the more likely they are to belong to the union; and, alternatively, the stronger the workers' market power, the less restrictive the state control becomes.

Similarly, the positive association of union membership with industrial concentration and its skewed association between the market division can also be explained in this respect. First, granted that firms with a higher industrial concentration provide better jobs which should be filled with skilled, older, and experienced workers, the higher rates of union membership in these firms are reasonable. This leads to a statement that industrial concentration is positively associated with unionization in Korea, in spite of the counter-argument that employer resistance tends to be stronger in oligopolistic

industries (Rees 1961). Second, in a similar vein, the lower rate of unionization in export-market-oriented firms is indicative of the skewed distribution of personal endowments between DMO and EMO firms. In fact, some researches on Korean labor markets reported that workers in EMO firms are more poorly endowed than workers in DMO firms (Fields 1984; Song 1986; Park and Park 1982). Thus, their demand for unions may be weaker. Alternatively, the state puts greater restrictions on export-market-oriented firms in order to ensure industrial peace for export production. For an authoritarian state which is abhorrent of laborism, unionization is always perceived as detrimental. This alternative view will be fully discussed later.

What interests us is the association of this pattern of union membership with wage gains. Does union membership, positively related to workers' economic power in labor markets, entail wage advantages? If so, are union wage advantages congruent with the distribution of union membership? Before going into these questions, let us first consider the overall shape of earnings distribution by unionization.

Unions and Earnings Distribution

Hourly earnings of organized workers are contrasted to those in nonunion settings in Figure 1.

(Figure 1 about here)

The figure displays, first, that different groups of workers are paid different amounts. Unionized workers receive 18 percent more pay than nonunionized workers in absolute terms.⁶ Second, the more concentrated and peaked the curve, the lower the earnings dispersion. In terms of the standard deviation measure of inequality favored by labor economists, the distribution in the figure shows that inequality is lower by 4.4 percent among organized workers than among unorganized workers.⁷ As a whole, it seems likely that unionized workers receive

6) $\ln(W_u/W_{nu}) = \ln W_u - \ln W_{nu} = 10.572 - 10.304 = 0.168$. $W_u/W_{nu} = 1.183$. Union wages are larger by 18% than nonunion wages on average.

7) $(.627 - .599) / .627 = 0.044$ Unionism lowers inequality by 4.4% relative to what it would be in the absence of unions.

higher earnings and their earnings are more narrowly dispersed from the mean than otherwise comparable workers in manufacturing industries in Korea.

However, it should be noted that these differences are not completely attributable to the structural effects of unionism per se because they are measured in absolute terms. In reality, 18 percent earnings gap and 4.4 percent difference of inequality is a mixture of the structural effects of unionism itself and variations of personal endowments. The effect of unionism can be measured with controls for personal characteristics. We now turn to multivariate regression analyses for this purpose.

Measuring Union Wage Effects

Apart from wage variation by personal attributes, unionism, in fact, generates structural wage effects in the Korean setting. It also produces different amounts of wage gains by demographic groups and industrial affiliation. As Freeman and Medoff (1984) suggest, unions have two-edged effects on income distribution. Unions have 'the monopoly function,' which increases income inequality by raising the wages of highly skilled workers. The monopoly function of unions discriminates against unorganized workers in pursuit of their own interests, causing income inequality among workers doing similar jobs. On the other hand, unions have 'the collective-voice function,' which contributes to lowering income inequality among organized workers in a given company or a given industry in protection of lower-income and disadvantaged workers (Ibid, pp.5-25). The latter are represented by union's standard-rate policies which work to reduce inequality among organized workers by altering income distribution.

According to Freeman and Medoff's analysis, union wage effects are widely spread across different categories of workers in the United States. Comparing the magnitudes of the monopoly effects and the collective-voice effects by multivariate regression analyses, they report that inequality-reducing effects are stronger by about 3 percent than inequality-increasing effects (Ibid, pp.90-93). Put another

way, the collective-voice effects are predominant over the monopoly effects in the United States, so that American unionism raises wages for lower-paid and disadvantaged workers to a greater extent than it favors highly skilled workers. In contrast, in countries with corporatist labor repression like Latin America, one can expect that labor unions serve to increase inequality rather than reduce it. The state grants more favor to high-skilled workers in the organized sector, discriminating against less skilled, lower-paid workers in unorganized sector.⁸ Control through discrimination is the nature of political incorporation. Thus, the monopoly effects are predominant over the collective-voice effects in corporatist labor regimes.

Our analysis of earnings equations suggests that labor unionism in Korea, however, generates a noticeably different pattern from these two types. Neither the monopoly effects nor the collective-voice effects are conspicuous. Table 2 displays union wage advantages by percentage amounts broken down into demographic groups, industrial concentration, and market division in contrast to those of American unionism. Some essential findings are presented below to answer the hypotheses-related research questions posed in the previous section.

(Table 2 about here)

First, the total union wage effects are not sizable, amounting to only a 6.7 percent wage gain relative to nonunion wage settings. This magnitude is contrasted to the archetypical union wage effects in the United States, which range 20 to 30 percent during the 1970s (Freeman et al. 1984). Lewis suggests an overall union-nonunion wage differential of about 15 percent over the 1967-79 period in his recent work, which estimates means from 143 empirical studies on union wage effects (Lewis forthcoming; quoted from Hirsch et al. 1987, p.148).

Second, union wage advantages only appear in the lowest category in every demographic group, whereas no effects are found in otherwise

8) In Brazil, for instance, highly-skilled workers and workers in heavy industries have enjoyed more rapid wage growth than lower-skilled workers and workers in traditional light industries during the period 'of the economic miracle' of the 1970s (Morley 1982; Humphrey 1982).

comparable categories. This pattern is consistent except when population is collapsed by sex, which seems unlikely to be significantly associated with union wage effects. Union benefits to workers, located in the lowest category and thus lowest-paid, in fact, coincide with what Freeman and Medoff predict for unionism among lowerpaid workers in organized sector. However, the total absence of effects in higher categories in each demographic group is very exceptional, and even deviant from wage gains granted to highly skilled, experienced male workers in most corporatist labor regimes. The limiting of union wage effects to the lowest-paid workers in Korea is neither the monopoly effect nor the collective-voice effect. Cross-sectional studies report that unions in advanced capitalist countries have disproportional wage impacts on workers' personal endowments, making the age-earnings profile less concave and making a U-shaped relationship between the wage differentials and experience (Hirsch et al. 1986). By contrast, Korea's unionism creates a rigid L-shaped curve of union-nonunion wage differentials in most demographic groups. It is noticeable that the L-shaped curve of wage gains is not consistent with the distribution of union membership.

Thirdly, union wage advantages substantially vary by industrial concentration. The differential for blue-collar workers in firms with a low industrial concentration is 45 percent as contrasted to no effect in firms with a higher industrial concentration. One reason for this result is that nonunion firms with a higher industrial concentration may pay close to union scale to discourage unionization. However, the total absence of union wage effects in these firms is not adequately explained by so-called 'threat effects.' This is a debatable issue. An alternative answer may be found in the political repression on labor unions in the Korean context. We will return to this question later. In any case, such a pattern of union wage effects is strongly contrasted to the distribution of union members. The higher rate of unionization in firms with a higher industrial concentration never assure wage advantages at all. Conversely, Korea's unionism accompanies wage gains only for unionized workers in

firms with a lower industrial concentration, employees of which are relatively poor in personal endowments and thus, powerless in labor markets. These findings lead us to state that, on the contrary to hypothesis I, industrial concentration is positively associated with unionization, but wage advantages are inversely related to industrial concentration and unionization.

Finally, a sharp contrast by market division is noticeable. Table 2 apparently shows in the second and third columns that wage advantages exist exclusively in firms operating for domestic markets (DMO firms), whereas they are completely absent in firms operating for export markets (EMO firms). This contrast needs careful attention because it reveals the pattern of Korea's labor repression and its linkage to the state economic strategy for export promotion. This question will be also examined in more detail later.

The first two research questions proposed previously can be accounted for in a capsule form:

- [A] Industrial concentration is positively related to unionization in Korea. On the contrary to Hypothesis I, however, union wage effects are inversely related to industrial concentration and unionization. Industrial concentration is favorable to unionization, but union wage advantages are totally absent and/or suppressed in the oligopolistic industrial sector.
- [B] Union wage advantages, though not sizable, are observable in authoritarian Korea. On the contrary to Hypothesis II, however, unions are permitted to offer wage advantages only for workers located in the lowest category in each demographic group. As a result, there is a L-shaped relationship between wage gains and individual endowments. The monopoly function is totally absent and/or suppressed, and the collective-voice function is observable in an extreme form.

From the political perspective, these findings lead to an interpretation that Korea's labor control is characterized by less restriction on the workers that are poorly endowed, less organized, and thus

less likely to become a threatening force to the state and employers. The favor granted to lower-skilled workers but complete suppression of wage gains for higher-skilled workers serves to reduce earnings inequality among organized workers. Such a pattern, however, is not adequately understood without illuminating the fundamental features of Korea's labor repression. The state's political and ideological strategy to control organized labor should be highlighted in order to take a full account of the two questions which remain unanswered in this analysis. These questions are: why exclusive benefits only for poorly-endowed workers? and why no benefit for workers employed in EMO firms?

Politics of Egalitarian Repression and Export Promotion

1. Why Union Effects Only for Lower-Skilled Workers?:

Secluding and Disorganizing the Organized

The practice of labor repression is the problem of state penetration into union organizations and of its influence on union functions inside firms. Labor repression is instituted in the broad context of "enterprise relations to state and market" (Burawoy 1985). In this respect, three factors are crucial for our proposed questions: secluding enterprise unions, undermining union wage policy, and taking an initiative in the supply of skilled labor in labor markets.

First, with regard to the strategy of secluding enterprise unions, fundamental differences in politicizing organized labor should be mentioned. Whereas the corporatist labor regimes in Latin America depoliticize organized labor through encouraging unionization in a cooptive way, Korea's labor control is extremely intolerant of and resistant to unionization. The Korean authoritarian state has made every effort, both institutionally and physically, to deter workers from being organized and to disband the already-organized. It is not a corporatist repression but a noncorporative exclusionary repression, aiming at fragmenting organizational ties of workers to assure the institutional isolation of enterprise unions.

Although enterprise unionism has been idealized as a means of

establishing industrial harmony between employers and employees, the state's goal is to atomize enterprise unions and organized workers, vertically and horizontally. Wage regulation has been carried out on the basis of fragmented and atomized union organizations. The vertical coalition was disbanded through the coercive cooptation of labor leadership in the peak organization and through legally preventing the FKTU from intervening in local labor disputes. In wage matters, the FKTU was substantially weakened and subordinated to bureaucratic control by the Economic Planning Board and the Ministry of Labor. Horizontally, the state rigidly discouraged worker alliances across firms and industries. Industry-wide unions are also legally prohibited from intervening in local affairs for this purpose. Police surveillance and intimidation have assumed a crucial role in destroying worker unity across firms and industries. Consequently, enterprise unions are substantially insulated. The insulated enterprise unions inevitably lead to decentralization of collective bargaining. The labor strategy of isolation and atomization is enforced under the guise of an equality-oriented ideology.

Authoritarianism is characterized by an ideological thread that every member of society be treated equally in the sight of the law. State elites in authoritarianism in most cases are armed with such an egalitarianism as an ideological weapon for repressing social groups (Cardoso 1979). However, more often than not, the way of practicing political repression is far from egalitarian, particularly in the corporatist labor regime. The discrepancy between egalitarian ideology and its practice is striking in the corporatist strategy of discriminating some workers against others. By contrast, authoritarian Korea is consistent in practicing egalitarian labor repression because no segment of workers is favored and preempted.

Ironically, in Korea, this egalitarian ideology serves, on the one hand, to legitimize elimination of the monopoly function of unionism in labor markets, and, on the other, to rationalize the policy goal of enterprise unionism, that is, 'to improve the harmonious and family-like relationships between workers and employers.' Just as

parents treat their family members equally, so employers are encouraged not to discriminate against any strata of workers in a given company. It is, in fact, a repressive egalitarianism or a paternalistic egalitarianism in the Hobbesian concept of social order.

Second, the egalitarian repression underlies the basic tenets of state wage policy. Thus, permitting wage advantages for higher-skilled workers is incompatible with that egalitarian character of labor repression. In order to counterattack against the FKTU's opposition and to resolve workers' discontent about the state wage regulation, the state completely incorporated the FKTU's policy goals without modification in the late 1960s. The FKTU's policy goals have been based on three basic principles, which in themselves are not incompatible with what the state policymakers believe as egalitarian in the Korean setting: first, to subsidize low-income workers living below the poverty line; second, to reduce wage gaps between workers with different personal endowments; and thirdly, to institute the principle of equal pay for equal work' (FKTU Annual). These principles are by no means contradictory to those of Korea's egalitarianism-oriented policymakers. The state immediately adopted its policy goals and implemented them more vehemently with an emphasis on protecting low-income workers that are poorly endowed, and the FKTU's influence rapidly waned thereafter.

The egalitarian stance of wage regulation has been effectively carried on both at the national and at enterprise levels for the past two decades. At the national level, the state strictly applies an equal percentage of annual wage increase to all workers across firms and industries regardless of unionization. Such an indiscriminate nature removes union wage advantages substantially. Instead, the state insists that the nation's rapid economic growth has placated workers' demands for high wages, taking the place of the union role in wage growth. At the enterprise level, employers and workers share a consensus regarding firm-based rules of 'more favor to lower-paid workers, and less favor to higher-paid workers' in negotiating and deciding the actual percentage rates of wage increase for different

strata of workers within the state-regulated annual ceilings (KEF Annual; Kim and Ha 1982). In Korea, both parties, employers and employees, are highly tolerant of such firm-based egalitarianism in wage negotiation. Union wage effects for lower-paid workers, simultaneous with no effect for higher-paid skilled workers, are a natural outcome of this pattern of labor control.

Finally, state initiative in vocational training is another crucial factor explaining the absence of preemptive wages for workers in higher strata. In Korea, most workers acquire their job skills not from companies but from technical and vocational schools outside companies. Since the early 1970s, the state has established vocational and technical schools around industrial bases in preparation for rising demands for skilled labor to come with the rapid economic expansion. This state initiation and subsidization of vocational education relieved private employers of screening and training costs. Conversely, it delayed efforts by employers to develop in-company training programs by which workers could acquire firm-specific skills. The relative low costs of training and screening significantly deterred the formation of crafts internal labor markets and weakened the ability of skilled workers to control job ports. Job entry and exit are open at every level to outside workers. The employment process is monopolized by employers because of the low costs of replacing skilled workers. Therefore, there is no need for employers to provide preemptive wage premiums for skilled workers that are cheaply replaceable. In such industrial circumstances, enterprise unions cannot be an institution by which workers protect their job stability and other work rights. In other words, enterprise unionism is nothing more than the state's rhetoric for driving workers to open competition with workers in external markets.

2. Why No Union Effect in Export-Market-Oriented Firms?:

Threat Effects or Suppression?

Under these conditions, why is there no union wage effect in export-market-oriented firms? Theoretically, there are two possible

reasons: complete suppression of union wage effects, or so-called 'threat effects,' which increase nonunion wages as a means of deterring unionization. Labor economists pay much attention to threat effects because union avoidance by employers could play a role in raising nonunion wages. Threat effects may gain more importance in the Korean setting, since the export promotion bred working-class radicalism especially in exporting firms during the expansion period. Threat effects, particularly in EMO firms, would indicate strenuous efforts by employers to buy off workers' demands for unionization. Is the absence of union effects in export-concentrating firms associated with threat effects?

In order to test the hypothesis of threat effects, wage differentials between DMO and EMO firms are compared with control of union status. The existence of threat effects in EMO firms can be evidenced by the fact that wages in nonunionized EMO firms are higher than those in nonunionized DMO firms, when personal characteristics are controlled for. Unless wage differentials are found between these two segments of firms among nonunionized workers, we conclude that the complete suppression on labor unions is the very cause of the absence of union effects in EMO firms. Table 3 displays the results of multivariate regression analyses, which is conducted only in those categories showing union-nonunion wage differentials in Table 2.

(Table 3 about here)

The third column in Table 3 demonstrates that wage differentials apparently do not exist between DMO and EMO firms among ununionized workers. This means that no threat effects are found in export-market-oriented firms. The absence of union wage gains in EMO firms are not attributable to employers' union avoidance, but to the complete suppression of organized labor in those firms. In reality, employers have been entirely dependent upon state protection in labor matters during the past two decades of economic expansion in Korea. The state took over employers' efforts to discourage unionization in workplaces. The modest size of union wage advantages in DMO firms expressed in the second column is nothing but a state benevolence granted to lower-

skilled workers in this context. Simultaneously, it should be noted that the intensity of labor repression varies by the market division. State labor control tends to be more significant and intensive for workers who are standing in the frontlines of export promotion. The greater intensity of labor repression on export-concentrating firms can be viewed in light of the fact that the regime's political legitimacy hinges upon the efficient feedback of various kinds of state subsidies to economic growth. State subsidies in the form of foreign borrowing, capital investment, tax exemptions, etc., are more often given to exporting firms (Cho and Cole 1986; Jones and Sakong 1980).

Alternatively, labor market conditions explain the higher intensity of labor repression in exporting firms in a more consistent way. The unlimited labor supply, particularly for exporting firms, makes organized labor in these firms more vulnerable to state labor repression. Exporting firms employ a larger portion of unskilled and semi-skilled workers than domestically-oriented firms. Korea's export production did not require a high degree of job differentiation, but rather concentrated on simpler labor processes up to the early 1980s. Therefore, the job spectrum is narrower and the promotion ladder is relatively shorter. Due to these job characteristics, exporters could reserve a larger and more stable labor pool than otherwise comparable firms. The relatively stable labor supply helped the labor demand of exporting firms remain inelastic. Comparatively, these conditions of labor markets substantially weaken the resistance of organized labor in these firms to the state and employers. The lack of union effects in exporting firms is the result of state labor repression, to which the inelasticity of labor demand makes organized labor in these firms more vulnerable.

VI SUMMARY AND CONCLUSION

Empirical findings are straightforward. Korean labor repression entails neither the sizable union wage advantages nor the preemptive wage gains which appear in cases of advanced capitalism and corporatist

labor regimes. Regarding the size of union wage effects, enterprise unionism is not highly associated with wage effects in Korea. Even the the small union wage effects exist only for less skilled, young workers in the domestic-oriented labor market. At this point, the smallness of union wage effects, barely a 6.7 percent benefit only for lowest-paid workers, can be interpreted as more a corollary of the state's labor policy than of unionism itself in the presence of political repression. Politically, the state benevolence to poorly-endowed workers located in the bottom of the labor market contributes to the egalitarian legitimization of labor repression. Regarding the preemptive wage gains, corporatist labor control has been firmly based on structural segmentation of labor markets and strengthened this trend even further, whereas Korea's labor control significantly reduces labor segmentation based on unionization by eliminating and suppressing union wage effects, which are the most important source of institutional wage effects. Empirical findings in this analysis convince that Korea's labor control is not corporatist.

What, then, does this pattern of union wage gains imply for the segmentation thesis in general? Labor unions are a decisive institutional force to fragment labor markets in monopoly capitalism (Edwards 1979; Gordon, Edwards, Reich 1982). However, in Korea, it should be noted that the authoritarian state makes an effort to remove institutional nonmarket forces in the working-class labor market under the guise of repressive egalitarianism. Consequently, such a labor repression successfully reduces the structural segmentation by institutional forces such as labor unions. Put another way, the state intention to reduce union wage gains may eventually contribute to improving the importance of personal endowments in earnings determination.

The state effort to reduce institutional forces in the process of earnings determination is consistent with the structural imperatives which the state assure the adaptability of the national economy to the world export market. The state labor control aims at removing labor-market institutions -- here, labor unions -- to disrupt the interactive process between the domestic market and the world market in a small

open economy. Such a labor control, however, ends up with a new structural inequality by market division. The complete elimination of union wage effects in the export market is reflective of that state effort to ensure the structural imperatives imposed by the world market, particularly in this market sector. The new structural inequality, though small in its magnitude, is an inevitable outcome of the labor repression in Korea's export-dependent economy. However, in general, suppressing union effects on earnings substantially weakens the structural segmentation in the working-class labor market. In conclusion, empirical findings lead us to reinterpret the segmentation thesis (see Sorensen 1983) in the Korean case that labor unionism is not always linked to labor segmentation but is designed to blur the institutional boundary with the aim of preserving the market-pricing mechanism for labor in the presence of authoritarian labor repression.

Table 1. Distribution of Union Members by Demographic and Industrial Groups, and Market Division (%)

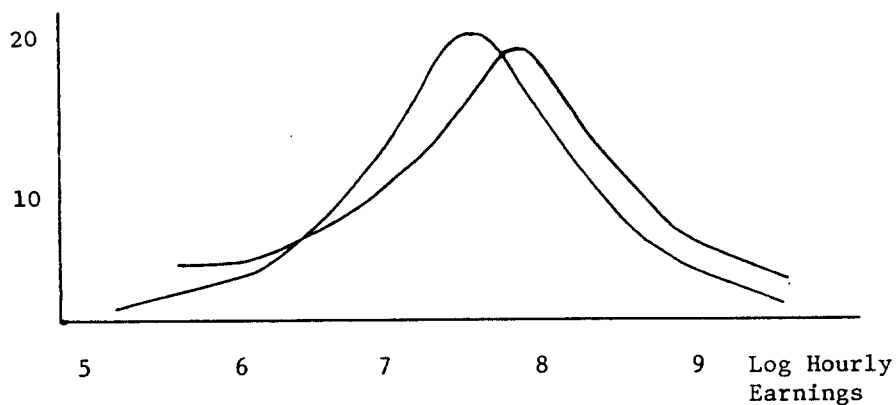
Demographic Groups	1976 SLDB	Market Division ^a (1976)	
		DMO	EMO
<u>Personal Characteristics</u>			
Education			
elementary	28	15	13
middle	36	19	17
high	47	30	17
college	55	41	14
Sex			
female	38	19	19
male	42	29	13
Age			
below 20	29	16	13
20-25	38	20	18
26-30	51	33	18
over 30	47	33	14
Tenure			
below 1 yrs.	27	18	9
1-3	39	25	14
3-5	48	22	26
5-7	42	26	16
over 7	58	38	20
Occu. Status			
laborers	29	19	10
operatives	46	26	20
crafts	51	40	11
<u>Structural Characteristics</u>			
Size			
below 200	17	14	3
over 200	51	29	22
Industry			
nondurables	42	27	15
durables	38	22	16
Industrial Concentration			
Low	16	16	0
Medium	47	27	20
High	45	26	19
Total	43 ^b	42	34

^a Between the domestic market and the export market.

^b The rate of unionization in all industries in Korea has fluctuated between the ranges from 15 to 25 percent since the late 1960s. Manufacturing industries have shown a slightly higher rate on the average.

Figure 1. Comparison of the Distribution of Log Hourly Earnings between Union and Nonunion, Blue-Collar Workers, 1976.

Percentage (%)



Union: Mean: 7.644; Median: 7.599; Standard deviation: .599
Nonunion: Mean: 7.396; Median: 7.360; Standard deviation: .627

Table 2: Union Wage Advantages by Demographic Groups, Industry, and Market Division, and Comparison with the U.S. Cases (%).

Groups	----- Korea, 1976 ----- -Market Division-			----- U.S. -----	
	All Workers	DMO	EMO	Freeman & Medoff ^a	Aschenfelter ^b
Education					
elementary	18.0*	42.0**	2.8	27	
middle	5.0	8.0	1.4		
high	-3.7	-2.5	-4.5	19	
college	13.0	12.0	2.0	17	
Tenure					
below 1	12.0*	19.0**	1.6	27	
1-3	8.4	6.1	3.2		
3-5	-0.9	0.0	0.0	17	
5-7	-9.9	-3.2	-6.2		
over 7	-10.7	-5.3	-7.9		
Sex					
male	2.2	8.0*	-5.6	19	16 ^c
female	6.4	2.7	7.1	15	17 ^c
Occ. Status					
laborers	13.0**	13.0**	1.6	28	22 ^d
operatives	-0.1	3.0	-1.4	12	19 ^d
crafts	10.3	18.0	-16.4	19	6 ^d
Age					
20-25	11.0**	12.0**	2.0	21	
26-30	1.5	2.5	0.3		
31-35	-8.8	7.3	-12.5		
over 35	4.4	2.1	3.8	17	
Industrial Concentration					
low	44.8***	38.2***	3.1		
medium	2.4	-1.7	2.5		
high	-4.2	4.0	-12.2		

Total	6.7**	6.0	2.5		

* < .05; ** < .01; *** < .001

Note: Based on the proposed earnings equation (see p.14) including schooling, age, sex, tenure, occupational status, industrial sectors, market divisions, and union. When running regression equations for a particular category, all other variables are controlled for. As the dependent variable is expressed in the log hourly earnings, regression coefficients of union dummy in each category are equivalent to percentage gains relative to nonunion wages.

^a Freeman and Medoff 1984.

^b Aschenfelter 1978.

^c Only for white males and females.

^d Only for durable industry.

Table 3. Differentials of Log Hourly Earnings between DMO and EMO Firms with Controls of Union Status (%)

Union status category	Union	Nonunion
1. Elementary	39.4**	1.9
2. Tenure (below 1 yr)	27.9**	3.6
3. Male	12.5**	0.2
4. Laborers	12.5*	7.8
5. Age (20-25)	13.1**	8.2
6. Firms with a low industrial concentration	25.2***	16.8

* < .05
 ** < .01
 *** < .001

Note: Based on the proposed earnings equation on page 14. When running the regression equation respectively for each category, all other variables are controlled for such as schooling, age, sex, tenure, occupational status.

APPENDIX

DEFINITION OF VARIABLES

Of two groups of independent variables, I will present the definitions of variables, which need more explanation. These are occupation, industry, firm size, industrial concentration, and market division.

Occupation

The SLDB dataset has five categories of job grade: laborers, apprentice, semi-skilled workers, skilled workers, and technicians (or engineers). The dataset also provides information on the kind of licence, the skill grade, which workers have or are entitled to. Job grade and skill grade determine three broad groups of occupational status of workers which were finally used in this analysis.

Industry, Firm Size, and Industrial Concentration

The SLDB dataset provides the three-digit industrial classification, including nine manufacturing industries. Nine industries are grouped into durables and nondurables: the durables are basic metal, machinery, chemicals and petroleum, and non-ferrous and non-metallic minerals; the remaining five industries are classified as nondurables, e.g., textile and apparel, wood and furniture, paper and printing, food and beverage, and other miscellaneous industries.

Establishment size is measured by the number of employees, categorized and scored 1=5-49, 2=50-199, 3=200-499, and 4=500 and more at the first stage. But the preliminary regression analysis shows no significant wage gaps between the former two categories of firms on the one hand, and between the latter two categories of firms on the other. Thus, the final classification is the dichotomy between small firms with 199 workers or fewer and large firms with 200 workers or more.

Industrial concentration is based on the industrial and size dichotomies, given the lack of full information for measuring the industrial concentration ratio in the SLDB dataset. The cross-grouping of industry and size dichotomies yields three sectors of industrial concentra-

tion: highly concentrated sector refers to firms of durables with 200 or more employees; moderately concentrated sector refers to those of durables with 199 or fewer and of nondurables with 200 or more employees; and finally, poorly concentrated sector refers to firms of nondurables with 199 or fewer employees.

Market division

The market division is based on a continuous variable for the extent of firm involvement in export market or the ratio of firm exports to total production. For analytical purpose, there are three kinds of firms, as defined by their sales markets: firms producing goods mainly for domestic consumption (DC), firms producing goods for both domestic and export markets at similar proportions (DE), and firms producing goods mainly for export markets (EX). In order to decide firm's position in these market divisions, this analysis uses firm's export record and export ratios (e) of industry which a firm is affiliated with. Interestingly, the intra-industry distribution of firms by export ratios shows a clustering pattern. The cutting points are selected as follows: food and beverage (0%, 50%), textile (40%, 90%), wood (0%, 50%) paper and printing (0%, 50%), machinery (10%, 50%), basic metal (0%, 50%), and others (0%, 70%), DC firms corresponds to the first partition, DE firms to the second partition, and exporting firms (EX) to the third. But, the preliminary analysis demonstrated that the first two kinds of firms (DC and DE) share many similarities but are very distinguishable from export-concentrating firms in terms of working conditions, payment, labor force composition, and so on. The final product is the dichotomy between domestic-market-oriented (DMO) firms (combining DC and DE) and export-market-oriented (EMO) firms, as used in this analysis.

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