

Original Article

# Changes in Labor Regulations During Economic Crises: Does Deregulation Favor Health and Safety?

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**Objectives:** The regulatory changes in Korea during the national economic crisis 10 years ago and in the current global recession were analyzed to understand the characteristics of deregulation in labor policies.

**Methods:** Data for this study were derived from the Korean government's official database for administrative regulations and a government document reporting deregulation.

**Results:** A great deal of business-friendly deregulation took place during both economic crises. Occupational health and safety were the main targets of deregulation in both periods, and the regulation of employment promotion and vocational training was preserved relatively intact. The sector having to do with working conditions and the on-site welfare of workers was also deregulated greatly during the former economic crisis, but not in the current global recession.

**Conclusions:** Among the three main areas of labor policy, occupational health and safety was most vulnerable to the deregulation in economic crisis of Korea. A probable reason for this is that the impact of deregulation on the health and safety of workers would not be immediately disclosed after the policy change.

**Key words:** Economic crisis, Labor regulation, Occupational health and safety, Regulatory change  
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## INTRODUCTION

The global economic crisis is now threatening workers' lives. To overcome the economic crisis, governments are being forced to change their labor policies. What is the aim of the change? Is it deregulation, as conducted in recent decades, to loosen business' restrictions in the market? Is it to promote employment? This study reviewed the experiences of regulatory change in labor policy during two economic crises in Korea, namely the present one and that of 10 years ago, and the research may provide lessons for the present policy challenges facing every nation.

At the end of 1997, Korea abruptly fell into the mire of an economic crisis provoked by a deficit in external accounts [1,2]. The economic crisis in Korea occurred along with similar crises in several developing countries, mostly Asian [3]. The foreign currency crisis affected all sectors of the economy; many major companies went bankrupt and were sold to foreign capital, and many workers lost their jobs in the name of structural reform [2].

The social impact of the economic crisis was most visible in levels of unemployment [1]. The unemployment rate jumped from 2% to 8% for about one and one-

half years and then declined. The percentage is not very high compared with the usual unemployment rate in developed countries [4]. However, the important point was not the absolute magnitude of the unemployment rate but its relative magnitude, because the social security system of Korea was not capable of supporting society in dealing with the soaring unemployment rate [5].

An economic crisis does not always cause a rise in the unemployment rate. On the contrary, the case of Korea in 1999 was an exception among the countries suffering from financial crises in the late 1990s. Fallon and Lucas [3] studied those countries and found that, of seven countries, only Korea had experienced a fall in the employment rate commensurate with the decline in GDP. Total employment continued to rise throughout the crises in Indonesia, Mexico, and Turkey, and the decline in employment was less than 3 percent in Argentina, Malaysia, and Thailand. This finding led Fallon and Lucas to conclude that the dominant effect of the financial crises in the 1990s on the labor market was a reduction in real consumption wages as a result of currency devaluation.

On the national scale, a reduction in real wages is the same as unemployment in its consequences: it

**Table 1.** Policy areas and the number of labor regulations

Policy area	n	%
Occupational health and safety	167	30.5
Work system	55	
People	10	
Equipment	17	
Material	8	
Work Method	11	
Environment	9	
OHS management	112	
OHS activity: planning, process, budget	39	
OHS manager	20	
OHS institute	24	
OHS insurance	29	
Working conditions and labor welfare	135	24.6
Authorized agent for labor affairs	30	
Skilled labor	29	
Working conditions: time, minimum wage	18	
Protection of women and juniors	27	
Workers' welfare	31	
Employment promotion and job training	229	41.8
Unemployment insurance	78	
Labor exchange agency	66	
Employment of disabled persons	30	
Job training	33	
Skill promotion and certificate	22	
Labor union	12	2.2
Labor union	5	
Joint consultation system	7	
Other	5	0.9
Non-profit organisation	5	
Total	548	100.0

OHS: occupational health and safety

destabilizes the wage-earning status of workers. The employment problems facing the Korean labor market after the financial crisis included increases in part-time employment, long-term unemployment, youth unemployment, and family unemployment. The government responded to these problems by creating new jobs, tackling lay-offs, and providing vocational training and various social programs such as unemployment benefits [6].

However, government policy was not only directed toward changes that supported workers. To overcome the economic crisis, in the view of the government, financial and administrative support for employers and their businesses were more crucial. This perspective made the social policy of Korea at that time a mixture of a neo-liberal employment policy, which allowed the increase in part-time employment, and a social welfare policy [7,8], which increased support for the poor and the unemployed. Of course, the financial result was decreased employment cost for businesses and an increased fiscal burden for the government.

Labor regulations were also changed as a result of this

policy imperative. To reveal the detailed features of the change, this study examined every labor regulation registered in the government database, and tracked changes in those regulations for five years after the beginning of the 1998 crisis

Also, this study reviewed the regulatory changes during the current global recession and compared them with those during the former national economic crisis. The current economic crisis has affected Korea's economy in a way similar to the previous crisis, but the impact is relatively small up to now. The huge currency devaluation, manifested at the early stage of crisis, is the same. However, the unemployment rate has not increased much over the amount of the usual annual fluctuation [9]. In terms of regulation, the government's response was similar to that in the past. Though the ruling party was different, the strong commitment to deregulation was the same [10].

Under these circumstances, I investigated the actual regulatory changes that occurred in labor policy during the first year of the current global recession and compared it with those in the previous crisis. This article is to report the findings observed and to present possible explanations for them.

## METHODS

In August 1998, the Regulatory Reform Committee (RRC) of Korea formed a regulation database for the first time. The records were then revised when any change in regulation was reported to the RRC by officials in each department. The RRC also reviewed many regulations independently and advised departments to annul them.

For the analysis of policy areas addressed by labor regulations, this study used the RRC's data of January 2003, 4 years and 4 months after the RRC database was first established [11]. Also, as the regulations annulled after the establishment of the database were not erased, I was able to use the earlier data for the analysis of regulatory change after the beginning of the 1998 crisis.

Analyses were conducted only for the records of the labor policies. Records on 'miscellaneous reductions' were not considered, because they involved officially acknowledged duplications. After eliminating 133 records in this category, 548 cases of labor regulations were analyzed.

For the analysis of regulatory change in the current economic crisis, this study used the RRC's data of December 2009 and a government document reporting

**Table 2.** Policy areas and the changes of labor regulations

n (%)

Area	Tightened		Unchanged		Relaxed (Deregulated)		Total	
	1998-2002	2008	1998-2002	2008	1998-2002	2008	1998-2002	2008
Occupational health and safety	41 (24.6)	2 (2.6)	35 (21.0)	66 (85.7)	91 (54.5)	9 (11.7)	167 (100.0)	77 (100.0)
Working conditions and labor welfare	41 (30.4)		15 (11.1)	59 (93.7)	79 (58.5)	4 (6.3)	135 (100.0)	63 (100.0)
Employment promotion and job training	67 (29.3)	1 (1.2)	81 (35.4)	75 (89.3)	81 (35.4)	8 (9.5)	229 (100.0)	84 (100.0)
Labor union	1 (8.3)		8 (66.7)	23 (92.0)	3 (25.0)	2 (8.0)	12 (100.0)	25 (100.0)
Other					5 (100.0)	2 (100.0)	5 (100.0)	2 (100.0)
Total	150 (27.4)	3 (1.2)	139 (25.4)	223 (88.8)	259 (47.3)	25 (10.0)	548 (100.0)	251 (100.0)

The number of changes with mixed effects was included in that of unchanged cases.

\* The figures of the year 2008 cover all regulations in the RRC database and in a government report [12].

deregulation in the sector of labor policy (the document was published along with the press release of the Ministry of Labor on March 6, 2009 to report the deregulation plan of the Ministry) [12].

The 2009 data of the RRC contain only 220 records, as the old annulled regulations were erased when the database was re-established at the beginning of 2008. In addition, examination of most of the regulatory changes was based on the government document noted above because the RRC database had not been amended at the time of this analysis.

## RESULTS

To reveal the policy areas and the operative methods of labor regulation, the RRC's data of January 2003 were used. Table 1 shows the areas of labor regulations analyzed. Regulations regarding occupational health and safety comprised 30.5% of the total labor regulations, employment promotion and vocational training made up 41.8%, and regulations regarding working conditions and labor welfare totaled 24.6%. Besides these three large areas, some regulations regarding labor union and non-profit organizations were included.

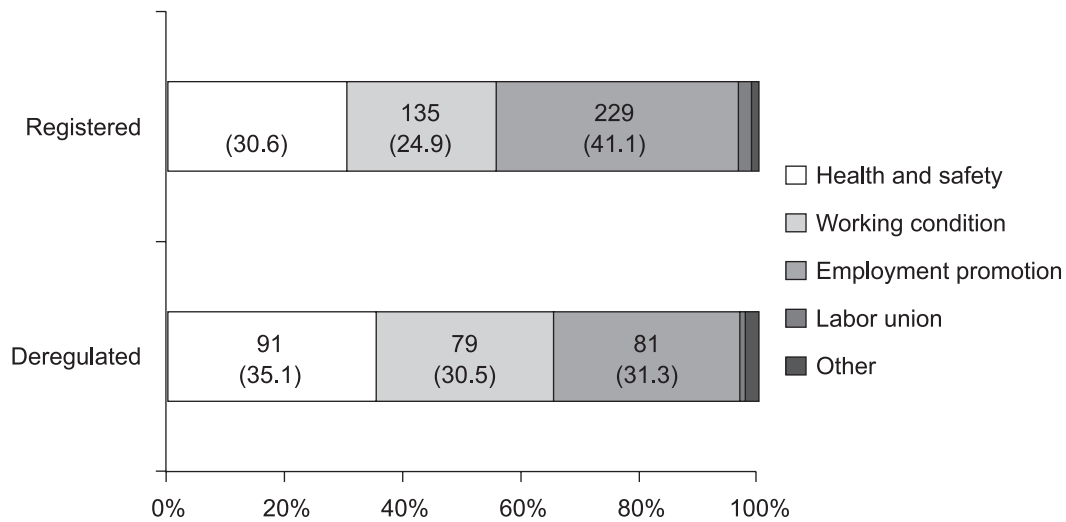
For the occupational health and safety regulations, Taylor's classification [13] was adopted to illustrate the work system: people (workforce, management of workforce, policies, behavior), equipment (tools and machinery), materials (used, worked, or made), work methods (procedures, practices, or actual actions), and environment (physical surroundings, natural environment). However, the social and legal environment was addressed independently because of the large amount of regulations regarding occupational health and safety management. These regulations are different from the regulations indicating work system requirements, such as standards for materials, in that they deal with how work system requirements are sustained.

Table 2 shows the changes in regulations for the 5 years from 1998 to 2002 after the national financial crisis and those for the year 2008 after the beginning of the global economic recession. 'Relaxed' regulations, usually termed 'deregulated' ones, indicate the cases in which the regulatory barrier vis-à-vis those being regulated is lowered. Alleviation of the regulatory burden on the regulated and abrogation of the code of regulation are included in relaxation. 'Tightened' cases are the reverse. The establishment of a new regulation and reinforcing an existing regulation to make it more onerous for those regulated are included here. An 'unchanged' regulation is one with no change in its content, regardless of the change in its form, during the periods in question.

Results for 1998 to 2002 show more cases of relaxed than of tightened regulations in the policy areas of 'occupational health and safety' and 'working conditions and labor welfare.' Regulations on 'employment promotion and vocational training' were more resistant to deregulation than the former two areas. Also, for the year 2008, the amount of deregulation was greatest in occupational health and safety among the areas examined.

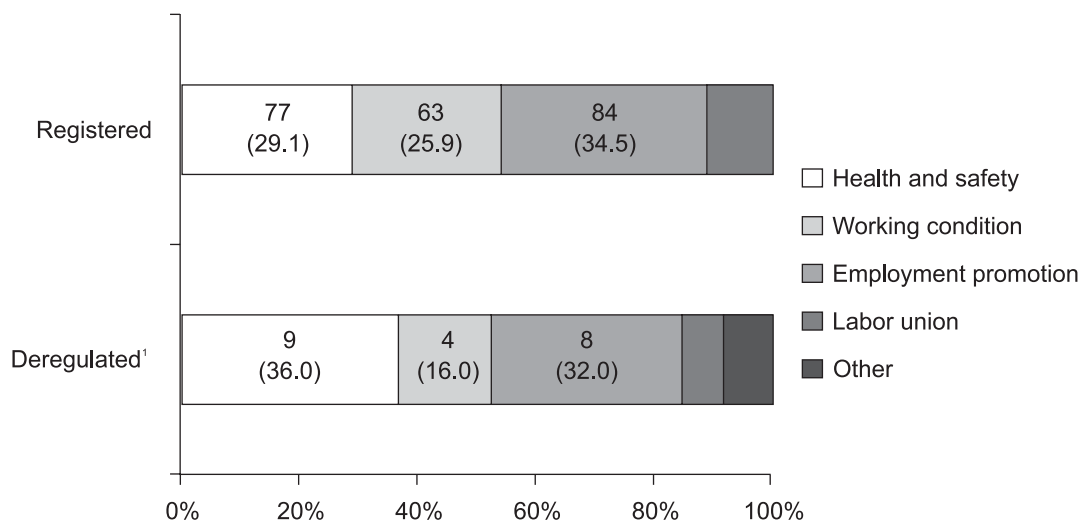
Figures 1 and 2 show comparisons of the compositions of policy areas in deregulated cases with those of the all registered RRC cases that were used as the baseline. New regulations made during the periods were excluded from the figures for the registered cases. If the composition in deregulated cases resembles that at the baseline, we could conclude that deregulation occurred evenly across labor policy. However, the chi-square statistic reveals that the two compositions cannot be considered the same.

This result statistically supports the findings shown in Table 1: 'occupational health and safety' and 'working conditions and labor welfare' were more vulnerable to deregulation during the period of economic crisis than were 'employment promotion and vocational training.' Furthermore, although the chi-square statistic in Figure 2



**Figure 1.** Comparison of the proportions of policy areas in the registered regulations and in deregulated cases, 1998-2002.

When the number of the registered regulations is used as a parameter, chi-square statistic of the three main areas in this figure is 10.988 ( $p=0.004$ ).



**Figure 2.** Comparison of the proportions of policy areas in the registered regulations and in deregulated cases, 2008.

<sup>1</sup>Deregulated cases were not registered in the RRC database at the time of analysis.

When the number of the registered regulations is used as a parameter, chi-square statistic of the three main areas in this figure is 1.406 ( $p=0.495$ ).

was not significant due to the small number of deregulated cases, we can see that ‘occupational health and safety’ was a main target of deregulation in the year 2008 as well.

The deregulation in occupational health and safety included not only the regulations regarding administrative processes out-of-date but also those important to protect the health and safety of workers such as:

- Lessening the number of regular safety check-ups of dangerous facilities;
- Loosening specialty criteria to be a health and safety

manager;

- Loosening criteria to appoint safety managers for construction projects;
- Lowering penalties imposed on businesses for severe occupational accidents (However, afterwards, this regulation revived and became heavier than before.);
- Lowering penalties for hindering the activities of health and safety inspectors; and
- Loosening the duty to secure the safety of the workers of subcontracted firms.

## DISCUSSION

In 'the criteria for the decision and classification of administrative regulations' published by the Regulatory Reform Committee of Korea, administrative regulation is defined, following the definition of the Administrative Regulation Act, as "the activity of central or local government imposing a duty on people or restricting the rights of people to accomplish specific administrative purposes" [14].

The Korean government's official definition of 'administrative regulation' is similar to the ordinary conceptions of public or governmental regulation used by many academicians. The regulators include central and local governments and persons or agencies to whom administrative power is legally delegated [15,16]. Therefore, 'administrative regulation' does not include self-regulation by private entities [17]. The targets of regulation are legally designated persons or organizations. Therefore, administrative institutions are not included [18,19].

However, the purview of the official definition is rather narrow. The concept of 'imposing a duty upon or restricting the rights of people' excludes some regulatory functions of government, such as controlling the public utility rate. It is not known how many regulations were not registered due to this narrow definition. However, this probably had little effect on the results of this analysis because in the labor policy area, a rate-setting policy is rare. The data used in this study can thus be understood as covering nearly all government regulations in Korea having to do with labor policy.

According to Botero and colleagues [20], the regulation of labor markets, which is intended to protect workers from employers, can be classified into four domains: basic rights, employment relations, collective relations, and social security. However, the basic rights domain is different from the other domains in that it is not a policy area having to do with a certain content, but rather addresses a broader area of ethics that applies across content. So, in this study, the content of each labor regulation was categorized simply by its subject matter (Table 1).

During the period of economic crisis that started in 1998, Korea experienced fairly radical reforms in the social area: unemployment insurance was rapidly expanded to apply to all workplaces, the national pension scheme was expanded to cover everyone in the country, and the social assistance system was greatly strengthened by the enactment of the National Basic Livelihood Security Act [21,22].

Meanwhile, the response of Korean government to the current economic crisis since 2008 has not been a radical one compared with that to the previous crisis. Deregulation in area of labor policy was not very extensive (Table 3). This difference can be illustrated by adopting Hay's framework suggesting that policy change contains three factors: agency, idea, and structure [23].

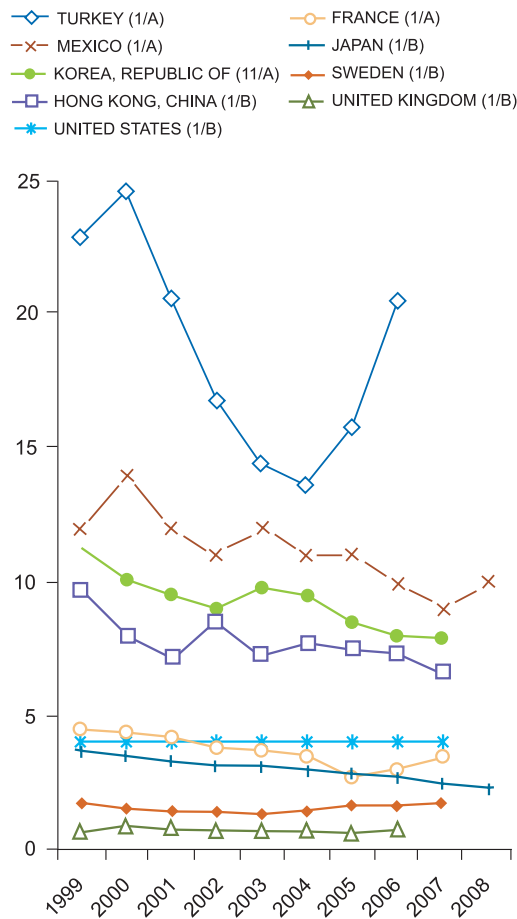
With regard to ideologies, neo-liberalism was dominant in the ideological atmosphere of government policy during the time of the former economic crisis, but this is now blamed for causing the current global recession [24]. With regard to structure, the impact of the old economic crisis was greater domestically than that of the current economic crisis. This led the Democratic government (New-millennium Democratic Party) to conduct immense deregulation, even though the government was relatively pro-labor compared with the Conservatives (Grand National Party), who took political power when the current economic crisis occurred. Briefly, although the factors of ideology and structure accord with the difference in the degree of deregulation between the two economic crises, the agential factor (the government) does not. That is, the government's affinity for labor or for business was not such a strong factor in the case of this study that it overcame the ideological and structural situation that constitutes the needs of the times.

From the changes in regulation (Table 2, Figures 1 and 2), we can infer the direction of the labor policy of the government during the economic crises. During the previous economic crisis, the regulations on 'occupational health and safety' and those on 'working conditions and labor welfare,' which involved large sums of money to protect workers from harmful environments, were criticized as major burdens on business (This atmosphere came to the boil when the Act on Special Measures for the Deregulation of Corporate Activities was amended in 1997 to deregulate health and safety regulations particularly about the appointment of health and safety managers and related personnel). This is reflected in the number of relaxed regulations in these two categories, which was more than twice the number of tightened regulations.

Meanwhile, the regulations in 'employment promotion and vocational training' area were more resistant to deregulation than the other areas. Deregulated cases in this area were relatively small in number, and many regulations survived unchanged.

Deregulation was conducted to overcome the economic crises in the way of lessening the cost of production. In the situation that both employment-



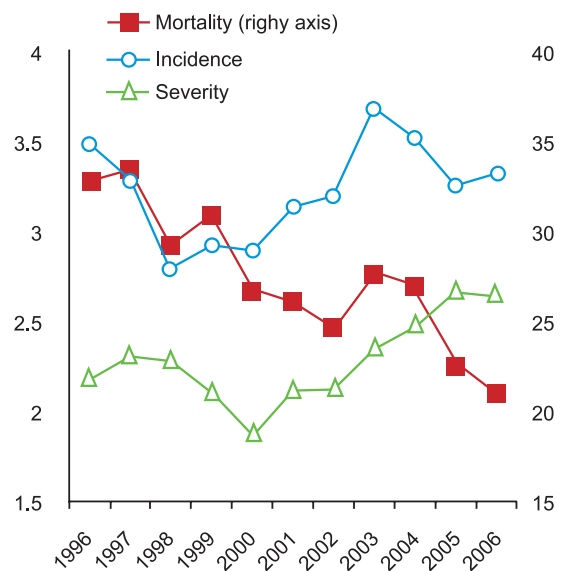


**Figure 3.** Rates of fatal injuries due to occupational accidents.

I: reported injuries, II: compensated injuries, A: 100 000 workers insured, B: 100 000 workers employed.  
Source: ILO [25].

promotion and health-protection were the cost-increasing factors of business, there were no signs of political order which asked government officials to differentiate them in deregulation. But the result shows that the area of health and safety were more deregulated than the other areas by certain reasons and the situation is being replicated now.

In addition, the replication of the differential deregulation for current economic crisis should be more criticized as it is being applied on the remnants of health and safety regulations which have survived the earlier massive deregulation. The deregulation for the earlier economic crisis and the 10 years' interval between the two economic crises might or might not affect the circumstances of labor regulations facing the current deregulation. However, even if there were any noticeable effect, it should operate to the direction of offsetting the degree of differential deregulation for the recent



**Figure 4.** Incidence, severity and mortality due to occupational injuries and diseases.

Mortality: deaths per 100 000 workers, Incidence: cases per 1 000 000 working hours, Severity: loss of working days per 1000 working hours, Source: Statistics Korea [9].

economic crisis. The similar appearances of the two deregulations may imply such a strong tendency to be able to making the effect of the earlier differential deregulation a trifling matter.

Economic crises can immediately affect the employment status of workers, but the effect of deregulation on health cannot be seen immediately. For the government, which was trying to deregulate the labor market, the area of employment relations may not have seemed an easy target for deregulation. The choice of the government does not seem a wrong decision with respect to politics, as the control of a surging unemployment rate would be the foremost priority in labor policy.

However, when we consider the needs addressed by regulation, the attitude of the government was definitely irresponsible. Figures 3 and 4 show the status of the occupational health and safety of South Korea. The rate of fatal injuries due to occupational accidents in South Korea is one of the highest in the world. It is 2 to 10 times higher than those of many developed countries.

In addition, although the death rate is decreasing over the years, the incidence and severity of injury is increasing. Though the occupational injuries are not well-reported to the government, from those official data we can learn that the increase of severity offsets the effect of the reduction of mortality.

Generally speaking, deregulation in the area of labor

policy, particularly in the sectors having to do with occupational health and safety, means reducing the cost of business, and at the same time, increasing the risk of injury and disease in the workplace. Of course, we can consider a regulation out of date or of no practical use. That kind of regulation should be examined and corrected. However, this study shows a very large amount of deregulation in the earlier economic crisis and a similar effort by the government in the current economic crisis. The huge amount of deregulation in a short period of time raises a strong probability of wrong policy decisions having to do with the need for regulatory control over business. This kind of threat can affect all areas of labor policy, and, as this study shows, the area of occupational health and safety can be the most vulnerable.

This study has reviewed the experience of regulatory change in labor policy in a country facing situations of economic crisis. To boost the economy, the government conducted a program of massive deregulation in response to the economic crisis 10 years ago, and a similar strategy is being repeated for the current economic crisis.

The sector of labor policy contains a great many regulations that require businesses to spend large sums of money to protect workers. This fact makes those with pro-business and neo-liberalist ideas prefer deregulation. The policy environment of Korea 10 years ago was grounded in the conviction that the right way to fix the economy was to adopt a neo-liberalist approach. To overcome the financial crisis, the Korean government obtained a relief loan from the IMF, on condition that a business-friendly policy would be pursued [26-28]. However, that approach is now blamed for provoking the current global recession [24]. Therefore, the simple repetition of the earlier changes in labor policy may not be the right prescription for now.

In particular, the results of this study show that the areas of 'occupational health and safety' and 'working conditions and labor welfare' were more widely deregulated than was the area of 'employment promotion and vocational training' during the previous crisis. During the recent period of global economic crisis, occupational health and safety has again been subject to the greatest deregulation.

This means that occupational health and safety has been the most vulnerable target of deregulation in labor policy. However, this could not be a right decision of the government, as the occupational fatality rate in Korea is among the highest in the world, and the incidence and severity of occupational injury continues to increase.

Although the impact of deregulation on the health and safety of workers cannot be seen immediately, it should not be neglected or belittled.

This study presents a description of the institutional threats over the health of workers during the economic crises. However it has not succeeded in revealing the cause of the threats by analytic evidences. Further researches are required for the revelation of the cause and for the comparison with the experience of the other countries or of the other periods of Korea as well.

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