



NORTH-HOLLAND

# Economic Development and Its Impact on Occupational Grouping Structure in Korea 1971–1990

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## ABSTRACT

By utilizing occupational wage data in Korea, this paper attempted to find major determinants of occupational wage performance of occupational groups with a combination of cluster and discriminant analysis. This research yielded three major determinants (annual investment, credit availability, and uncovered interest parity) which were also major determinants in a previously undertaken industrial wage analysis. With these major factors, interpretations gleaned from this research confirm research findings from previous research in economics. © 2001 Elsevier Science Inc.

## Introduction

Utilizing wage data allows researchers in different disciplines, including economics, management, and public policy, opportunities for evaluation, assessment, and diagnosis of economic impacts and policy legacy. This paper, in particular, focuses on the Korean wage data set, the Occupational Wage Survey (OWS), in evaluating the economic impact of development of occupational grouping structures. Previous research [1, 2, 3] utilizing industrial wage section of the OWS yielded two or three important determinants of wage performance in Korea from 1971 to 1991. Those were investment and uncovered interest parity [2, 3]; an earlier paper [1] found investment, real interest rate and credit availability as the major sources that have driven the wage performance in Korea. Following this line of study, but with the unused half of the OWS, the occupational wage section, this paper investigates the major determinants of occupational wage performance in Korea in the period from 1971 to 1990. While finding the determinants, this paper looks at the occupational grouping structure that has been formed during the recent two decades of rapid industrialization. Interesting questions arise from the two basic research focuses. The first is whether the determinants would be identical or different from past research using the industrial section of the OWS. The second question is whether this paper can find the evidence of occupational rent in the Korean data set. The third is to determine wage differentials between occupational categories with

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different educational backgrounds. Findings from this research will supplement the existing research tradition in labor economics. Furthermore, with the second and third questions, this research leaves for the future the task of comparing the results with other countries.

### **Previous Works on Korean Wage**

Korean government institutions collect and publish wage surveys in several formats. The Ministry of Labor has provided the occupational wage survey since 1971, and the Bank of Korea has done research on labor productivity. Other government think tanks, such as the Korea Development Institute(KDI), have worked on different areas of macroeconomic issues, including wage-related research. A more serious research tradition comes from academia. A common element in the academic research is found in research questions raised. First, researchers have asked whether educational attainment has any effect on labor market and wage determination. Second, researchers raised the question regarding the impact of export on wages and income. Third, they questioned whether government policies, including industrial policy and education policy, are the major determinant of wage premium and labor rents.

On the question of the relationship between educational attainment and wages, different studies nearly concur on the reduction of college premiums [4, 5]. However, there is disagreement on the impact of government policies on wages. Some researchers claim that Korean wages are determined, in most cases, by market forces [5]; others acknowledge the impact of government policies in wage determination [1–4]. Government educational policy change was credited with influencing the labor market [4], while industrial policy was seen as the major determinant shaping the Korean economy and wages. A better way of understanding the wage determinants in Korea begins with understanding the political-economic structure of the Korean economy since the 1960s. In other words, instead of arguing whether wages were determined by market or government, it is better to address the issue by its driving forces, which are the outcomes of politics and market [3]. For example, investment—a major determinant of wage performance—is a market force, but in Korea it is at the same time government-influenced macroeconomic force, evidenced by government targeting through industrial policies. In analyzing the Korean labor market and wages, international comparisons were frequently cited. International comparisons and cases [6–9] offered a reference for understanding the Korean context. In these comparisons, some results from Korean wages were regarded as confirming the U.S. evidence [5], while the others were regarded as uniquely Korean. Researchers [5] argued that sectoral changes in wages and employment in Korea are unrelated, as in the United States; the same researchers claimed that Kutnet's hypothesis on inequality is not applied empirically in Korea, and thereby presented uniqueness of the Korean case. Similarly, investment was an important factor of wage performance both in the United States [10] and Korea [3], while other factors, such as uncovered interest parity, were an unique Korean factor [2]. In summarizing previous literature, it is important to acknowledge the influence of major works in labor economics [9, 11–13] in shaping theoretical frameworks.

### **Methodology**

#### **THEORETICAL BACKGROUND**

This research intends to show how different occupational groups have been at an advantage or at a disadvantage during two decades of economic development in Korea.

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