

# Labor Market Policies and Programs for Pro-Poor Growth in the Republic of Korea

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## 1. Introduction

After decades of remarkable economic and social progress, the Republic of Korea was hit severely by the financial crisis that swept through much of Asia in 1997. The crisis brought the path-breaking growth process to a sudden, unexpected halt, and forced the Korean Government to turn to the International Monetary Fund (IMF) for an emergency rescue loan—the largest in the IMF's history. In return for the rescue package that prevented moratorium, the IMF imposed far-reaching structural reforms along with its usual austerity policies. Since then, the Korean Government has faithfully followed suggestions attached to the IMF's lending program, which demanded comprehensive restructuring of the financial sector, increasing transparency in corporate governance, flexibility in the labor market, and establishment of a functioning social safety net.

Now, after a few years of intensive efforts at structural adjustment, the Korean economy appears to have turned the corner and is on track for recovery. Indeed, the financial markets started to stabilize as early as early as 1998, the exchange rate stabilized, and usable foreign reserves had already surpassed US\$45 billion in October 1998, from less than US\$10 billion in December 1997 (Table 1); by early 1999, influential credit rating agencies decided to raise the Republic of Korea's sovereign credit rating to investment grade. The gross domestic product (GDP), which dropped by 6.7 percent in 1998, bounced back to its normal growth rate of 10.7 percent in 1999. Unemployment, which had peaked 8.6 percent in February 1999 (up from 2.6 percent in 1997), fell to 5 percent in early 2000 (Table 2).

These positive developments owe much to supportive macroeconomic policies, including the substantial devaluation of the won that occurred at the beginning of the crisis. But the implementation of structural reforms, including those in the areas of labor market policies and social safety nets, has also played an essential part in this recovery. These, together with the depreciation of the won, substantial wage moderation, and greater labor market flexibility via the early revision of the Labor Standard Law, enhanced the cost competitiveness of the Korean economy, contributing to an export-led recovery.

While the core of the labor market policy was to increase employment flexibility, the Korean Government reacted promptly to the problem of unemployment and poverty, not only to alleviate the hardship of the affected population, but also to make the much-needed structural

**Table 1. Trends in Major Economic Indicators**

	1998.12	1998.9	1998.6	1998.3	1997.12
Usable Foreign Currency Reserves (billion US dollars)	485.1	433.7	370.4	241.5	88.7
Share of Short-term Foreign Debt		20.9	21.8	34.7	40.0
Exchange Rate (won/US dollar)	1,207.8	1,373.6	1,385.2	1,378.8	1,415.2
Corporate Bonds Profitability (percentage)	8.00	11.90	16.00	18.28	28.98

*Source:* Government of Korea (1999a).

**Table 2. Trends in Unemployment by Gender, Education, and Age (percentage)**

Unemployment Rate	2000.3	1999	1998	1997
Total	5.2	6.3	6.8	2.6
Men	5.1	7.1	7.1	2.8
Women	4.2	5.1	5.6	2.3
Middle School and Under	3.8	5.2	5.8	1.5
High School	5.4	7.6	8.2	3.3
College and University	4.9	5.2	5.7	3.0
Age 15-19	15.3	19.7	20.9	9.9
Age 20-29	8.1	10.2	11.4	5.4
Age 30-59	3.8	5.2	5.5	1.6
Age 60 and Over	2.1	2.4	2.4	0.7

*Source:* National Statistics Office (2000).

reforms socially sustainable. A budget for public works and training programs for the unemployed was set up quickly. Entitlement to unemployment benefits was progressively expanded and the duration of payments extended. Social assistance benefits were granted temporarily to those unemployed who had no other sources of income.

The main purpose of this paper is to review the Korean Government's labor market policy reactions to the crisis, particularly to the unprecedented rise in unemployment that resulted from it. With the advent of the crisis, the Government put forth a comprehensive unemployment package that ranged from the establishment of institutions like the Tripartite Commission to achieve consensus among social partners in the crisis to temporary livelihood protection measures for the unemployed poor.

Before going into the specifics of the labor market policies and programs taken by the Korean Government after the crisis, a brief review of the basic features of its social impact, as well as the broader social context of unemployment policies, seems in order. In the next section, the main features of the social impact of the financial crisis on the labor market are delineated, and the coming of the Tripartite Commission and its February 1998 Agreement are presented as background to the post-1997 labor market policies in the Republic of Korea. In the third section, a wide range of labor market programs is reviewed. They are grouped into four categories, including income support programs, employment security programs, employment training programs, and employment creation programs. The last section concludes the paper with brief remarks on what remains to be done.

## 2. Impact of the Crisis on the Labor Market

As expected, the financial crisis brought about an abrupt economic slowdown and financial and corporate sector restructuring, which drove many firms into bankruptcy and temporary closing. In the financial sector, more than 400 insolvent institutions had been either closed or suspended by early 2000. Since most banks were faced with the need to meet the Bank for International Settlements' capital adequacy ratio of 8 percent, they were hesitant to make new loans, even to solvent firms. This credit squeeze closed down a large number of small and medium-sized firms. Several *chaebol* (conglomerates) also filed for bankruptcy protection. And *chaebol* also had to reduce their debt leverage, which inevitably led to massive layoffs and other measures of employment adjustment.

Thus, the labor market institutions in Korea began to undergo fundamental changes. This section focuses on three interrelated aspects of these changes that are considered important in understanding the Korean Government's comprehensive labor market policies after the crisis. The first is rising unemployment, the second is increasing poverty, and the third is the reaction of the society at large, with special reference to the creation of the Tripartite Commission.

### a. Rising Unemployment

Unemployment soared from 2.5 percent in 1997, before the crisis, to 8.6 percent in February 1999. The number of unemployed rose from 0.5 million 1.5 million in 1998 and 1.8 million in February 1999. The real degree of labor market slack was even more pronounced, if discouraged workers are taken into account. The economically inactive population increased by 5.5 percent (from 13.13 million to 13.85 million), while the economically active population decreased by 0.9 percent (from 21.60 million to 21.39 million) between 1997 and 1998 (Table 3). And the average term of unemployment became longer: the proportion of those unemployed for six months or longer sharply increased, from 7.8 percent in the first quarter of 1998 to 31.2 percent in the same period of 1999 (OECD, 2000: 27).

**Table 3. Trends in Employment Structure by Employment Status ('000)**

Labor Market Sector	2000.9	1999	1998	1997
Working Age Population (Age 15-plus)			35,243	34,736
Economically Inactive Population			13,853	13,132
Economically active Population			21,390	21,604
Unemployed Population			1,463	558
Employed (Working) Population	21,432	20,281	19,994	21,106
Nonwage Worker	8,269	7,759	7,804	7,880
Self-managed (Employer or Self-employed)	6,223	5,841	5,776	5,981
Employer	1,537	1,384	1,426	1,633
Self-employed	4,686	4,457	4,350	4,348
Family Worker	2,046	1,918	2,028	1,899
Wage Worker	13,163	12,522	12,191	13,226
Regular Employee (Full-time or Temporary)	10,808	10,233	10,455	11,334
Full-time Worker	6,319	6,050	6,457	7,151
Temporary	4,488	4,183	3,998	4,182
Daily Worker	2,356	2,289	1,735	1,892

Note: Blank Cells = not available.

Source: National Statistics Office (2000).

Such a decline in employment meant a reduced share of wages and salaries in national disposable income. It fell from 55.0 percent in 1997 to 50.8 percent in 1998, while the share of profits rose slightly from 9.2 percent to 9.4 percent, and the share of self-employed income rose more substantially, from 33.3 percent to 37.2 percent (Atinc, 2000)

Moreover, the decline in employment was not uniform among various sectors and types of workers. The poor and the nearly poor suffered the brunt of the impact, and unskilled workers in urban areas were the first to be laid off. Moon, Lee, and Yoo (1999) estimate that women's share of the increased economically inactive population was 80.6 percent during one year between 1997 and 1998 (Table 4). While employment in low-wage groups such as construction workers underwent a sharp decline of 21.3 percent, that of professional, technical, administrative, and managerial workers increased by 1.3 percent in spite of the economic crisis between 1997 and 1998 (Moon, Lee, and Yoo, 1999:16–17).<sup>1</sup> The manufacturing and construction industries experienced the largest losses in employment, and the less educated and unskilled workers suffered most severely from the economic downturn caused by the crisis.

**Table 4. Trends in Labor Force Participation Rates by Gender and Age**  
(percentage)

Population Sector	1999	1998	1997
Total Population Aged 15 to 64	64.7	64.7	66.1
Total Population Aged 15 and Over	60.5	60.7	62.2
Men Aged 15 and Over	74.4	75.2	75.6
Women Aged 15 and Over	47.0	47.0	49.5
Age 15–19	10.9	10.2	10.6
Age 20–29	53.5	54.8	59.0
Age 30–59	75.7	67.2	76.3
Aged 60 Years and Over	41.4	40.8	44.1

*Source:* National Statistics Office (2000).

Moon, Lee, and Yoo's further analysis of the 1998 National Statistics Office unemployment data shows the changes in the composition of unemployment: between 1997 and 1998, this analysis shows that the proportion of unemployed daily workers increased from 17.5 percent to 28.9 percent, that of the unemployed with less than upper secondary education increased from 21.3 percent to 28 percent, and those unemployed who had worked at small establishments with nine workers or less made up 61 percent of the unemployed (Moon, Lee, and Yoo, 1999:13–23).

### **b. Income Distribution and Poverty**

This heterogeneous nature of the social impact of the crisis inevitably resulted in the deterioration of income distribution and a rapid rise in absolute poverty, in terms of both the number of the poor and the depth and severity of poverty.

Measurement of poverty is not easy because there are no unanimously agreed-upon criteria for determining who is poor. It depends on the way the poverty lines are defined, and this varies with researchers, and with the reliability as well as the nature of the income or expenditure

<sup>1</sup> For further discussion on the changes in employment rates by industry and occupation, see Moon, Lee, and Yoo (1999).

data available for the calculation. Table 5 shows various estimates of the poverty rate before and after the crisis made by the major research institutes in the Republic of Korea. Relatively wide variations notwithstanding, all the estimates show a very sharp increase in the ranks of the poor after the crisis. For instance, the calculations of the Korea Institute for Health and Social Affairs, based on the income data of urban workers' households, show an increase in the incidence of poverty from 2.4 percent in the third quarter of 1997 to 7.8 percent in the same period in 1998 (KIHASA, 1998). Table 6 shows the more concentrated increase of the numbers of the ultra-poor: these tripled between 1997 and 1998, while those of the marginal poor doubled; together, they quadrupled the poverty gap (1.3 percent to 5.6 percent) and quintupled the severity of poverty (0.4 percent to 2.0 percent). It signifies the deterioration of income distribution.

**Table 5. Headcount Poverty Rate Before and After the Asian Financial Crisis**  
(percentage)

Year			1997				1998		
			1st	2nd	3rd	4th	1st	2nd	3rd
Household Expenditure Data	All Households	KIHASA	9.1	9.4	10.1	8.9	16.2	18.0	21.6
		NSO	8.1	8.8	9.7	8.9	15.5	17.4	21.0
		IBRD	7.5	8.2	8.5	10.2	18.3	19.1	22.9
	Urban Workers	KIHASA	7.8	8.6	8.6	7.6	14.2	16.4	20.3
		NSO	6.8	7.9	8.3	7.5	13.5	15.5	19.4
		KIHASA	3.5	3.1	2.4	3.0	6.9	7.2	7.8
Household Income Data	Urban Workers	NSO	3.3	2.8	2.3	3.0	6.2	6.6	7.1
		KDI	3.5	3.1	2.4	3.0	6.4	7.1	7.5

*Notes:* IBRD = International Bank for Reconstruction and Development; KDI = Korea Development Institute; KIHASA = Korea institute for Health and Social Affairs; NSO = National Statistics Office.  
*Source:* Adapted from Kim (1999).

**Table 6. Changes in the Incidence of Poverty Before and After the Asian Financial Crisis**

	1996	1997	1998
Ultra Poor (millions)	1.2	1.1	3.0
Percentage Change (Year to Year)	-27.2	-11.1	178.7
Marginal Poor	1.9	1.7	3.3
Percentage Change	-20.6	-8.4	90.0
Poor	3.1	2.8	6.2
Percentage Change	-23.5	-9.5	123.8
Near Poor	2.9	2.7	4.1
Percentage Change	-13.4	-6.5	50.6

*Note:* The ultra poor are defined as those households with per capita consumption at less than 80 percent of the poverty line; the poverty line is equivalent to \$8 per capita per day in PPP dollars. The marginal poor and the near-poor have per capita consumption at 80–100 percent and 100–120 percent, respectively, of the poverty line.  
*Source:* Adapted from Atinc (1999).

Income inequality is also difficult to measure. Whether it is in terms of earnings or total income, its estimation requires reliable income data. Usually the gini coefficients in Korea are based on the survey data on the income of wage and salary earners in urban areas provided by the National Statistical Office. Since this survey excludes employers' and self-employed people's households, as well as one-person households, gini indexes based on this data set underestimate income inequality. Table 7 shows the changes in gini coefficients of both earnings and total income before and after the crisis.

**Table 7. Trends in Income Distribution**

	1996	1997	1998	1999
Gini Coefficient				
Total Income	0.29	0.28	0.31	0.30
Earnings	0.29	0.29	0.30	0.36
Income Growth Compared to 1996				
1st Quintile (Richest 20 percent of households)		20.9	5.6	3.7
2nd Quintile (Poorest 20 percent of households)		-8.2	-10.3	-8.4

Source OECD (2000: 123).

### c. Coming of the Tripartite Commission

Soaring employment and absolute poverty were a shocking experience, for which the Republic of Korea was utterly unprepared. Economic restructuring was taken as the order of the day. The ongoing austerity programs induced by the international organizations' approach were integrated into the framework of a liberalized policy, implementing measures such as restructuring of the financial, public, and labor markets; privatization; deregulation; and openness to foreign capital. Regarding the labor markets, the core of this market policy was to increase employment flexibility, through the implementation of free layoff provisions and determinate term employment in renewed labor legislation. It was accepted as equally important, however, to maintain social cohesion and public consensus for successful restructuring of the economy, as the crisis brought severe pain to different groups of people in varying degrees. And it was an urgent task of the Government to offer the affected population a reasonable degree of social safety protection.

Generally, the reforms for structural adjustment that were required by the IMF and other international financial institutions were accepted by the people as the *sine qua non* of national survival in the age of global capitalism. It is indeed a peculiar feature of Korean labor market policies that they have been supported widely, by local governments, nongovernment organizations, and indeed, society at large. It was in this atmosphere of national consensus for cooperation to save the country that the Tripartite Commission was established as the first of its kind in Asia. Composed of representatives of labor, business, government, and the public interest, it was one of the first and most significant initiatives taken by the Government after the onset of the crisis and the rescue arrangement with the IMF.

Launched in January 1998 by newly-elected President Kim Dae-jung, the commission was meant to develop measures for overcoming the economic crisis and to reinforce social consensus through the participation and cooperation of all economic players.<sup>2</sup> This is not the place for detailed discussions of industrial relations and labor law reforms in the Republic of Korea after the crisis. But it is evident that the creation of the commission itself provided an impetus for settling long-standing issues of labor law reforms in line with internationally accepted standards. The commission was also instrumental in achieving agreement between the social partners and the Government on the response to the crisis.

<sup>2</sup> To boost its function and legal status, the Commission was made a statutory body through the 1999 Tripartite Commission Act, which gave it the right to review and comment on all social and labor market policies.

By 6 February 1998, the Commission had already agreed on a “Social Compromise to Overcome the Economic Crisis,” and, thereby, on a total of 90 agreements on structural adjustments and burden sharing, whose major items were subsequently adopted by the National Assembly. The key elements of these February 1998 agreements show the comprehensiveness of the labor market reforms Korean society headed for, and set the basic framework of labor market policy reforms in the Republic of Korea since the crisis. They include the following:<sup>3</sup>

- Management transparency and corporate restructuring
  - Improvement of corporate financial structure
  - More responsible and more transparent corporate governance
  - Promotion of business competitiveness
- Price stability
- Policies to promote employment stability and combat unemployment
  - Rapid expansion of financial resources for labor market programs
  - Expansion and improvement of employment insurance
  - Livelihood support for the unemployed
  - Expansion of vocational training
  - Job creation through public works and business start-up subsidies
  - Requirements for consultation and rehiring in case of redundancy dismissals
- Extension and consolidation of the social security system
  - Integration of social partners in social security steering committees
  - Wage guarantees in bankruptcy cases
- Promotion of labor/management cooperation and respect for the autonomy of collective bargaining; efforts to establish a more rational wage system, including profit sharing
- Enhancing labor rights
- Permission for public servants to form workplace associations
  - Permission for teachers to join trade unions
  - Permission for trade unions to engage in political activities
  - Right of dismissed and unemployed workers to join trade unions
- Enhancing labor market flexibility
  - Possibility for employers to dismiss workers in cases of managerial need
  - Permission for the establishment of temporary work agencies
- Improvement of export
- Other issues, including
  - The release of imprisoned trade union members
  - Regulatory reform
  - Corruption and money laundering

With these agreements as the basic framework for labor market reform, the major chaebol were urged to improve the effectiveness and accountability of their corporate governance, and to introduce greater transparency of their management and accounts. In addition, the agreement recommended a substantial reduction in the indebtedness of the chaebol. In order to facilitate enterprise restructuring, it was also decided to make it legally possible for firms to dismiss workers for “urgent managerial reasons,” and greater flexibility was introduced in the area of temporary work through the legalization of

<sup>3</sup> This is the summary of the agreements by the OECD (2000: 49).

agencies for so-called “dispatched workers.”<sup>4</sup> In return for this enlarged right of firms to lay off workers, i.e., labor market flexibility, it was agreed to enhance many of labor’s rights and extend employment security and stability measures, together with safety-net schemes.

The Tripartite Commission has not been able to function satisfactorily, due to the repeated withdrawals and restricted participation of both employer and trade union representatives. Nevertheless, it is hard to envisage how the Republic of Korea can construct a new industrial relations system without workable institutions like the Commission that accommodate the interests of the actors and enhance a climate of mutual respect among them.

The following section reviews the programs the Korean Government promulgated to promote employment stability and to protect the affected groups of population in order to maintain social sustainability of structural reforms.

### 3. Unemployment Measures: Labor Market Programs and Policies

In March 1998, the Korean Government responded to the sharp increase in unemployment by putting forth a comprehensive unemployment benefit package, which had been agreed on in the Tripartite Commission. The package included expansion of the unemployment insurance system, subsidized loan programs to the unemployed and to venture businesses, active labor market policies, public work programs, and other measures. In developing employment programs to cope with emerging mass unemployment, almost all government ministries were involved, in addition to the Ministry of Labor, the Ministry of Health and Welfare, and the Ministry of Government Administration and Home Affairs, which played the major roles. The following month, to facilitate coordination in policymaking and to create synergies among the various labor market programs, the Unemployment Measures Committee was established under the Prime Minister.

This section reviews these concerted unemployment measures put forth by the Government. For the sake of convenience, they are grouped into four categories by function: programs for income support, programs for employment security, programs for employment training, and programs for employment creation. The core pillar of employment policies in Korea is the Employment Insurance System (EIS). It was established in 1995 as a comprehensive system intended to reduce the risk of unemployment (employment security), the risk of losing income as a result of unemployment (income support), and the risk of skill obsolescence (employment training).<sup>5</sup>

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<sup>4</sup> Urgent managerial needs included, among other situations, deteriorating business conditions that might have forced the firm into bankruptcy, reorganization to increase labor productivity, and/or new technology that justified a reduction in the work force. Business transfers, mergers, and acquisitions were also recognized by court decisions to be managerial reasons. By the Manpower Leasing Act of February 1998, the private temporary worker agencies became legalized, so that firms could employ dispatched workers, who are employed by the temporary worker agency, with far more flexible contracts.

<sup>5</sup> The EIS is structured around these three component functions, but the first article of the Employment Insurance Act states its purpose more comprehensively: “to prevent unemployment, to promote employment, to develop and improve the vocational ability of workers, to strengthen the nation’s vocational guidance and job placement capacity and to stabilize the livelihood of workers and promote their job-seeking activities, by granting necessary benefits when they are out of work, thereby contributing to economic and social development of the nation.”

Since EIS coverage is still very limited, each functional component has been supplemented by new additional measures. Its coverage expanded in stages, from firms with more than 30 regular employees at the time of the outbreak of the crisis to all work places in October 1998. However, the number of beneficiaries grew less rapidly than the number of eligible workers due to various factors, including the minimum contribution period of six months and the administrative difficulties of keeping track of temporary/part-time workers and employers in small workplaces with fewer than five workers.

Since EIS is a social insurance scheme, it is financed by way of social contributions calculated as a proportion of the total wage. Three separate contributions are collected under separate accounts for three different functions.<sup>6</sup> Thus, some of the new measures are financed from the EIS fund and others are not. For review of these programs, the fully fledged evaluation of each measure is not yet available. But the following review of programs will include some general assessment of results, where possible, in the light of their respective aims and the identification of problems.

### **a. Income Support Programs for the Unemployed**

On the eve of the crisis, the social safety net was still in its infancy in Korea. The National Pension System had been in operation since 1988, but the payment of full pensions was to start only in 2008. The Health Insurance System covered the whole population and functioned as an important safety net for health needs. EIS, the major income support program for the unemployed, was still limited in coverage. The Severance Allowance System, which is stipulated by the Labor Standard Law, helps those leaving firms, but it could not guarantee its payment by the employer if a firm went bankrupt. Besides the social insurance systems and the severance pay, the means-tested social assistance system, namely, the Livelihood Protection Program (LPP) existed, but its coverage was also extremely limited.

In an effort to secure the income of unemployed workers after the crisis, EIS coverage was rapidly extended and the Wage Guarantee Fund was established, the Temporary Livelihood Protection Program was instituted, and various loan programs were introduced. In addition, the National Pension System was extended to the urban self-employed, the health insurance system was reformed into one unified National Health Insurance System, and the Livelihood Protection Law came to be reformed into the National Basic Livelihood Security System and greatly improved as a social assistance system.

#### **i. Unemployment Benefits Under EIS**

At the time of its creation, the EIS covered mainly regular workers in workplaces with more than 30 workers.<sup>7</sup> Since the crisis, the coverage has been expanded. In January 1998, the system was expanded to cover firms of more than 10 workers; in March 1998 to firms of more than 5 workers; since October 1998, to workers of all workplaces irrespective of size. Despite these extensions of coverage, however, only a relatively small proportion of the working population is actually insured.

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<sup>6</sup> For the employment security component and vocational training component of the EIS, firms with more than 70 workers were covered.

<sup>7</sup> For the employment security component and vocational training component of the EIS, firms with more than 70 workers were covered.

As Table 8 shows, out of more than 20 million employed individuals, 12.8 million were paid workers in 2000. EIS does not apply to the self-employed or to unpaid family workers. Only two thirds of total paid workers are eligible for EIS. Not eligible for EIS are

- Part-timers working less than 18 hours a week or 80 hours a month,
- Daily workers who have been employed less than one month,
- Government officials and employees subject to the Private School Teachers Pension Act, and
- Workers over age 65 and new employees over age 60, though they are paid.

So only 71 percent of those eligible are actually insured.

**Table 8. Coverage of the Employment Insurance System**  
(‘000, percent)

	July 1995	Jan. 1998	July 1999	Feb. 2000
Paid Workers	12,824	12,500	12,603	12,819
Eligible Workers	4,280	5,190	8,342	8,700
Insured Workers	4,204	4,309	5,876	6,172
As a Percentage of Eligible Workers	98.2	83.0	70.4	70.9

*Source:* OECD (2000:79).

EIS provides unemployment benefits as a job-seeking allowance to eligible job losers (thus new entrants are not eligible; to encourage the early reemployment of the job-seeking allowance recipients, it provides an employment promotion allowance. The eligibility requirements for the job seeking allowance include, first, that the claimant must be insured in the EIS for at least 180 days over the 18 months preceding the date of unemployment; second, that the claimant should actively look for a job, meaning that he or she should register at an employment security center immediately upon separation; and third, the loss of employment should not be the result of a serious fault of the claimant.

Though these criteria would not seem to be particularly strict, they effectively leave a large number of unemployed people uncovered. As of June 1999, about 170,000 unemployment benefit recipients were registered, i.e., 12.5 percent of total unemployed. For 1999 as a whole, it is estimated that 13.5 percent of the unemployed received benefits (Table 13). The ratio of benefit recipients to unemployed varied significantly with age, level of education, and firm size. In general, the proportion of older and more educated unemployed workers who received benefits tended to be much higher than for younger and less educated ones.

The daily job-seeking allowance amounted to 50 percent of the so-called “basic daily wage” at the time of separation. It was not subject to taxes or social contributions; it was subject to a ceiling, and it could not fall below a minimum level. The maximum duration of payment of unemployment benefits ranges between three and eight months, depending on the claimant’s age at the time of job loss and the period of contributions to EIS. Overall, in 1999, it is estimated that the average recipient received benefits for about 98 days (OECD, 2000: 85). By international comparison, the level of unemployment benefits was relatively low.

It seems that more than half of the unemployed workers did not receive benefits simply because they were not insured in EIS prior to becoming unemployed. Out of the total number of workers who were insured in EIS and who lost their jobs for involuntary reasons,

only about half qualified for unemployment benefits. In addition to this low coverage, benefits are rather modest for the limited number of unemployed workers who receive them.

## ii. Wage Claim Guarantee Fund and Severance Pay

From the 1960s until the EIS was introduced, the mandatory lump-sum severance pay scheme alone filled the function of unemployment compensation. Under the Republic of Korea's labor law, employers are required to pay every worker who has been employed for one year or more a minimum severance package of 30 days of that worker's average pay for every working year. Employers often promise to pay more than the mandatory minimum. This scheme functioned as an unemployment benefit for those who separate from a firm at working age, and as a retirement benefit for those who separate at retirement age.

However, the problem with this system is that there is no legal requirement mandating employers to record the liability associated with the severance pay on their balance sheets. Effectively, these liabilities are quite underfunded, and depend primarily on the solvency of the employer. Hence, in the context of the economic crisis, many firms could not pay the required benefits because of bankruptcy. Workers' demands and the threat of more bankruptcies have led the Government to create the Wage Claim Guarantee Fund, which is intended to assure that workers will receive their due wages and mandated lump-sum severance pay or retirement allowances, even in the case of a firm's bankruptcy. The fund was to be managed by the Minister of Labor and financed by general revenues and a 0.2 percent tax on the wage bill.

In the midst of massive bankruptcies, the Wage Claims Guarantee Fund provided substantial aid for workers in insolvent firms who suffered from the loss of deferred wages and retirement allowances.

## iii. The Livelihood Protection Program and Temporary Livelihood Protection

LPPs, which purports to guarantee a minimum standard of living for the needy, is the major social assistance scheme, supplementing social insurance benefits. While the coverage of the job-seeking allowance under EIS is quite limited, the eligibility criteria for the LPP are still more restrictive. Thus, for those unemployed from small bankrupt firms, not covered by the EIS or eligible for the LPP, the Temporary Livelihood Protection (TLP) program was introduced. In principle, TLP is targeted on unemployed individuals of working age, while LPP has a broader scope for assisting the needy, but mainly those unable to work.

The number of beneficiaries of both LPP and TLP programs was close to 2 million in 2000, or about 4.4 percent of the population. The budgetary allocation of the Ministry of Health and Welfare mirrors the trends in the number of beneficiaries. As shown in Table 9, these allocations have almost doubled since 1997. Even so, welfare-related expenditures, at about 2.8 percent of the total government budget, remain small.

Benefits under both LPP and TLP programs are subject to means tests based on family income, individuals' income, and assets. In the LPP, the means test is based on the extended family members' capacity to earn. But eligibility for TLP is not based on the earnings' capacity of extended-family members; the unit of benefit and means for the TLP is the household, defined as persons registered at the same address. Furthermore, asset disregards are about 50 percent higher than for LPP.

**Table 9. Budget Allocation for Welfare Spending 1997–2000**

	1997	1998	1999	2000
Budget of the MHW (billion won)	2,851	3,113	4,161	4,498
As Percentage of General Government Budget	4.2	4.1	5.2	4.9
Welfare-related Spending as Percentage of the MHW Budget	49.1	52.0	60.3	57.2
Social Assistance Benefits as Percentage of Welfare-related Spending	15.3	18.5	27.3	23.8
Social Welfare Services	17.2	16.0	13.5	15.7
Medical Aid	16.8	17.5	19.5	17.7
General Government Budget as Percentage of GDP	15.9	18.9	18.5	17.9

*Note:* MHW = Ministry of Health and Welfare.

*Source:* OECD (2000:128).

In addition, the Government provides various types of living cost support, including financial aid for education, medical protection, and food provision to school children. The TLP programs are supposed to decrease with the process of recovery. But LPP and TLP together covered only about 55 percent of the poor population as of 1999. What the Korean Government attempted was wholesale reform of the LPP program. The result was the National Basic Livelihood Security System, implemented in October 2000, which integrated LPP and TLP while still retaining the extended family income criteria.

#### **iv. Loans to the Unemployed**

Public loans through the Life Stabilization Fund were provided to those unemployed who were excluded from the EIS and the TLP and whose assets were below a certain level. The fund was financed by sales of employment security bonds (120 billion won) and in 1998 by the International Bank for Reconstruction and Development fund (300 billion won). In the early stages, overly restrictive requirements adopted by banks that feared default hampered the effectiveness of this loan program; gradual relaxation eventually raised the number of beneficiaries. In addition, the Resettlement Allowance Fund was provided in 1998 for the increasing number of people returning to the countryside for agricultural work and for the unemployed who started their own small businesses (200 billion won to 10,000 households). And the National Pension Fund also deployed new loan programs for the unemployed who subscribed to the national pension.

#### **b. Employment Security Programs**

The second category of unemployment measures includes those programs for maintaining and promoting employment. To tackle soaring unemployment, the Government in early 1998 introduced and strengthened various job-keeping measures. The aim was, first, to subsidize employment at firms that would otherwise lay off workers. A situation that might require dismissals of workers had to be recognized for the subsidies to apply. Second, the idea was to promote hiring of certain categories of disadvantaged workers, such as laid-off workers, women, and older workers, and also to encourage workers who take over their enterprise. The former constituted an employment maintenance program; the latter, an employment promotion programs.

### **i. Employment Maintenance Programs under the EIS**

Six types of employment maintenance programs are in operation under the EIS:

- **Temporary shutdown:** employers who shut down their businesses for more than two days per month are paid a shutdown allowance corresponding to one fifth to one half of the total payroll.
- **Reduction in working hours:** employers who curtail working hours by more than 10 percent of usual hours over a month or by 8 hours in a week rather than reduce their workforce are supported by the Government. The subsidy amounts to one tenth of wages before hours reduction (one fifteenth in large firms) for eight months.
- **Dispatching of workers:** the Government supports employers who dispatch workers to an associate firm or subsidiary company for at least a month. The subsidy amounts to two thirds of wages (one half in large firms) for six months.
- **Paid or unpaid leave:** the Government supports employers who grant leave for at least a month to avoid lay-offs. The subsidy amounts to two thirds of wages (one half in large firms) for six months.
- **Reorganization of business:** the Government supports employers who reemploy more than 60 percent of their previous employees after changing into another business. The subsidy amounts to two thirds of the payroll (one half in large firms) paid up to one year.
- **Training to sustain employment.** The Government offers a subsidy for vocational training to employers who retain their workers despite the inevitable need for employment adjustment. The subsidy amounts to the total training expenses and one third to one half of the payroll paid.

### **ii. Employment Promotion Programs**

To promote hiring certain categories of disadvantaged workers, five types of the employment promotion programs are subsidized under the EIS:

- **Hiring of laid-off workers:** hiring at least five displaced workers, or more than 5 percent of the firm's work force, or a worker displaced for less than a month, was to be subsidized by the Government with one half of wages (one third in large firms) for eight months, and two thirds of wages (one half in large firms) of workers laid off for more than a year (six months in the case of workers aged over 55).
- **Hiring of older workers:** hiring at least 10 older workers or a number larger than 5 percent of the firm workforce, was to be subsidized with one quarter of wages (one fifth in large firms) for six months. Hiring a worker aged 45 to 55, who retired from the same company not more than two years earlier, was to be subsidized with 600,000–800,000 won (400,000–600,000 won in large firms).
- **Employment of women:** if an employer provided childcare leave of 30 days to 11 months in addition to maternity leave, the amount of support by the Government was to be 140,000 won per month (110,000 in large firms) in 1999, 150,000 won (120,000 in large firms) in 2000; if the employer hired a women who left her previous job no more than five years earlier to have or take care of children, the employer was to be supported with 800,000–1,000,000 won (600,000–800,000 won in large firms) in 1999, 1,200,000–2,000,000 won in 2000.

- Child-care facilities: if the employer built in-house child care facilities, a loan was to be provided up to a maximum of 300 million won at a 3–3.5-percent rate payable in five years. If the employer recruited nursing teachers, 550,000–600,000 won was to be paid per teacher.
- Takeover by employees. If at least 60 percent of a company's workforce were to take over at least a 50-percent share of the company, a subsidy of 600,000–800,000 won was to be paid per worker.

These employment security programs have been useful in the face of the economic crisis. Table 10 shows that during the second half of 1998, almost 610,000 workers benefited from the programs, but during the whole year of 1998, almost 800,000 workers benefited, i.e., about 6.5 percent of total dependent employment. The program addressing the temporary shutdown of firms was the most frequently utilized, accounting for 70 percent of total expenditure. However, other programs have not been much used. Those covering working-hours reductions or reorganization of businesses, for instance, were very little used. In 1999, these employment security programs could spend only about 20 percent of the budget planned. Moreover, employment security programs tend to be biased in favor of large firms. Less than one half of 1 percent of small firms received subsidies in 1999, compared with one third of large firms (OECD, 2000: 96).

**Table 10. Employment Security Programs: Expenditure and Number of Participants**

		Number of Participants		Expenditure (million won)	
		1998 1st Half	1998 2nd Half	1998 1st Half	1998 2nd Half
Total ('000 Persons)		174,361	606,218	19,942	76,539
Percentage		(100.0)	(100.0)	(100.0)	(100.0)
Employment Maintenance Programs	Temporary Shutdown	68.2	79.8	59.6	54.2
	Reduction in Working Hours		0.6	0.9	0.5
	Training	0.5	5.8	1.2	20.2
	Dispatching of Workers	0.1	0.1	0.8	0.8
	Reorganization of Business	0.1	0.1	0.5	0.5
	Paid or Unpaid Leave		1.7		4.4
	Employment Promotion Programs	Hiring of Laid-off Workers	0.1	0.8	0.3
	Hiring of Older Workers	28.6	10.5	25.5	9.2
	Employment of Women	1.6	0.3	7.2	1.3
	Child-care Facilities	0.8	0.2	3.9	1.1
	Takeover by Employees				

*Note:* Blank cells = no data.

*Source:* Adapted from OECD (2000: 99).

### c. Employment Training Programs.

Training programs are essential in adapting or upgrading workers' skills, thereby enhancing their productivity and earnings. Until the 1997 crisis, however, the role of employment training and employment services in the labor market had been much underestimated, mainly because of long-sustained low unemployment in the past. After the crisis, however, the Government quickly expanded employment training programs and job placement service networks to provide sufficient training opportunities appropriate for workers' needs and to strengthen employment services.

A variety of training programs, such as reemployment training for the unemployed, vocational training for the young and newly unemployed, and vocational training for employees were created, and in early 1998 the amount of the training allowance was increased to 70 percent of the minimum wages from the previous 50 percent. The training expenses and wages are financed by the EIS fund.

### **i. Training Programs For the Employed**

The necessity of enterprise training, particularly among small enterprises, has been built in by the EIS as one of its three main components. In 1976, a shortage of skilled workers stirred the Government to set up a training levy system. Firms were required to provide in-plant training or to pay a levy. After some initial success, the proportion of firms opting for training their workers, rather than paying the levy, fell steadily from more than two thirds of eligible firms during 1977–1980 to less than one fifth during 1991–1993 (OECD, 2000: 89).

The new EIS embraces four different types of training schemes targeted to employed workers. They are

- Subsidies to firms that conduct in-plant training;
- Subsidies to firms that assign workers to paid leave for education and training;
- Subsidies to firms for education and training courses that take place outside the firm premises; and
- Subsidies to employees for education and training, training for older workers, and tuition loans.

Data from the Korean Labor Institute (KLI, 1999) show that in-plant training, which was adopted by 71 percent of the firms that provided training programs, benefited 96.5 percent of the workers who received training in 1999; 62 percent of total training funds were spent on the already employed. The programs are financed by way of employers' contribution to the EIS.

Among the problems with these training programs for the employed is that only a small proportion of the firms that pay contributions to the fund actually provide training for their workers. During 1999, slightly more than 7 percent of the insured firms provided in-plant training. During the same period, only 13 percent of all insured workers received such training. Moreover, large firms are the main beneficiaries of the training programs for the employed; less than 3 percent of those employed in small firms received in-plant training, compared with 40 percent in the large firms.

It would therefore appear that training under the EIS has not succeeded in substantially increasing the amount of training provided by small enterprises. It seems highly likely that the training subsidies yield large windfall gains to large firms.

### **ii. Training Programs For the Unemployed**

Following are the main training programs available to the unemployed:

- Re-employment training of the unemployed, a program targeted to workers dismissed from firms covered by EIS, independently of whether these workers are entitled to unemployment benefits;

- Training for employment promotion, which focuses on dismissed workers, not previously insured at the EIS, i.e., mostly temporary, daily, and part-time workers;
- Training for unemployed new entrants into the labor market (though most young unemployed workers have been granted internships under public work programs);
- Training for business start-ups, targeted at the elderly unemployed, disabled individuals, and school drop-outs; and
- Manpower development training, which comprises initial training for craftsmen and training for "3-D" jobs.

A large number of unemployed workers have participated in these programs. In both 1998 and 1999, about 360,000 unemployed attended a training course, accounting for roughly one fifth of the unemployed in the period considered. However, most training programs for the unemployed appear to be insufficiently targeted at disadvantaged labor market groups. They tend to suffer from relatively high dropout rates, while the reemployment probabilities of those who complete the courses are low. As shown in Table 11, the completion rate fell from 53.4 percent in 1997 to 36.7 percent in 1999, and only about 10 percent of total trainees succeeded in finding a new job. A program of vouchers to pay for training (in 1998) and a tailor-made training system (in 1999) were also launched in order to increase the proportion of reemployed trainees, to suit courses to the needs of enterprises, and to develop competition among training centers, including colleges, universities, and traditional educational institutions.

More rigorous evaluations of the existing schemes in terms of total expenditure and labor market outcomes should be initiated, and better targeting and better design of the

**Table 11. Outcomes of Training Programs for the Unemployed**

		1998			1999		
		Total	Completion	Reem- ployment	Total	Completion	Reem- ployment
Total		362,941	193,837	43,470	358,351	131,638	48,864
Percentage		(100.0)	(53.4)	(22.4)	(100.0)	(36.7)	(37.1)
EIS Funded	Reemployment	170,096	116,429	16,193	225,356	93,268	36,223
	Training	(46.9)	(68.4)	(22.5)	(63.2)	(41.2)	(38.8)
Non- EIS Funded	Employment	101,709	37,465	7,218	69,466	21,534	7,299
	Promotion	(28.0)	(36.8)	(19.3)	(19.4)	(31.0)	(33.9)
	Craftsmen	14,515	12,942	6,326	16,817	4,576	1,672
		(4.0)	(89.2)	(48.9)	(4.7)	(27.2)	(36.5)
	3-D Jobs	11,000	8,724	2,610	9,122	939	936
	(3.0)	(79.3)	(29.9)	(2.5)	(10.3)	(100.0)	
Non- EIS Funded	Business	13,598	12,515	561	7,725	4,933	517
	Startups	(3.7)	(92.0)	(4.5)	(2.2)	(63.9)	(10.5)
	New Labor	43,012	5,762	562	10,022	3,872	1,608
	(11.9)	(13.4)	(9.8)	(2.8)	(38.6)	(41.5)	
	Market						
	Entrants						
	Other Programs	9,011			18,843	2,519	607
		(2.5)			(5.3)	(13.4)	(24.1)

*Notes:* Blank cells = No data; EIS = Employment Insurance System. Reemployment training accounts for 80 percent of total expenditures under the EIS training fund. Training programs of the employed make up the remaining 20 percent. The completion rate equals the number of trainees who completed the course divided by the total number of trainees. The proportion of trainees who found employment is computed over those who completed the course.

*Source:* OECD (2000: 93).

training courses are needed to enhance the completion rate as well as the employment effect.

#### **d. Employment Creation Programs**

The last, but not the least, category of labor market programs that the Korean Government deployed after the crisis is employment creation programs. When job availability is limited in the labor market, neither the job training programs or the employment promotion efforts can be expected to help much. When job prospects were negative during a high-unemployment period, government-sponsored job creation programs were implemented. As one of the traditional unemployment measures, the Korean Government resorted to the creation of temporary public works jobs. In addition, the Government endeavored to create new job opportunities through subsidizing small and medium-sized enterprises (SMEs) and thereby curbing rising unemployment.

##### **i. Public Works Programs and Internships**

Public works are very effective means of providing temporary income support to the unemployed without distorting their work incentives, since workers are paid for their productive work, not just a subsidy for living. In early 1998, the Government implemented a wide variety of public works programs for the poor unemployed who did not have any other source of income and were not entitled to unemployment insurance benefits.

Temporary public works jobs provided by local governments included street cleaning, traffic control, parking attendance, forest conservation, picking cabbage, home care for the elderly, job counseling, etc. Public works suitable for the winter season as well as for women and white-collar workers, such as computerization, information projects, and assistance in social welfare facilities were later added. In addition to public works programs, separate work projects for the aged and women unable to perform hard labor were also implemented. The wages paid ranged from about 50 percent of the minimum wage for unskilled labor (former industrial daily workers) to approximately 60 percent of average nonfarm earnings for skilled labor (unemployed college graduates).

As far as the number of participants is concerned, public works programs have been significant. About 440,000 individuals participated in the programs in 1998, of which 100,000 were in central government programs and 340,000 in local government programs. Participation in 1999 was estimated at about 780,000. The Government increased its budget from 1 trillion won in 1998 to 2 trillion won in 1999.

Although public works, together with the TLP programs, have contributed to providing temporary relief to the poor unemployed, there has been criticism that many programs are inefficient and unproductive, and that funds were often wasted because of the inability to screen out unqualified applicants. The difficulties of screening who is really needy and who is not qualifies the Government's ability to strengthen employment creation. Since the public works programs are co-financed by central, provincial, and local governments, based on a "matching fund system," the unevenness of programs across regions became apparent. Furthermore, some displacement effects are observed, as wages under public works were in some cases higher than market wages for certain occupations in agriculture and 3-D jobs. These problems highlight the need for careful monitoring and targeting of the programs.

A graduate internships program is targeted at unemployed new graduates. Its aim is to provide college graduates with some practical work experience and to increase their employment chances. However, dead-weight losses are bound to be very large, underlining the need for an evaluation of the cost-effectiveness of this program.

## ii. Subsidies to Small and Medium-Sized Enterprises and Venture Enterprises for Job Creation

Employment policies should pay attention to where marginal employment can happen. SMEs account for a large proportion of employment in the Korean economy. Particularly during a high unemployment period, employment or unemployment usually occurs at small firms or start-up firms. Therefore, tax reductions for small firms or exemption from start-up fees can be very effective for boosting employment, or at least for mitigating unemployment. This was the position of the Korean Government after the crisis.

To alleviate the financial strains of small and medium-sized firms and support venture enterprises, the Technology Credit Guarantee Fund was expanded. In 1998, it spent a total of 100 billion won in loans and grants to support about 30,000 SMEs. For software venture enterprises, the Information Intensive Enterprises Promotion Fund (100 billion won) was set up; it allocated 45.7 billion won to support 983 venture firms. Finally, in 1999, the Fund for the Creation of Small Enterprises was started to provide further support to SMEs, with a view to fostering job creation; it provided 358.6 billion won in loans to 2,873 firms.

A public fund of 100 billion won was set up to support the Korea Venture and Investment Fund Cooperative, which had the aim of investing directly in venture enterprises and private sector venture capital. The activities of business incubators were supported, especially in terms of infrastructure, such as business know-how and technology.

To ease the strain on small and medium-sized firms importing raw materials, a total of US\$3 billion (US\$1 billion from the International Bank for Reconstruction and Development (IBRD) and an additional US\$2 billion from foreign exchange reserves) was provided. One trillion won from the IBRD was spent on the creation of small enterprises and the improvement of working environments.

To curb rising unemployment among daily workers due to the contraction of the construction sector, the budget for major social overhead capital investment was expanded by an additional 2.7 trillion won during 1998. Also, housing construction projects, school facility repair projects, and various regional development projects such as road repair and running water and sewage systems were implemented.

In addition, the Government implemented deregulation measures such as lowering the start-up fund requirement of venture firms and simplifying factory establishment procedures. Government agencies were encouraged to purchase goods from SMEs. No systematic information is available to date on the employment effects of these programs. But in improving the possibility of employment, supporting the new economy and information intensive venture enterprises is more positive than the passive income protection policies in general.

### e. Summary: Unemployment Measures Budget and Program Coverage

The unemployment measures of the Korean Government put forth after the crisis were comprehensive and extensive. Needless to say, they have incurred huge increases

in government expenditures. As shown in Table 12, the total budget for unemployment measures (excluding SOC investment) has increased from negligible levels in 1997 to the equivalent of 2.2 percent of GDP in 1998, and to 3.2 percent in 1999. Moreover, these figures underestimate total public spending, as they do not take into account some of the employment programs launched by local governments, the cost of which is not known.

**Table 12. Budget for Unemployment Measures**  
(billion won, percentage)

Measures	1998	1999	2000
Income Support for the Unemployed	2,023 920	5,448 (35)	4,025 (68)
Unemployment Benefits	850 (8)	1,501 (10)	1,011 (17)
Loans to Unemployed	750 (7)	1,138 (7)	509 (9)
Livelihood Protection <sup>a</sup>	1,379 (14)	1,488 (10)	1,709 (29)
Temporary Livelihood Protection, etc.	216 (2)	826 (5)	605 (10)
Other	207 (2)	494 (3)	192 (3)
Employment Security	122 (1)	483 (3)	366 (6)
Vocational Training and Job Placement	901 (9)	687 (4)	431 (7)
Vocational Training Mainly for the Unemployed	754 (7)	583 (4)	351 (6)
Expenditure for Job Placement Operations	147 (1)	104 (1)	80 (1)
Temporary Employment Creation (e.g., Public Works)	1,044 (10)	2,522 (16)	1,100 (10)
Employment Creation	5,980 (59)	6,510 (42)	
Investment in Social Overhead Capital	3,295 (33)	1,155 (7)	
Startup Fund for Venture Enterprises	400 (4)	1,041 (7)	
Subsidies for Venture Enterprises	100 (1)		
Other	2,185 (22)	4,315 (28)	
Total Budget for Unemployment Measures	10,071 (100.0)	15,650 (100.0)	5,922 (100.0)
Total Budget for Unemployment Measures <sup>b</sup> as a Percentage of TDP	2.2	3.2	1.1
Total Expenditure on Labor Market Measures <sup>c</sup> as a Percentage of GDP	1.5	2.7	0.8
Share of Expenditures on Active Measures in Total Expenditure on Labor Market Programs (Percentage)	70	70	45

*Notes:* Blank cells = data not available. GDP = gross domestic product. <sup>a</sup>Not included in the budget for unemployment measures in 1998. <sup>b</sup>This is estimated as the total budget for unemployment measures, excluding social overhead capital investments and spending on livelihood protection. <sup>c</sup>Expenditures on active measures are calculated as the sum of expenditures on employment security, temporary job creation, vocational training, job placement, and job creation (other than social overhead capital investment).

*Sources:* Government of Korea (1999d); measure categories adopted from OECD (2000: 76).

Of this central government total expenditure for unemployment measures, the share of the active measures was 70 percent in both 1998 and 1999, compared with about one third, on average, in the member countries of the Organization for Economic Cooperation and Development (OECD, 2000: 78); reliance on active measures is strikingly high. This is related to the elasticity of the budget size too. During the crisis years, expenditure on labor market policies appears to have been very sensitive to the business cycle. With the signs of economic recovery in 2000, the budget for all categories of programs except the LPP and the job creation programs appears to have been reduced by a considerable margin.

Although the budget increase for the unemployment measures appears to be formidable, the coverage of the affected population by these programs was not so extensive. As shown in Table 13, out of 1.5 million individuals unemployed in 1999, 60 percent

participated in one of the various labor market programs. The remaining 40 percent were outside these measures' reach, most of them potential clients for social assistance schemes. Only 28 percent of all unemployed workers received benefits from the EIS, in the form of either unemployment benefits, training, or employment security schemes. Almost one quarter were engaged in public works and 9 percent participated in the other noninstitutionalized schemes, i.e., the unemployment loans and internship programs. In addition, training programs for the employed did not succeed in increasing the provision of training by SMEs.

**Table 13. Unemployed Workers in Different Labor Market Programs in 1999**  
(percentage)

Programs	Participation Composition
Unemployment Benefits	13.5
Vocational Training	9.0
Employment Subsidies	5.8
Public Works Program	22.6
Internship Program	2.8
Unemployment Loans	6.5
No Participation in Any Program	39.8

*Source:* Adapted from OECD (2000: 82).

To enhance the employment results, financing is crucial. But, the actual effects of these active measures do not entirely depend upon the size of expenditure alone. Equally important is the specific characteristics of the program design and implementation that minimize the dead-weight, substitution, and displacement effects often associated with active labor market programs and policies. As to the labor market effects of these active and passive measures for massive unemployment reviewed thus far, it is not possible to draw clear conclusions in the absence of any systematic evaluation. However, there is a general lack of targeting in many of the programs and some of the programs are not much used. For both training and employment security programs, a monitoring and evaluation system has to be integrated. Much needs to be done with the training programs to reduce the dropout rates and enhance reemployment rates; training of the trainers is needed. The public works programs have functioned to a considerable extent as a passive income support for those able to work.

#### 4. Concluding Remarks

In the face of a sharp decline in the unemployment rate and an increase in wages since the beginning of 1999, some observers note a certain complacency. Risks do exist that the Korean authorities might feel tempted, with the rapid recovery of the economy, to assume that the crisis was just a blip in an otherwise high-growth path and that a pause in the painstaking labor market and social policy reform process is needed.

On the contrary, the strong recovery still leaves wide scope for concern. Much remains to be done to consolidate the track to recovery for equitable growth, and to strengthen the social sustainability of the development process. One of the striking features that distinguishes the recent Korean economy is the impressive speed with which unemployment has fallen and new jobs have been created. However, the strong restructuring of the conglomerates and the downsizing of the financial sector, which are

still to be completed, will bring about large-scale job losses, at which point the labor market might loosen again, even if the demand for labor has now stabilized.

And the pace of the fall in unemployment has decelerated because public labor programs have been cut back as a result of economic recovery. Unemployment among the young remains high, though declining. Long-term unemployment is also turning into a structural problem. The KLI (1999) data indicate that those out of work for more than six months accounted for almost 20 percent of the total in November 1999, a considerably higher level than before the crisis. The days of unemployment in the 2- or 3-percent range seem to be over. Projections for unemployment indicate a rate of about 4 to 5 percent. Jobs tend to be more precarious and regular jobs have become scarcer. The segmentation of the labor market has been fostered and aggravated. Moreover, income disparity is widening and the poverty rate is increasing, despite the increased expenditures for labor market and safety-net programs.

Thus, the effort of the Government after the crisis to expand the EIS in all three component functions should be fostered and sustained. This involvement of the Government in the social sector is necessary and should be even consolidated until a minimum living is guaranteed for all. In other words, coverage of the income support benefits should be expanded. Other active labor market policies, including the wide variety of employment security and training programs, have to function appropriately and are in need of systematic monitoring and evaluations. In particular, the delivery system of the active labor market policies, that is, the employment services, should be rationalized. The same applies to the public works programs and the subsidies to SMEs. Ways to minimize the dead-weight, substitution, and displacement effects often associated with such policies, as well as the issues of work incentives should be contemplated.

For the successful transition into strong recovery in the era of globalization, economic restructuring, including reforms in the areas of labor market and unemployment policies, is essential. For this to be socially sustainable, the negotiation and consensus among all social partners, i.e., social dialogue among workers, management, and the Government, should be firmly institutionalized.

Obviously, the crisis was not just a blip in an otherwise high growth path. Its social impact has been not only temporarily distressing, but also structurally profound and fundamental. Further progress requires a more qualitative approach to the development strategy, since future improvements in living standards will have to rest on using resources more efficiently, rather than more intensively, as was the case before the 1997 crisis. The labor market and social policy reforms after the crisis in the Republic of Korea are meant to strengthen national competitiveness through so-called “flexicurity.”

The Korean Government's response to high unemployment has been comprehensive and multi-faceted. It encouraged flexibility of the labor market so that business might increase competitiveness, and at the same time, it promoted protection of labor and particularly those adversely affected. Complementarity of the two seemingly contradicting approaches was well appreciated. Reforms for labor market flexibility are meaningful only when they are socially sustainable. It also helped that the Government's unemployment measures were widely supported by society at large.

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