

Unemployment and Public Work Projects in Korea, 1998-2000

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I. Introduction

After the financial crisis of 1997, the Korean government carried out the economic and social reform. In this process of structural adjustment, a great number of people were made redundant and the official unemployment rate was brought up to 8.6% in February 1998, the highest point since the 1980s. This figure may not be very high in international comparison, but such level of unemployment posed enormous social challenges since the welfare system in Korea was not prepared to take up such high number of unemployed people. For many years, Korea managed to keep unemployment to minimum and the welfare system was organised under the implicit assumption of full employment (Kwon 1999). Under this system, the unemployed and poor people had to rely largely on their savings or private help, but such help was not available for all of them, particularly at the time of crisis. In this situation, the Korean government extended the Employment Insurance Programme¹ and introduced a number of emergency measures to help those affected by the economic crisis. Among those programmes, the Public Work Projects were targeted at the unemployed people with low income and without eligibility to unemployment benefits. In this paper, we will, first, examine three aspects of the public work projects: its origin, delivery system and outcome. Secondly, we will try to elicit lessons that can be learned for other Asian countries affected by the economic crisis. Before we analyse the public work projects, it is necessary to look into the rise of unemployment and some of its characteristics.

II. The Rise of Unemployment and Its Characteristics

When the IMF provided an emergency funding to Korea amid the economic crisis of 1997-98, it demanded the Korean government, *inter alia*, to carry out labour market reform. The crucial contents of the labour market reform carried out in 1998 were two-fold. One was to allow firms to lay off workers

easier, while the other legalised the private agencies to supply labour for other business on a contract basis. Through these reforms, firms could lay off their workers and contract out some part of their work force. The labour market reform had immediate impacts on unemployment as in Table 1. Considering the Korean economy had slowed down from 1996, the fact that the unemployment rate was kept low level before the crisis showed that the labour market did not indeed have much flexibility. In this situation, the reform was just like taking the lid off from the boiling pot. On top of that, a great number of firms went into bankruptcy due to the high interest rate, 22% at one point in 1998. Traditionally Korean firms had maintained a high debt-to-equity ratio, dependent on bank loans (Wade 1988; 130). This made the Korean firms vulnerable to the sudden rise of interest rate.

Table 1. The Trend of Unemployment in Korea (in percent)

Year	Participation	Unemployment	Male	Female
1990	60.0	2.4	2.9	1.8
1991	60.6	2.3	2.5	1.9
1992	60.9	2.4	2.6	2.1
1993	61.1	2.8	3.2	2.2
1994	61.7	2.4	2.7	1.9
1995	62.0	2.0	2.3	1.7
1996	62.0	2.0	2.3	1.6
1997	62.2	2.6	2.8	2.3
1998	60.7	6.8	7.6	5.6
1999	60.5	6.3	7.1	5.1
2000*	59.5	5.1	5.6	4.3

*: First quarter

Source: *Ministry of Labour, Yearbook of Labour Statistics, 1996, 1999*; National Statistical Office, mimeo.

There were three important characteristics in this massive unemployment, which we need to look into. The unemployment rate among young people, first, was very high and the sheer number of young unemployed people was also massive. In 1998, the number of the unemployed aged between 15-34 was about 781,000, which was 53.9 per cent of all the unemployed. The majority of them were new graduates from high schools and colleges. The Korean government was concerned about the worst scenario that militant students and college graduates would organise mass demonstrations, sparking off protests from

trade unions, the urban poor and many others.² Secondly, the sharp rise of unemployment left no safe-haven. Before 1998, full-employment was maintained among the male working population aged over 35. The male unemployment rate went up to 6 per cent in all age groups between 35 and 59. Considering that a great number of people among them were the main breadwinners in households, social stress was much higher than the figure suggests (Ahn 1998). Considering these characteristics, the Korean government saw an urgent need for a social policy response for the unemployed.

Lastly, it is also worth noting that the labour market reform changed the labour market structure, in particular the pattern of labour mobility and employment status. Table 2 shows the proportion of those leaving jobs by age among the employed. Those who left their jobs could either be unemployed or find jobs in some other places. Basically Table 2 shows an aspect of labour mobility. For many years in Korean workplaces the seniority system had been predominant, which awarded the older employees rather than the bright young breed. Although it was continually undermined over the years, older Koreans tended to stick to their jobs within this system. This is one of the underlying causes that made the labour market inflexible. Table 2 shows that this system began to be undermined. A bigger proportion of the older employees left their jobs while more young people tended to stick to their work instead of exploring various possibilities. Firms began to put pressure on their senior employees who were likely to receive a high level of compensation to leave their jobs. Senior people also chose to retire voluntarily rather than to be laid off.

Table 2. Proportion of those leaving jobs by age (in per cent)

	Age	15-20	21-24	25-29	30-39	40-49	50-60
All	1995	7.06	22.69	21.34	25.66	12.97	10.28
	1997	5.63	21.62	23.57	25.22	12.10	11.85
	1998	4.39	16.37	20.87	25.27	15.73	17.37
Male	1995	9.43	14.28	22.36	30.24	12.88	10.81
	1997	4.52	13.80	24.70	30.91	12.69	13.39
	1998	3.13	10.30	19.83	30.63	16.84	19.28

Source: Rearranged from the *Yearbooks of labour Statistics, 1996, 1998, and 1999*.

There have also been noticeable changes in employment status. The proportion of regular workers has been markedly reduced while the proportions of the temporary and daily workers increased³. For temporary and daily workers, employment security is fragile in addition to the low level of compensation. Of course, this trend had already emerged some time before the labour market reform, but reform measures such as the legalisation of private agencies of dispatched workers made it irreversible. Among full-time workers, more and more people are employed on short-term contracts. All in all, the Korean labour market became more flexible than ever before, and the livelihood of wage and salary earners became increasingly insecure as in some other countries as globalisation proceeds.

Table 3 Changes in employment status (in per cent)

	1995	1996	1997	1998	1999
Regular workers	58.1	56.6	54.1	53.0	48.3
Temporary workers	27.7	29.5	31.6	32.8	33.4
Daily workers	14.2	13.8	14.3	14.2	18.3

Source: Ministry of Labour, *Yearbook of Labour Statistics 2000*.

III. Public Work Projects

III. 1 Its Origin

The Korean government took the unemployment issue seriously from the beginning of the crisis. At the beginning of 1998, the Korean government set up an inter-ministerial committee to tackle unemployment issues. This committee, chaired by the Prime Minister, came up with 'the Master Plan for Tackling Unemployment'. Under this plan, the Employment Insurance Programme was extended quickly and its eligibility requirements were loosened to take up people who were made unemployed. Although a great number of people were benefited from the change, this effort was not, however, very effective to help the unemployed previously working in small scale workplaces, and informal sectors. Despite loosening eligibility, they were not entitled to benefits since they had not paid contributions to the Employment Insurance Programme. At the introduction of the Employment Insurance in 1995, one needed to

contribute at least for a year to be eligible to unemployment benefits (Yoo 1995). This minimum period of contribution was reduced to six months in 1998, but nevertheless one needs to pay premium first. In other words the Employment Insurance Programme was still of no use for the unemployed previously not paying unemployment contributions. Other social assistance programme such as the Public Assistance Programme did not play much role since the Korean government maintained its strict requirements.

The Public Work Projects were targeted at these people, who were outside of the Employment Insurance Programme and the Public Assistance Programme. In other words, this programme was for those unemployed who were not eligible to unemployment benefits and at the same time not poor enough to get public assistance benefits. It did not, however, mean this group of people did not need help. They were not eligible to public assistance benefits simply because the income-test of the Public Assistance Programme was very strict in Korea.

President Kim Dae-jung (in office 1998-present) could not ignore this constituency, since he was able to take a grip of power in the 1997 election on basis of the support from the low-income groups as well as people from the South West. Although it was not clear at the time of introduction of the Public Work Projects whether President Kim had this in mind, he also needed to continue the Public Work Projects as his unsuccessful efforts to gain majority at the general election schedule in April 1999.

It is also worth noting that the Public Work Projects were financed by the wage cut in the salaries of the public employees at the beginning. This was a political exercise to show that the government and bureaucrats did share the nation's hardship. Many people believed that the incompetence and complacency of the government were much to blame for the economic crisis (Economist Magazine 1998). From the second year of implementation, the Public Work Projects were financed by the general revenue of the central government (70%) and the local governments (30%). At the local level, the mayors and councillors were also keen to bring more money from the central government for their cities and

districts. This gave the central government a great room for manoeuvre when they distributed the expenditure on the Public Work Projects.

III. 2 The Delivery System

The Ministry of Government Administration and Home Affairs (MoGH) coordinated the Public Work Projects under the supervision of the Committee of Unemployment Policy chaired by the Prime Minister. Some of the Public Work Projects are organised by the various ministries of the central government. Each ministry directly administers their projects. Most of work projects, however, are allocated to the local governments. At the local level, the city/district governments (*Si, Gun and Gu* governments) administer the Public Work Projects. There are four categories of work (Lee 2000: 7). First, infrastructure-maintaining projects include cultivating forest, building small public facilities and repairing public utilities. These are kinds of work that have been, by and large, considered for some time before by the local authorities but postponed due to their low priority and budget constraints. Secondly, the Public Work Projects provide work force to social service and charity organisations such as community centres and welfare institutions. This sort of work includes variety of jobs such as maintaining the facilities of those institutions and teaching children in after-school classes. Thirdly, there is environment-cleaning work, which includes roadside cleaning and rubbish collection. Lastly, there are information technology related projects. They are targeted at the young, and computer-literate people. These projects provide timely help for many central ministries and local authorities, which have a great deal of backlog in digitalising their databases. Some of jobs within the Public Work Projects involve risks of accidents and injuries of participants such as forestry work and roadside cleaning. In the event of accidents resulting in injuries, participants will be compensated for losses through Industrial Accident Insurance.

For individuals who wanted to participate in the Public Work Projects, it is necessary to visit the local city/district office and submit the applications for work. The local government official, then,

selected the people among the applicants according to the criteria. At the beginning, however, the Public Work Projects were subject to much criticism by media and opinion leaders. Local medias alleged that among the participants in the Public Work Projects, those who used to be outside the labour market such as students, housewives and the elderly over 65 took jobs and earned easy money, while the real unemployed were often left out. It was also pointed out that the people did not seek work as hard as they could have, just taking advantage of the easy offering from the Public Work Projects.

As a response to such criticism, the Steering Committees for the Public Work Projects were set up at every city/district government in the end of 1998 (MoGH 1998: 4)⁴. These committees were composed of local councillors, bureaucrats, labour representatives and members of local NGOs. They are responsible for setting up selection criteria for local need and reviewing applications. This review process has reduced discretionary power of local officials in selecting applications for work. The members of the Committees also have mandate to visit and inspect the sites where the public work projects are taking places. After the Committees carried out these functions, complaints from the applicants have subsided.

On top of this local review process, the government has introduced various measures to make the process fair and to prevent those who were not eligible for the Public Work Project from taking jobs. First, the government issued the guidelines for the selection process. According to this guideline, there are number of criteria in which each applicant's situation is evaluated. For instance, the main breadwinners of household, those aged between thirty to fifty, and the disabled would get more favourable review than others in the process. In contrast, those who previously participated in the project would have some disadvantage. (People who participated in the Projects three consecutive periods would be disqualified for the next period.) The evaluation is then quantified, and those who have more points according to those criteria will be selected for the Public Work Projects. There are also people who would be not allowed to apply for the Public Work Projects: the recipients of unemployment benefits, the pensioners within the National Pension Programme and people whose spouses are earning incomes. In order to check all these

details, the local officials have access to the 'Work-net', which is a collection of data for the labour force, compiled by the Ministry of Labour. Since a phase of the Public Work Projects lasts for a three month, people need to apply for the work every three month.

Table 4 Applications and selection for the Public Work Projects

Year	1 st 1998	2 nd 1998	1 st 1999	2 nd 1999	1 st 2000	2 nd 2000
No of Applications	133,000	435,000	1,156,000	784,000	716,000	427,000
No of the selected	77,000 (57.9%)	273,000 (62.7%)	832,000 (71.9%)	607,000 (77.4%)	543,000 (75.8%)	252,000 (59.0%)

Source: MoGH (1999): The Progress Report of the Public Work Projects; <http://n4000-01.mogaha.go.kr:3374/work/>

This selection process played an important to maintain political support for the Public Work Projects. As shown in Table 4, a number of applicants were denied to work within the Public Work Projects. If the selection process was perceived as unfair or relied on too much discretionary power of bureaucrats, there will arise complaints from the applicants, which will then undermine the Projects. In contrast, the wider population will not support the project if a great number of people who are not eligible are allowed to participate in the Public Work Projects⁵. Those errors were prevented from taking place to any significant extent, and the initial criticisms toward the Public Work Projects subsided.

III.3 The Outcome of the Projects

The Public Work Projects provided jobs to those who otherwise would have lost their source of income. As shown in Table 5, the amount of expenditure devoted to the Public Work Projects was higher than any other social assistance programmes in Korean history. Total number of participants are in various in each phases of the year, but, for example, in 1999 the Public Work Projects provided in average 400,000 jobs at a certain point in time, which accounted for two per cent of unemployment rate reduction. Since the jobs within the Public Work Projects have been assigned based on income-test, there have been

equalising impacts on income distribution, as the preliminary assessment reported by the World Bank research suggests (Antic 2000).

The whole package of programmes under the ‘Master Plan of Tackling Unemployment’ accounted for the Korean government ten per cent of government expenditure. The total outlay of the government in social policy area rose by 22.1 per cent from 1997 to 1998 and 28.3 per cent from 1998 to 1999⁶.

Table 5 Implementation of the Public Work Projects in Korea

Year	No of Participants ¹	Expenditure ²
1998	350,000	0.71
1999	1,439,000	1.62
2000	795,000	0.89

¹: total of phases in each year. A phase lasts three months.

²: as percentage of Government Expenditure

Source: Ministry of Public Administration and Local Autonomy (1999), ‘Implementation of Public Work Projects’, mimeo; <http://n4000-01.mogaha.go.kr:3374/work/>

The intended outcome is not, however, just to give away income support to those who lost their jobs amid the economic crisis. Officially, the Korean government defined the Public Work Projects as the workfare programme, in which the unemployed should carry out required work in return for benefits. This approach is also in line with the underlying principle of the Korean welfare system in which benefits require contributions beforehand. Given the logic of the workfare programme, the participants in the Public Work Projects are expected to maintain work spirit and acquire necessary skills and experiences, which eventually help them find job in the market. Lodemel and Dahl (2000), however, do not regard the Korean Public Work Project as workfare programme. They argue that the Korean Public Work Projects are simply public work programmes similar to those in the US in the 1930s. The Korean government, in reality, also sees the Public Work Projects as essentially a social assistance programme with condition of

work attached⁷. Despite this conceptual debate, it would be interesting research agenda to examine to what extent the Public Work Projects help the participants to find job after the programme.

Table 6 Three forms of active policies targeted at the unemployed

	Active Labour Market Policy	Workfare	Public Works
Entitlement	Voluntary or compulsory for the UB recipients	Compulsory condition for social assistance entitlement	Not attached to entitlement
Form of regulation	Supply and Demand sides	Supply side	Demand side
Main target group	The unemployed to close labour market	Recipients of social assistance, distant from the labour market	The unemployed, close to labour market
Main activity	Training	Work	Work
Responsible authority	Labour market	Social services	Labour market

Source: Lodemel & Dahl (2000: 42-43)

IV. What lessons can be learned?

It is often the case that countries are advised to reduce their public spending by the IMF or the World Bank when those countries in question ask them financial help. In Korean case, in contrast, the IMF advised the Korean government to extend social safety net during the economic crisis of 1997-98. This was because the main policy goal was to restructure the economy, and because the welfare system in Korea was inadequate to deal with the massive unemployment, which was the inevitable result of readjustment.

The policy response from the Korean government was swift as we have discussed in this chapter. There are two, *inter alia*, underlying factors worth noting for such policy response possible. First, the economic crisis was not caused by the excessive public spending. The government spending was relative small compared to other OECD countries and public borrowing requirements were not high. This enabled the Korean government to spend for the new social programmes, including the Public Work Projects. Secondly, it is important to understand political dynamics during the economic crisis. Kim Dae-jung government was a minority government, elected in the middle of the crisis. Nevertheless, he was

able to win support for his structural readjustment policy from the trade unions. He had been seen as their ally while in opposition. At the beginning of the crisis, the business community was also behind his policy. For instance, the 'Master Plan Tackling Unemployment' was also backed by the tripartite committee, the Employees-Employers-Government Committee. When one tries to elicit some lessons from one country's experience for others, one needs to be very cautious since political, social and economic conditions are often vastly different. In this case, political consensus and budgetary flexibility, which the Korean government enjoyed, at least for a short while, are not easy to come by in other countries and Korea alike.

Given such reservation, we would rather raise a number of questions, instead of lessons, for the policy-makers who are responsible for, or considering programmes like the Public Work Projects for their own countries. First, how long are you going to continue the public work projects? In Korea, the Public Work Projects were meant to be temporary programmes when introduced. They were scaled down in 2000 when unemployment rate began to decline. The Public Work Projects will, however, continue in 2001 as the number of unemployed people surged again at the end of 2000. It is also difficult for policy makers to stop those programmes once in place since they need to consider their political popularity. There are a number of problems with continuation for a long period. It can reduce the efficiency of public spending since elected local mayors and officials are likely to find projects to spend expenditure transferred from the central government, instead of responding urgent needs for the unemployed people. In other words, the temporary spending would become perpetuated expenditure. For those who have participated in the projects it would not be necessary to seek jobs as hard as they can in the labour market since they can earn income from the projects with considerable stability. To avoid such situation, the Korean government made a set of guidelines including disqualification of those who participated in the projects three consecutive phases. Nevertheless the danger of dependency remains.

Secondly, how to maintain political support for the projects is also an important question. Once initial sense of urgency dies away, it is natural that people raises many questions as for the public work projects such as regarding fairness of selection and the efficiency of the programme. Political support is mainly dependent on the transparency in implementing the projects. In the Korean case, the Steering Committees for the Public Work Projects have been set up in local districts, and they are responsible for reviewing the various aspects of the programme. This was an effort to ensure not only that eligible people are not left out but also that people without eligibility are not in. If there should be corruption scandals involving the selection process of the programme, it would be extremely damaging for the projects. The Ministry of Government Affairs and Home Affairs are maintaining an inter-net site for the Public Work Projects, in which any one can make complaints or put inquiries.

Thirdly, what kind of work projects are you going to develop? The public work projects are not simply to give away income support to those unemployed. The policy makers need to develop work projects that are necessary for their own rights for the government and the society in general. It is also necessary to have a clear set of priority since there is a plenty of work to be done in central and local government alike. The programme should also cover a wide range of work in order to make it sure that different categories of people can participate in the projects such as different age, skill and residence groups. In Korean cases, for instance, some of the young unemployed participated in work involving computer skills, while others participated in physical work.

Last, but not least, are you going to rely on the Public Work Projects as the country's main social safety net? As global economic competition has been increasingly intense, Asian economies will continually go through structural adjustment. Asian economies will not enjoy unemployment rate within 2 per cent that used be taken granted in many countries. Consequently, ordinary people will be faced with more uncertain future in their job prospect than ever before. For this reason, Asian economies need to build a social-policy framework, which includes unemployment insurance and the social protection for

the poor. The Public Work Projects are useful policy tools for urgent needs, but they do not have much strategic implication for economic reform. Except Japan, Korea and Taiwan, most Asian nations are reluctant to take active steps towards social protection. The well-developed system of social protection will be instrumental for small economies without much leverage to influence the world market to remain competitive, as Katzenstein (1985) argued. In particular, it is necessary to develop active labour market policy, which places strong emphasis on training.

Notes

¹ The Employment Insurance Programme was introduced in 1995. Although the Korean government extended the coverage of the Employment Insurance Programme during the crisis of 1997-98, the Programme was not able to cover those who worked in small scale of workplace and the self-employed.

² Interview with a senior officer at the Blue House, May 1998.

³ Regular workers are those who have signed a full employment contract, while temporary workers are employed with short-term contract. Daily workers are employed on a very short-term basis, often on daily basis.

⁴ All over the country 232 local Steering Committees for Public Work Projects were set up.

⁵ Atkinson described it as 'false positive', in which benefits, in this case workplaces, are given to those not eligible. In contrast the error that denies the eligible claimant benefits is 'false negative' (Atkinson 1991: 16-17).

⁶ The figures are calculated from the *Korea Statistical Yearbook, 2000*, based on the current price.

⁷ In an interview in March 1999 with an official responsible for co-ordinating the Public Work Projects in the Ministry of Government Administration and Home Affairs.

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