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

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I. Introduction

After decades of remarkable economic and social progress, the Republic of Korea (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 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 IMF's lending program, which required 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 for structural adjustments, Korean economy appears to have turned the corner, and on good track for recovery. Indeed, the financial markets started to stabilize as early as in early 1998, the exchange rate has stabilized, and usable foreign reserves have already surpassed US\$45 billion in October 1998 from below US\$10billion in December 1997(Table 1). And influential credit rating agencies decided to raise Korea's sovereign credit rating to investment grade by the early 1999. Korea's GDP, which dropped by 6.7% in 1998, bounced back to its normal growth rate of 10.7% in 1999. The unemployment which had peaked 8.6 percent in February 1999(from 2.6 percent in 1997) fell down 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 in the areas of labor market policies and social safety-nets has also played an essential part in this recovery. 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 povert. It was not only to alleviate hardship of the affected population but also to make the much needed structural 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 the unemployed that 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 originated thereof. With the advent of the crisis, the government put forth a comprehensive unemployment package which ranged from the establishment of institutions like the Tripartite Commission to achieve consensus among social partners to the crisis to the 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, main features of social impact of the financial crisis on labor market are delineated, and the coming of the Tripartite Commission and its February 1998 Agreement is presented as a background of the post 1997 labor market policies in Korea. In the third section, a wide range of labor market programs are reviewed. They are grouped into 4 categories including the income support programs, the employment security programs, the employment training programs and the employment creation programs. And the last section will conclude the paper with brief remarks on what remains to be done.

II. Impact of the Crisis on Labor Market

As is expected, the financial crisis brought about a sharp economic slowdown and the financial and corporate sector restructuring which drove many firms into bankruptcy and temporary closing. In the financial sector, more than 400 insolvent institutions have been either closed or suspended by the early 2000. Since most banks were faced with the need to meet the BIS's 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 of *chaebols* also filed for bankruptcy protection. And *chaebols* 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 inter related aspects of these changes that are considered important in understanding the Korean government's comprehensive labor market policies after the crisis. One is the rising unemployment, the second is increasing poverty, and the third is the reaction of the society at large with special reference to the coming of the Tripartite Commission.

A. Rising Unemployment

Unemployment soared from 2.5 percent in 1997 to 8.6 percent in February 1999. The number of unemployed went up from 0.5 million before the crisis to 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. 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 unemployment period became longer. The proportion of the unemployed for 6 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 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/USD)	1,207.8	1,373.6	1,385.2	1,378.8	1,415.2
Corporate bonds profitability (%)	8.00	11.90	16.00	18.28	28.98

Source: The Government of Korea, DJnomics: A New Foundation for the Korean Economy, 1999.

Table 2. Trends in Unemployment by Gender, Education, and Age

Unemployment Rate	2000.3	1999	1998	1997
Total	5.2(%)	6.3(%)	6.8(%)	2.6(%)
Men	5.1	7.1	7.6	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
15-19 years old	15.3	19.7	20.9	9.9
20-29 years old	8.1	10.2	11.4	5.4
30-59 years old	3.8	5.2	5.5	1.6
60 years old and over	2.1	2.4	2.4	0.7

Source: National Statistics Office, *Employment Status of year 2000*, 2000.

Table 3. Trends in Employment Structure by Employment Status (unit : thousands)

	2000.9	1999	1998	1997
Working Age Population(aged 15+)			35,243	34,736
Economically inactive population			13,853	13,132
Economically active population			21,390	21,604
Unemployed population			1,463	556
Employed (working) population	21,432	20,281	19,994	21,106
Non-wage worker	8,269	7,759	7,804	7,880
Self-management (employer + 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 worker + Temporary worker)	10,808	10,233	10,455	11,334
Full-time worker	6,319	6,050	6,457	7,151
Temporary worker	4,488	4,183	3,998	4,182
Daily worker	2,356	2,289	1,735	1,892

Source: National Statistics Office, *Employment Status of year 2000*.

Such decline in employment meant the reduction of the 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 has not been uniform among various sectors and types of workers. The poor and the nearly poor suffer the brunt of the impact, and unskilled workers in urban areas are the first to be laid off. Moon and others estimate the women's share of the increased economically inactive population was 80.6 percent during one year between 1997 and 1998(1999:13). While employment in low wage groups such as construction workers revealed 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, *et.al.*,1999:16-17).¹ The manufacturing and construction industries experienced the largest losses in employment, and the less educated and unskilled workers have suffered most severely from the economic downturn caused by the crisis.

1. For further discussion on the changes in employment rates by industry and occupation, see Hyungpyo Moon, Hyecheon Lee, Gyeongjoon Yoo, 1999, *Economic Crisis and Its Social Consequences* ch.3, KDI Press. .

Table 4. Trends in Labor Force Participation Rates by Gender and Age

	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
15-19 years old	10.9	10.2	10.6
20-29 years old	53.5	54.8	59.0
30-59 years old	75.7	67.2	76.3
'60 years old and over	41.4	40.8	44.1

Source: National Statistics Office, *Employment Status of year 2000, 2000*.

Moon and others' further analysis of the 1998 unemployment data of the National Statistics Office shows the changes in the composition of the unemployment between 1997 and 1998. Between 1997 and 1998, this analysis shows 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 9 workers or less comprised 61 percent of the unemployed in 1998(Moon, et.al., 1999:13-23).

B. Income Distribution and Poverty

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

Measurement of poverty is not easy because there is no unanimous set criteria for determining who is poor. It depends on the way to define the poverty line which varies with researchers, and the reliability as well as the nature of the income or expenditure data available for the calculation. The Table 5 shows various estimates of poverty rate before and after crisis made by the major research institutes in Korea. Relatively wide variations notwithstanding all show a very sharp increase in the ranks of the poor after the crisis. The KIHASA's calculation, based on the income data of the urban workers' households, for instance, shows an increase of poverty incidence from 2.4 percent in the third quarter of 1997 to 7.8 percent in the same period in 1998. The Table 6 shows the more concentrated increase of the ultrapoor. The number of the ultrapoor tripled while that of the marginal poor doubled between 1997 and 1998 quadrupling the poverty gap (1.3 percent to 5.6 percent) and

quintupling the severity of poverty (0.4 percent to 2.0 percent). It means the deterioration of income distribution.

Table 5. Headcount Poverty Rate before and after the Crisis

Year			1997				1998		
Quarter			1 st	2 nd	3 rd	4 th	1 st	2 nd	3 rd
HH Expenditure Data	All Household	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	8.2	7.5	13.5	15.5	19.4
		KDI	3.5	3.1	2.4	3.0	6.9	7.2	7.8
HH 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

Note: KIHASA stands for the Korea Institute for Health and Social Affairs, NSO - National Statistics Office, KDI - Korea Development Institute.

Source: Adapted from Kim, Migon (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 the one person households are excluded, Gini indices based on this data set underestimate income inequality. The Table 7 shows the changes in Gini coefficients of both earnings and total income before and after the crisis.

Table 6. Changes in the Incidence of Poverty before and after the Crisis

	1996	1997	1998
Ultra Poor(in million)	1.2	1.1	3.0
% growth (year by year)	-27.7	-11.1	178.7
Marginal Poor	1.9	1.7	3.3
% growth	-20.6	-8.4	90.0
Poor	3.1	2.8	6.2
% growth	-23.5	-9.5	123.8
Near Poor	2.9	2.7	4.1
% growth	-13.4	-6.5	50.6

Source: adapted from Tamar Manuelyan Atinc (1999)

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 of the poverty line, respectively.

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% households)		20.9	5.6	3.7
2nd quintile(poorest 20 % households)		- 8.2	- 10.3	-8.4

Source: OECD(2000:123).

C. Coming of the Tripartite Commission

Soaring employment and absolute poverty was a shocking experience for Korea which was utterly unprepared. Economic restructuring was taken as an order of the day. The ongoing austerity programs induced by the international organizations' approach, was 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 lay off provisions and determinate term employment in a renewed labor legislation. But, it was accepted as equally important to maintain social cohesion and public consensus for successful restructuring of the economy, as the crisis brings severe pain to different groups of people to varying degrees. And it was an urgent task of the government to protect the affected population with a reasonable degree of social safety protection.

Generally, the reforms for structural adjustments as were required by the IMF and other IFIs were accepted by the people as the *sine quo non* of the national survival in the age of global capitalism. It is indeed a peculiar feature of labor market policies of Korea that they have been supported widely, by local governments, NGOs and indeed society at large. It was in this atmosphere of national consensus for cooperation to save the country that the Tripartite Commission came about as the first of its kind in Asia. The establishment of the Tripartite Commission composed of representatives of labor, business, government and the public interest was one of the first and significant initiatives taken by the government after the onset of the crisis and the rescue arrangement with the IMF.

Launched in January 1998 by the 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.² This is not the place for detailed discussions of industrial relations and labor law reforms in Korea after the crisis. But, it is evident that the creation of the Commission itself gave a momentum for long standing issues of labor law reforms in line with internationally-accepted standards. And the Commission has been instrumental in achieving agreement between the social partners and the government on the response to the crisis.

The Commission rapidly agreed on a “Social Compromise to Overcome the Economic Crisis” on February 6, 1998. And, thereby, a total of 90 agreements on structural adjustments and burden sharing, whose major items were subsequently adopted the National Assembly. The key contents of this Agreement of February 6,1998 show the comprehensiveness of the labor market reforms the Korean society headed for and set the basic frame of labor market policy reforms in Korea after the crisis. They include the followings:³

1. Management transparency and corporate restructuring
 - Improvement of the corporate financial structure
 - A more responsible and more transparent corporate governance
 - Promotion of business competitiveness
2. Price stability
3. 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
 - Consultation and re-hiring requirements in case of redundancy dismissals
4. Extension and consolidation of the social security system
 - Integration of social partners in social security steering committees

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

3. This is the summary of Agreement by the OECD(2000;49)

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- Wage guarantee in bankruptcy cases
5. Promotion of labor/management co-operation and respect for the autonomy of collective bargaining
 - Efforts to establish a more rational wage system, including profit sharing
 6. 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
 7. Enhancing labor market flexibility
 - Possibility for employers to dismiss workers in cases of managerial need
 - Permission for the establishment of temporary work agencies
 8. Improvement of exports
 9. Other issues, including
 - The release of imprisoned trade union members
 - Regulatory reform
 - Corruption and money laundering

With this Agreement as the basic frame of labor market reform, the major conglomerates were urged to improve the effectiveness and accountability of 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 *chaebols*. 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 agencies for so-called “dispatched workers”.⁴ In return for this enlarged right of the firms to lay off workers, i.e., the labor market flexibility, much of labor rights were agreed to be

4. Urgent managerial needs include, among other situations, deteriorating business conditions that may force the firm into bankruptcy, reorganization to increase labor productivity, and/or new technology that justifies a reduction of the workforce. Business transfers, mergers and acquisitions have also been recognized by court decisions to be managerial reason. By the Manpower Leasing Act of February 1998, the private temporary worker agencies became legalized, so that the firms can employ dispatched workers who are employed by the temporary worker agency with far more flexible contracts.

enhanced and employment security and stability measures to be extended, 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 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 put forth to promote employment stability and to protect the affected groups of population in order to maintain social sustainability of structural reforms.

III. Unemployment Measures: Labor Market Programs and Policies

The Korean government responded to the sharp increase in unemployment by putting forth a comprehensive unemployment benefit package in March 1998, which was agreed upon in the Tripartite Commission above mentioned. The package included expansion of the unemployment insurance system (EIS), subsidized loan programs to the unemployed and venture businesses, active labor market policies, public work programs and others. In developing employment programs to cope with the 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. To facilitate co-ordination in policy-making and to create synergies between the various labor market programs, the Unemployment Measures Committee was established under the Prime Minister next month in April 1998.

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, those for employment security, those for employment training, and those 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).⁵

Since the coverage of the EIS 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 administrative difficulties of keeping track of temporary/part-time workers and employers in small work places with less than five workers.

Since the EIS is a social insurance scheme, it is financed by way of social contributions calculated as a proportion of the total wage. And three separate contributions are collected under separate accounts for three different functions.⁶ Thus, some of the new measures are financed from the EIS fund and others are not. In reviewing these programs, the fully-fledged evaluation of each measure is not available yet. But the following review of these 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 was in operation for the employees since 1988, but the payment of full pension was to start in 2008. The Health Insurance System was covering whole population, and functioned as an important safety net for the health need. The major income support program available for the unemployed was the Employment Insurance System which was still limited in coverage. The Severance Allowance System which is stipulated by the Labor Standard Law helps those leaving the firms, but it could not guarantee its payment by the employer at the time of firms' bankruptcy. Other

5. The EIS is structured around these three component functions, but the first Article of the Employment Insurance Act states the purpose of the EIS more comprehensively. It reads, "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."

6. The contribution rate to the employment security component is 0.3 percent (of the total wage) to be born by the employer alone; the same for the vocational training component ranges from 0.1 percent to 0.7 percent of the total wage, depending on the size of the firm, to be born by the employer; and for the unemployment benefit, 1 percent contribution rate has been set to be born equally by the employer and the employee.

than social insurance systems and the severance pay, the means tested social assistance system, namely, the Livelihood Protection Program(LPP) existed but its coverage was extremely limited.

In an effort to secure the income of the unemployed workers after the crisis, the EIS coverage was rapidly extended, Wage Guarantee Fund was established, 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 (NBLIS) System with great improvement as a social assistance system.

B. Unemployment Benefit under EIS

At the time of its creation, the EIS covered mainly regular workers in workplaces with over 30 workers.⁷ 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, it covers workers of all workplaces irrespective of their size. Despite these extensions of coverage, however, only a relatively small proportion of the working population is insured.

As the Table 8 shows, out of over 200 million employed individuals, 12.8 million were paid workers in 2000. The EIS does not apply to the self-employed nor unpaid family workers. Only two-thirds of total paid workers are eligible under EIS. And those are not eligible under the EIS who are:

- Part-timers working less than 18 hours a week or 80 hours a month
- Daily workers who are employed less than one month
- Government officials and employees subject to the Private School Teachers Pension Act
- Workers over aged 65 and new employees over age 60, though they are paid. So, only 71 percent of those eligible are actually insured.

7. For the employment security component and vocational training component of the EIS, firms with over 70 workers were covered.

Table 8. Coverage of the Employment Insurance System (EIS) (Unit: thousands, %)

	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 % of eligible workers	(98.2)	(83.0)	(70.4)	(70.9)

Source: OECD (2000:79)

The EIS provides unemployment benefit as a job seeking allowance to the eligible job losers (thus new entrants are not eligible) and to encourage the early re-employment of the job-seeking allowance recipients, the employment promotion allowance is provided. The eligibility requirements for the job seeking allowance include: First, the claimant must be insured in the EIS for at least 180 days over the 18 months preceding the date of unemployment. Second, the claimants should actively looking for a job. It means that the claimant should register at an employment security center immediately upon separation. And third, the loss of employment should not be motivated by 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, that is 12.5 percent of total unemployed. For 1999 as a whole, it is estimated that 13.5 percent of the unemployed received benefits (Table13). The benefit recipients/unemployment ratio varies significantly with age, level of education and firm size. In general the proportion of older and more educated unemployed workers who receive benefits tends to be much higher than is the case of younger and less educated ones.

The daily job-seeking allowance amounts to 50 percent of the so-called “basic daily wage” at the time of separation. It is not subject to taxes or social contributions. And it is subject to a ceiling and cannot fall below a minimum level. The maximum duration of payment of unemployment benefits ranges between 3 and 8 months, depending on the age at the time of job loss of the recipient and the period of contribution to the EIS. Overall, in 1999, it is estimated that the average recipient has received benefits for about 98 days (OECD,2000:85). By international comparison, the level of unemployment benefits is relatively low.

It seems that more than half of the unemployed workers do not receive benefits simply because they were not insured in the EIS prior to becoming unemployed. Out of the total number of workers

that are insured in the EIS and lose their job for involuntary reasons, only about half qualify for unemployment benefits. In addition to this low coverage, benefits are rather modest for the limited number of unemployed workers who receive them.

C. Wage Claim Guarantee Fund and Severance Pay

Up until the EIS was introduced, the mandatory lump-sum severance pay scheme alone played a function of unemployment compensation since the 1960s. Under Korea's labor law, employers are required to pay every worker who has been employed for one year or more a minimum severance pay of 30 days of worker's average pay for every working year. Employers often promise to pay more than the mandatory minimum. This scheme has functioned as an unemployment benefit for those who separate the firm at the working age, and as an retirement benefit for those who separate the firm at the retiring 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 sheet. 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 in the event 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 would be managed by the Minister of Labor and financed by general revenues and a 0.2 percent tax on the wage bill.

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

D. Temporary Livelihood Protection and Livelihood Protection Program

The Livelihood Protection Program (LPP) which purports to guarantee a minimum standard of living for the needy is the major social assistance scheme, supplementing the social insurance benefits. While the coverage of job seeking allowance under EIS is quite limited, the eligibility criteria for the LPP is still more restrictive. Thus, for those unemployed from small bankrupt firms, not covered by the EIS nor eligible for the LPP, the Temporary Livelihood Protection (TLP) 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 the Table 9, these allocations have almost doubled since 1997. Even so, welfare related expenditures, at about 2.8 percent of the total government budget, remains small.

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 % of the general government budget	4.2	4.1	5.2	4.9
Welfare-related spending as % of the MHW budget	49.1	52.0	60.3	57.2
Of which Social assistance benefits	15.3	18.5	27.3	23.8
Social welfare services	17.1	16.0	13.5	15.7
Medical aid	16.8	17.5	19.5	17.7
General government budget as % of GDP	15.9	18.9	18.5	17.9

Source: OECD (2000,128) MHW stands for the Ministry of Health and Welfare.

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

In addition, the government provided various 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 the LLP 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 LLP program. The result was the National Basic Livelihood Security System, implemented in October 2000, which integrated LLP and LTP though still retaining the extended family income criteria.

E. Loans to the Unemployed

Public loans through the Life Stabilization Fund were provided to the unemployed 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 by the IBRD fund(300 billion won) in 1998. In the early stage, overly restrictive requirements adopted by banks who feared default hampered the effectiveness of this loan program. But 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 works and 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.

F. Employment Security Programs

The second category of unemployment measures includes those programs for maintaining and promoting employment. To tackle soaring unemployment in early 1998, the government introduced and strengthened various job keeping measures to support corporate efforts to avoid layoffs or promote employment of vulnerable groups under the EIS. Their aim is two-fold: 1) to subsidize employment at firms that would otherwise lay off workers. A situation that may require dismissals of workers must be recognized for the subsidies to apply; and 2) to promote hiring of certain disadvantaged categories of workers, such as laid-off workers, women and old workers, and also to encourage workers who take over their enterprise. The former, the employment maintenance programs, whereas the latter, employment promotion programs.

G. 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 2 days per month are paid the shutdown allowance corresponding to one-fifth to one-half of the total payroll.
- Reduction in Working hours: employers who curtail working hours rather than reduce their workforce by more than 10 percent of usual hours over a month or by 8 hours in a week are supported by the government. The subsidy amounts to 1/10 at wages before hours reduction (1/15 in large firms) for 8 months.

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- Dispatching of workers: the government supports employers who dispatches workers to an associate firm or subsidiary company for at least a month. The subsidy amounts to 2/3 of wages (1/2 in large firms) for 6 months.
 - Paid or unpaid leave: for at least a month leave to avoid lay-off, the government supports employers 2/3(1/2 in large firms) of wages for 6 months.
 - Re-organization 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 2/3(1/2 in large firms) of the payroll paid up to 1 year.
 - Training to sustain employment: The government offers the subsidy for vocational training to employers who keep 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.

H. Employment Promotion Programs

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

- Hiring of laid-off workers: hiring at least 5 displaced workers or more than 5 percent of the firm workforce or a worker displaced for less than a month, to be subsidized by the government with 1/2 of wages (1/3 in large firms) for 8 months; 2/3 of wages (1/2 in the large firms) of the workers laid off over a year earlier(6 months earlier 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, to be subsidized with 1/4 of wages (1/5 in large firms) for 6 months. Or hiring an older worker aged 45 to 55 who retired from the same company not longer than two years earlier, to be subsidized with 600,000-800,000 won (400,000-600,000 in large firms).
- Employment of women: If the employer provides childcare leave of 30 days to 11 months additional to maternity leave, the amount of support by the government is 140,000 won per month (110,000 in large firms) in 1999, 150,000won(120,000 in large firms) in 2000; If the employer hires a women that left the previous job, no longer than 5 years earlier, to have or take care of children, he will be supported with 800-1,000,000won (600-800,000won in large firm) in 1999, 1,200,000-2,000,000won in 2000.

- Support for child-care facilities: If the employer build in-house child care facilities, loan is provided up to a maximum of 300 million won at 3-3.5% rate payable in 5 years. If the employer recruit nursing teachers, 550-600,000won is subsidized per teacher.
- Take-over by employees: When at least 60 percent of the company's workforce take over at least a 50 percent share of the company, subsidy of 600,000 –800,000 won of subsidy will be paid per worker.

Table 10. **Employment Security Programs Expenditure & Number of Participants**

		Number of Participants		Expenditure(mil'n won)	
		1998 1st half	1998 2nd half	1998 1st half	1998 2nd half
Total (thousand persons) (%)		174,361 (100.0)	606,218 (100.0)	19,942 (100.0)	76,539 (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	7.6
	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
	Take over by employees

Source: Adapted from OECD (2000:99)

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, that is about 6.5 percent of total dependent employment. Particularly the program addressing the temporary shutdown of firms was most frequently benefited, spending 70% of total expenditure. However, other programs have not been much used. Working hour reductions or reorganization of business, for instance, were very little used. These employment security programs in 1999 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 a half percent of small firms received subsidies, compared with one third in the case of large firms in 1999(OECD,2000:96).

I. 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 have been much underestimated, mainly because of long sustained low unemployment rate in the past. After the crisis, however, the Korean 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 developed such as reemployment training for the unemployed, vocational training for the young and newly unemployed, and vocational training for employees were created, and the amount of the training allowance was increased in early 1998 to 70 percent of the minimum wages from the previous 50 percent. The training expenses and wages are financed by the EIS fund.

J. 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 promoted 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 over 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 on paid leave for education and training
- Subsidies to firms for education and training courses that take place outside the firm premises
- Subsidies to employees for education and training, training for older workers and tuition loans.

The KLI (1999) data shows that in-plant training benefited 96.5 percent of the workers who received training in 1999, opted by 71 percent of the firms that provided training programs, spent 62

percent of total expenditure for training for the employed. The programs are financed by way of employers' contribution to the EIS.

The problem with these training programs for the employed includes 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. And during the same period, only 13 percent of all insured workers received such training. And 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 case of large firms.

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

K. Training programs for the unemployed

The main training programs available to the unemployed are:

- Re-employment training of the unemployed, a program targeted to workers dismissed from firms covered by the EIS, independently of whether these workers are entitled to unemployment benefits or not
- 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 (but most young unemployed have been granted internships under public work programs)
- Training for business start-ups, targeted at elderly unemployed, disabled individuals and school drop-outs
- Manpower development training, which comprises initial training for craftsmen and training for "3-D" jobs

Of these, only the first program is set up under the EIS and therefore funded by the Employment Insurance Fund. The others are financed out of the general government budget.

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 drop-out rates, while reemployment probabilities of those who complete the courses are low. As shown in the 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 re-employed trainees, to suit courses to the needs of enterprises, and to develop competition among training centers, including colleges, universities, and traditional educational institutions.

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

		1998			1999		
		Total	Completion	Reemployment	Total	Completion	Reemployment
Total (%)		362,941 (100.0)	193,837 (53.4)	43,470 (22.4)	358,351 (100.0)	131,638 (36.7)	48,864 (37.1)
EIS Funded	Reemployment training	170,096 (46.9)	116,429 (68.4)	16,193 (22.5)	226,356 (63.2)	93,268 (41.2)	36,223 (38.8)
Non EIS Funded	Employment promotion	101,709 (28.0)	37,465 (36.8)	7,218 (19.3)	69,466 (19.4)	21,534 (31.0)	7,299 (33.9)
	Craftsmen	14,515 (4.0)	12,942 (89.2)	6,326 (48.9)	16,817 (4.7)	4,576 (27.2)	1,672 (36.5)
	3-D jobs	11,000 (3.0)	8,724 (79.3)	2,610 (29.9)	9,122 (2.5)	939 (10.3)	936 (100.0)
	Business start-ups	13,598 (3.7)	12,515 (92.0)	561 (4.5)	7,725 (2.2)	4,933 (63.9)	517 (10.5)
	New labor market entrants	43,012 (11.9)	5,762 (13.4)	562 (9.8)	10,022 (2.8)	3,872 (38.6)	1,608 (41.5)
	Other programs	9,011 (2.5)	– –	– –	18,843 (5.3)	2,519 (13.4)	607 (24.1)

Source : OECD (2000:93)

Notes: Reemployment training accounts for 80 percent of total expenditures under the training fund of the EIS. Training programs of the employed make for the remaining 20 percent. 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.

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

L. Employment Creation Programs

The last, but not the least, category of labor market programs that the Korean government deployed after the crisis is the employment creation programs. When the job availability is limited in the labor market, results of either the job training programs or the employment promotion efforts are hard to be expected. 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 the small and medium size enterprises and thereby to curb the rising unemployment.

M. 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 do not have other source of income and are not entitled to unemployment insurance benefits.

Temporary public works jobs provided by the local governments include street cleaning, traffic control, parking guides, forest conservation, picking up cabbage, home caring for the elderly, job counseling, etc. Public works suitable for the winter season as well as women and white collar workers, such as deforestation, 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 the average non farm earning 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 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 Temporary Livelihood Protection programs, have contributed to providing temporary relief to the poor unemployed, it is criticized 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 the 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 are 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.

Targeted at unemployed new graduates is the graduate internships program. 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.

N. Subsidies to SMEs and Venture Enterprises for Job Creation

Employment policies should pay attention to where marginal employment can happen. Small and medium size enterprise 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 starting-up firms. Therefore, tax reductions for small firms or exemption of starting-up fees can be very effective for boosting employment or at least for mitigating unemployment. It 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, a total of 0.1 trillion won was spent to support about 30,000 SMEs with loans and grants by this Fund. Moreover, 45.7 billion won was allocated to support 983 venture firms by the Information Intensive Enterprise Promotion Fund for Software. For software venture enterprises, the Information Intensive Enterprises Promotion Fund (100 billion won) was set up. And the Fund for the Creation of Small Enterprises was started in 1999 to provide further support to small and medium size enterprises with a view to foster job creation; it provided 358.6 billion won loans to 2,873 firms.

A public fund of 100 billion won was set up to support the Korea Venture and Investment Fund Co-operative, with 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 size firms importing raw materials, a total of USD 3 billion (USD 1 billion from the IBRD and an additional USD2 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 the rising unemployment among the 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, 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. And the 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 possibility of employment, supporting the new economy and information intensive venture enterprises is more positive than the passive income protection policies in general.

O. Summary: Unemployment Measures Budget and Program Coverage

The unemployment measures of the Korean government put forth after the crisis have been comprehensive and extensive. Needless to say, they have incurred huge increase in government expenditures. As shown by the Table 12, 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 under-estimate 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.

Anyway, 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 OECD countries (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, budget for all categories of programs except the LP and the job creation programs appears to have been reduced by quite a margin.

Although the budget increase for the unemployment measures appear to be formidable, the coverage of the affected population by these programs was not so extensive. As shown by the Table 13, out of 1.5 million individuals unemployed in 1999, 60 percent participated in one of the various labor market programs. Remaining 40 percent were outside of 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 benefit, training or employment security schemes. Almost one quarter were engaged in public works and 9 percent participated in the other non-institutionalized schemes, i.e. the unemployment loans and internship programs. In addition, training programs for the employed have not succeeded in increasing the provision of training on the part of SMEs.

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

Measures	1998	1999	2000
Income Support for the Unemployed	2,023(20)	5,448(35)	4,025(68)
Unemployment Benefit	850 (8)	1,501(10)	1,011(17)
Loans to unemployed	750 (7)	1,138(7)	509(9)
Livelihood Protection(LP)*	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(EIS)	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 operation	147(1)	104(1)	80(1)
Temporary Employment Creation(mainly public works)	1,044(10)	2,522(16)	1,100(10)
Employment Creation	5,980(59)	6,510(42)	–
Investment in Social Overhead Capital(SOC)	3,295(33)	1,155(7)	–
Start-up 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** as a % of GDP	2.2	3.2	1.1
Total expenditure on labor market measures*** as a % of GDP	1.5	2.7	0.8
Share of expenditures on active measures in total expenditure on labor market programs(%)	70	70	45

Sources: Ministry of Labor, Year 2000 Government's Comprehensive Unemployment

Measures: adopted from OECD(2000;76)

Notes: – data not available

* Not included in the budget for unemployment measures in 1998.

** This is estimated as the total budget for unemployment measure, excluding SOC investments and spending on LP.

*** The expenditure 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 SOC investment)

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

Programs	Participation composition
Unemployment benefit	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 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 conclusion 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, monitoring and evaluation system has to be integrated. The training programs need much to be done to reduce the drop out rates and enhance the reemployment rates; training of the trainers is in need. Much of the public works programs have functioned more as a passive income support for those able to work.

P. 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 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 a pause in the pains taking labor market and social policy reform process is in need.

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 distinguish the recent Korean economy is the impressive speed with which unemployment has fallen and new jobs have been created. However, the strong conglomerates' restructuring and the financial sector down sizing in the pipeline are still to be completed which will bring about large scale job losses, then, the labor market might loosen again, even if the demand of 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 although declining. Long term unemployment is also turning into a structural problem. The Korea Labor Institute(KLI) data(1999) indicate that those out of work for over 6 months accounted for

almost 20 percent of the total in November 1999, considerably higher 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 at about 4 to 5 percent. Jobs tend to be more precarious and regular jobs become scarcer. Even the segmentation of the labor market has been fostered and aggravated. Moreover, income disparity is widening and poverty rate increases, 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 the minimum living is guaranteed for all, in the future. 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 they are in need of systematic monitoring and evaluations. Particularly 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. Minimizing the dead-weight, substitution and displacement effects often associated with such policies, as well as the issues of work incentives are to be scrutinized.

For the successful transition into the strong recovery in the era of globalization, economic restructuring, including the reforms in areas of labor market and unemployment measures is essential. For this to be socially sustainable, the negotiation and consensus among all social partners, i.e., social dialogue between 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 the 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 Korea are meant to strengthen the national competitiveness through so-called “flexicurity.”

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

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