

Social Protection for the Unemployed in Korea

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Contents

- I. Introduction / 3
- II. Impact of the Economic Crisis / 4
- III. Social Protection for the Unemployed / 9

I. Introduction

Until the financial crisis hit the country in 1997, Korea was on the track of uninterrupted economic growth for three decades. Per capita income, for example, had increased from \$105 in 1965 to \$11,380 in 1996¹. However, the financial crisis, which started at the end of 1997, brought the growth process to a sudden halt. As a result, the economy recorded a minus 6.7 percent growth, and the unemployment rate climbed from 2.0 percent to 6.8 percent in 1998. The number of the unemployed increased to 1.5 million, and more than one million people fell below the poverty line.

In response to the economic crisis, the Korean government, NGOs, and society at large have closely cooperated to overcome the unemployment problem. The government strengthened the existing labor market programs and initiated new ones, while NGOs and local governments adopted a wide range of active approaches towards the unemployment problem.

After two years' struggle against the difficulty, the Korean economy began to recover from the deep recession. The unemployment rate declined to the region of 4 percent, and the rate of economic growth rose to exceed 9 percent in 2000. Against this backdrop, Korea may seem to have pulled through the economic crisis. However, the economic crisis left a deep footprint in Korean society, which poses a new challenge for this country.

¹ Economic Planning Board, Social Indicators in Korea, 1980.

Korea National Statistical Office, Major Statistics of Korean Economy, 2000.

II. Impact of the Economic Crisis

1. Macro Impact on People's Life

The economic shock of 1997 deeply hit people's life in every aspect. First of all, the depressed economy pushed up the unemployment rate and the poverty rate. Before the economic shock hit Korea in 1997, the national unemployment rate was usually kept under 3%. Soon after the economic shock, however, it increased rapidly to 8.4% in the 1st quarter of 1999. The poverty rate for urban worker households followed a similar route, reaching its culmination at 8.8% in the 3rd quarter of 1998.

Figure 1 shows that the poverty rate and the unemployment rate are closely related with one another. The curves in the eyes of many may mean two things: that the urban worker households have been directly affected by the economic crisis and that Korea's economy has almost fully recovered from the economic recession in terms of poverty rate and unemployment rate by the 4th quarter of 2000. However, the problem of inequality remains unabated.

Although both the poverty rate and the unemployment rate are declining back to pre-crisis lows, the income distribution indicators are still far beyond their previous levels. Traditionally Korea was known for its relatively good income distribution. As shown in Figure 2, the Gini index was 0.292 in the 4th quarter of 1997. However the economic shock worsened the income distribution, raising the Gini index to 0.337 in the 1st quarter of 1999. Since then, the Gini index has been fluctuating above 0.31, while the poverty and the unemployment

rate are continuously falling down. This means that although the problem of absolute poverty is much attenuated, the problem of relative poverty will continue for a while.

*Figure 1. Poverty Rate and Unemployment Rate
(1st qter 1996 ~ 4th qter 2000)*

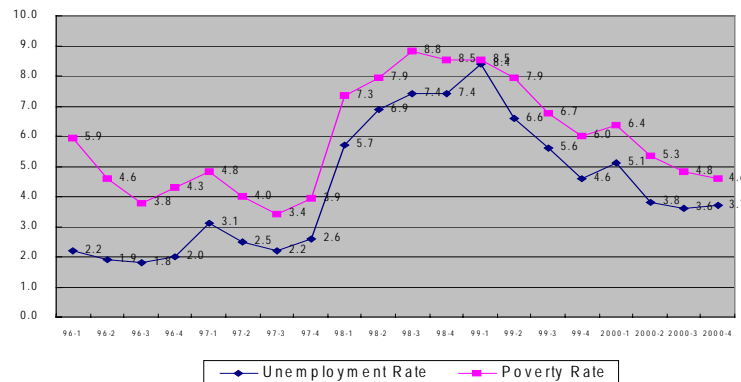
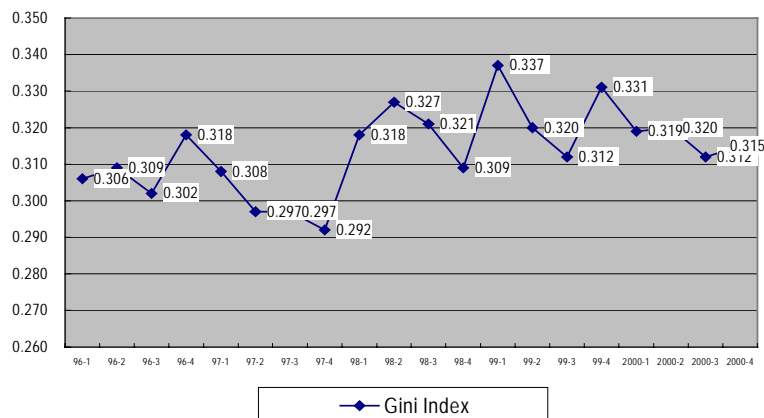


Figure 2 Gini index of urban worker households



Source: Korea National Statistical Office, The Family Income and Expenditure Survey for Each Quarter

2. Vertical Impact on Income and Consumption

Although the 1997 economic crisis is widely known to have affected every people in Korea, Table 1 shows that the higher income workers have relatively benefited to a certain extent from the economic crisis. The income share of the top 5 percent of urban worker households increased from 13.2% in 1997 to 16.0% in 1999, while that of next 5 percent increased only 0.1% point during the same period. As may have been expected, the income share of the bottom 10 percent decreased from 3.3% in 1997 to 2.7% in 1999. The income distribution for the urban workers of other income levels remained largely unchanged during the period. This explains the increase in the Gini index of urban worker household income. What this suggest is that the top 5 percent of the urban worker households have earned more during the economic crisis than they did before, while the bottom group earned less.

However, the impact of the economic crisis was less severe on the distribution of consumption than on the distribution income. The consumption share of the top 5 percent increased from 17.9% in 1997 to 18.4% in 1999, while that of the bottom 5 percent decreased just 0.1% point over the same period. This means that the top 5 percent of the urban worker households earned more but spent more or less the same during the economic crisis.

Table 1. Distribution of Urban Worker Household Income

(unit: %)

Income Interval	Distribution of Urban Worker Household Income							
	1996		1997		1998		1999	
	%	Accumulated %	%	Accumulated %	%	Accumulated %	%	Accumulated %
≥5%	1.2	1.2	1.2	1.2	0.9	0.9	1.0	1.0
5~10%	1.9	3.2	2.1	3.3	1.8	2.7	1.7	2.7
10~15%	2.4	5.6	2.3	5.6	2.2	4.8	2.1	4.8
15~20%	2.7	8.3	2.7	8.3	2.5	7.4	2.5	7.3
20~25%	2.8	11.1	3.0	11.3	2.8	10.1	2.8	10.1
25~30%	3.2	14.3	3.3	14.5	3.1	13.2	3.0	13.1
30~35%	3.4	17.7	3.5	18.1	3.4	16.6	3.3	16.4
35~40%	3.7	21.4	3.8	21.8	3.6	20.2	3.5	20.0
40~45%	3.9	25.4	4.2	26.0	3.9	24.0	3.9	23.8
45~50%	4.2	29.6	4.1	30.1	4.1	28.1	4.0	27.8
50~55%	4.5	34.1	4.6	34.7	4.5	32.6	4.4	32.2
55~60%	4.8	38.9	4.9	39.6	4.7	37.3	4.7	36.9
60~65%	5.1	44.1	5.2	44.8	5.1	42.4	5.1	41.9
65~70%	5.5	49.6	5.6	50.3	5.5	47.8	5.4	47.4
70~75%	6.0	55.5	6.0	56.3	5.9	53.7	5.9	53.3
75~80%	6.5	62.0	6.5	62.8	6.4	60.1	6.4	59.7
80~85%	7.1	69.1	7.1	69.8	7.1	67.2	7.1	66.8
85~90%	8.0	77.1	7.9	77.7	7.9	75.1	8.0	74.7
90~95%	9.3	86.4	9.1	86.8	9.2	84.3	9.2	84.0
95%<	13.6	100.0	13.2	100.0	15.7	100.0	16.0	100.0
Total	100.0		100.0		100.0		100.0	

Source: Bark, Sun-II, et al. A Study on Causes of the Increasing Income Gap and Policy Measures for the Low Income Classes, 2000.

Table 2. Distribution of Urban Household Consumption

(unit: %)

Interval of Consumption Expenditure	Distribution of Urban Households' Consumption Expenditure							
	1996		1997		1998		1999	
	%	Accumulated %	%	Accumulated %	%	Accumulated %	%	Accumulated %
#5%	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2
5~10%	1.8	3.1	1.9	3.1	1.8	3.0	1.8	3.0
10~15%	2.2	5.3	2.2	5.4	2.2	5.1	2.1	5.1
15~20%	2.5	7.7	2.5	7.9	2.4	7.6	2.4	7.5
20~25%	2.7	10.4	2.8	10.7	2.7	10.3	2.7	10.2
25~30%	3.0	13.4	3.0	13.7	3.0	13.3	2.9	13.2
30~35%	3.2	16.6	3.3	16.9	3.2	16.5	3.2	16.3
35~40%	3.4	20.0	3.5	20.4	3.5	20.0	3.4	19.8
40~45%	3.7	23.7	3.7	24.2	3.7	23.7	3.7	23.5
45~50%	3.9	27.6	4.0	28.1	4.0	27.7	3.9	27.4
50~55%	4.2	31.8	4.2	32.4	4.3	32.0	4.2	31.6
55~60%	4.5	36.3	4.5	36.9	4.6	36.6	4.5	36.1
60~65%	4.8	41.1	4.8	41.7	4.9	41.5	4.8	40.9
65~70%	5.1	46.2	5.1	46.8	5.3	46.7	5.2	46.1
70~75%	5.6	51.7	5.6	52.4	5.7	52.4	5.6	51.7
75~80%	6.1	57.8	6.0	58.4	6.2	58.6	6.1	57.8
80~85%	6.7	64.5	6.7	65.1	6.8	65.4	6.7	64.6
85~90%	7.7	72.2	7.6	72.7	7.7	73.2	7.7	72.2
90~95%	9.4	81.6	9.3	82.1	9.5	82.6	9.4	81.6
95%<	18.4	100.0	17.9	100.0	17.4	100.0	18.4	100.0
Total	100.0		100.0		100.0		100.0	

Source: Bark, Sun-II, et al. A Study on Causes of the Increasing Income Gap and Policy Measures for the Low Income Classes, 2000.

III. Social Protection for the Unemployed

1. The Employment Insurance Program (EIP)

The Employment Insurance Program (EIP) was established in July 1995 as a comprehensive system intended to reduce the risk of unemployment, the risk of losing income as a result of unemployment, and the risk of skill obsolescence. For these purposes, EIP incorporates not only its traditional function of providing unemployment benefits to the unemployed but also the functions of promoting the structural adjustment of industries, preventing unemployment, promoting job security activities to increase employment, and promoting vocational ability development activities for workers.

At the time of its inception, EIP was confined to cover ‘regular workers in firms with 30 or more employees’. Since then, the coverage of EIP has been expanded continuously to include workers in smaller firms and non-regular workers. This process was accelerated by the economic crisis. In January 1998, the program was expanded to cover firms with 10 or more workers and, in March 1998, firms with five or more employees. Since October 1998, EIP came to cover workers in all firms across the country with the exceptions of:

workers over age 65 and new employees over age 60
part-timers working less than 18 hours a week or 80 hours a month

government officials
 employees subject to the Private School Teachers' Pension Act
 special postal workers

Despite these expansions, however, only a relatively small proportion of the working population is insured under EIP.

*Table 3. Coverage of the Employment Insurance Program (EIP)
 Number of workers in thousands*

	July 1995	January 1998	July 1999	February 2000
Total workers		19,753	18,967	20,149
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
<i>As a proportion of eligible workers (%)</i>	(98.2)	(83.0)	(70.4)	(70.9)

Sources: OECD, Pushing Ahead with Reform in Korea, 2000.

Korea National Statistical Office, Annual Report on the Economically Active Population Survey, 2001.

As of January 1998, when the crisis just began, there were 12.5 million paid workers among a total of 19.7 million working population, and among these paid workers were only 5.1 million workers eligible for EIP, of whom only 83 percent were actually insured (Table 3). This can be attributable to the fact that the program is applied neither to the self-employed nor to unpaid family workers who occupy a large share in Korea's employment composition. For these reasons, only a small fraction of the unemployed was entitled to EIP benefits during the time of the economic crisis.

Table 4. Characteristics of unemployment benefit recipients in the first half of 1999

	Unemployed workers	Number of unemployed workers who acquired the right to receive unemployment benefits	
	Thousands	Thousands	Percentage of unemployed workers
Total	1,592	187	11.7
<i>Gender</i>			
Men	1,071	126	11.8
Women	521	61	11.7
<i>Age</i>			
Less than 30	617	42	6.8
30 to 39	403	57	14.1
40 to 49	326	40	12.3
More than 50	246	47	19.1
<i>Educational attainment</i>			
Primary school and under	179	12	6.7
Middle school education	262	21	8.0
High school education	844	94	11.1
College and university	307	60	19.5
<i>Firm size</i>			
Less than 10 workers	971	27	2.8
10 to 299 workers	530	102	19.2
300 workers and over	91	58	63.7

Sources: National Statistical Office, *Monthly Report on the Economically Active Population Survey*, February 2000;
and KLI (1999b).

As table 4 shows, as little as 11.7 percent of the unemployed could get benefits from the EIP in 1999. However, some unemployed people were more likely to be benefited from the program than were others. The percentage of beneficiaries varied significantly by age, level of education and firm size. The proportion of older and more educated unemployed workers who receive benefits tended to be much higher than their

younger and less educated counterparts. In contrast, there was not much difference in the percentage of beneficiaries between men and women.

2. Active Labor Market Policies

Active labor market policies (ALMPs) are often regarded as a useful alternative to passive policies to address a high and persistent unemployment. These include a broad range of measures including training programs, employment subsidies targeted to certain groups, and direct job creation. In Korea, ALMPs were negligible before the crisis, when the unemployment level was kept low. After the economic crisis, however, ALMPs are being regarded as core social policies.

Training programs for the unemployed were considerably expanded during the crisis. The main training programs available to the unemployed are: re-employment training program for unemployed people who are covered under EIP; employment promotion program for unemployed people who are not insured under EIP; training program for new labor market entrants.

A large number of unemployed workers have participated in these programs. In both 1998 and 1999, roughly one fifth of the unemployed attended a training course. However, most training programs for the unemployed appear to be insufficiently targeted at disadvantaged labor market groups. Moreover, they tend to suffer from relatively high drop-out rates. Also, re-employment chances are low in general, even for those who complete required courses.

Public works programs have been introduced in many countries, usually with the aim of providing unemployed workers with

professional experience, while reducing the risk of demoralization, which is often associated with long unemployment spells. In Korea, public works programs were set up as a measure of direct job creation in 1998. In principle, these programs are targeted at unemployed people who do not have an extra source of income and who are not entitled to unemployment insurance or training allowances. In addition, program participants should be selected on the basis of certain criteria that reflect age, household headship, number of dependents, house ownership, assets, household income, gender, physical handicap, and duration of unemployment. Public works appear to have covered a whole range of activities, from cabbage picking to elderly caregiving and job counseling.

As far as the number of participants is concerned, the effect of public works programs has been significant. The number of individuals participated in these programs was 440,000 in 1998 and further increased to 780,000 in 1999.

3. The National Basic Livelihood Security Program (NBLSP)

In order to secure the minimum standard of living, the Government has made a new social assistance policy and enacted the "National Basic Livelihood Security Act" in September, 1999. It has been enforced as of October, 2000 with one year of preparation. Living expenses are provided for these households regardless of their age and ability to work in order to secure the basic livelihood for the low-income class earning less than the minimum cost of living.

The selection criteria for the recipients are simply unified by adding converted income of assets to the actual income. In accordance

without criteria based on income, the unemployed whose household income is below the poverty line could be eligible for the NBLSP. The number of recipients for living expenses is fluctuating around 1.5 millions, which is almost 3% of total population (Table 5).

Table 5. Number of recipients of NBLSP

(Unit: thousand)

	1998	1999	2000		2001	2002
			1~9	10~12		
Household	460	419	422	688	711	703
Recipients	949	865	890	1,489	1,503	1,411
Coverage	2.0 %	1.8 %	1.9 %	3.1 %	3.2 %	3.0 %
Including Temporary recipients	1,285	1,483	1,520	-	-	-

As measures to provide self-support aid to those having the ability to work, a self-support aid plan for each household depending upon the recipient's ability to work, desire for self-support and living condition is provided. The direction and the kind of services necessary for self-support are firstly determined, and services such as providing job search information, and vocational training, participating in joint projects for self-support, and financing for self-reliance fund are provided. The social welfare services such as day care services and home-based services are systematically linked and provided. Systematic measures are undertaken to motivate those with working ability to work. Living expenses are provided with a condition that the recipients voluntarily participate in the joint project for self-support, job search activities and job training. This could be called as a Koran

version of workfare.

4. Government Budget for Unemployment Measures

As shown in Table 6, the government expenditures on “unemployment measures” as a percentage of GDP has increased from a negligible level in 1997 to 2.2 percent in 1998 and 3.2 percent in 1999.

The total spending on the unemployed, however, is much bigger than these figures when retirement allowances are taken into account. The Labor Standards Act requires the employer to establish a retirement allowance fund whereby an average wage of more than 30 days shall be paid for each year of consecutive years of employment as a retirement allowance to a retired worker. As a result, most unemployed people were eligible to get their retirement allowance when they were dismissed during the economic crisis. In fact the amount of retirement allowance was much more than the amount of benefits paid by EIP.

Even before the economic crisis, the retirement allowance was major income source for the retired workers, which explains in part why EIP had not been developed until 1995. As shown in appendix 1, the retirement allowance spending as a percentage of GDP was just above 1 percent before the crisis. In 1998, however, due to the mass unemployment occurred in the wake of the crisis, the amount spent on retirement allowance increased rapidly to occupy 5.2% of GDP. To be sure, the retirement allowance has helped many retired or unemployed workers overcome their economic difficulties. However, because the retirement allowance is more generous to higher rank workers, it

could worsen the income equality of the retired workers.

Table 6. Budget for unemployment measures ^{a)}

	(Billion Won)		
	1998	1999	2000
• Employment Security	122	483	366
• Temporary job creation (mainly public works)	1,044	2,522	1,100
• Vocational training and job placement	901	687	431
<i>Vocational training (mainly for the unemployed)</i>	754	583	351
<i>Expenditures for job placement operations, etc.</i>	147	104	80
• Income support for the unemployed	2,023	5,448	4,025
<i>Unemployment benefits</i>	850	1,501	1,011
<i>Loans to unemployed</i>	750	1,138	509
<i>Livelihood protection (LP)^{b)}</i>	1,379	1,488	1,709
<i>Temporary livelihood protection etc.</i>	216	826	605
<i>Other</i>	207	494	192
• Job creation	5,980	6,510	-
<i>Investments in Social Overhead Capital (SOC)</i>	3,295	1,155	-
<i>Start-up fund for venture enterprises</i>	400	1,041	-
<i>Subsidies for venture enterprises</i>	100	-	-
<i>Other</i>	2,185	4,315	-
Total budget for unemployment measures	10,071	15,650	5,922
<i>Memorandum items</i>			
Total budget for unemployment measures as a percentage of GDP	2.2	3.2	1.1
Total expenditure on labour market measures ^{c)} as a percentage of GDP	1.5	2.7	0.8
Share of expenditures on active measures in total expenditure on labour market programmes ^{d)} (%)	70	70	45

- : Data not available

a) Figures are presented as in official budget documents, except for memorandum items which come from secretariat estimates.

b) Not included in the budget for unemployment measures in 1998.

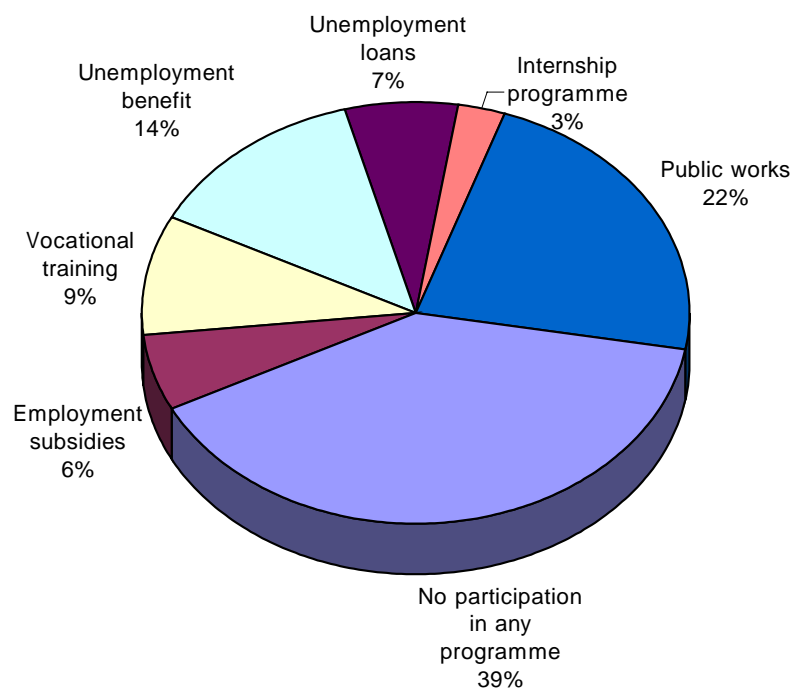
c) This is estimated as the total budget for unemployment measures, excluding SOC investments and spending on LP.

d) The expenditure on active measures is calculated as the sum of expenditures on employment security, temporary job creation, vocational training, job placement, and job creation (other than SOC investments).

Sources: OECD, *Pushing Ahead with Reform in Korea*, 2000.

IV. Limits of the Social Protection Programs for the Unemployed

Chart 1. Participation of the unemployed in different social protection programs (1999, %)



In spite of all the effort, some portion of the unemployed is still excluded from the social protection programs. As of June 1999, more than one third, 39 per cent of the unemployment were not participating in any social protection program. Only 13.5 per cent of total unemployment received the unemployment benefit by EIP which should be ground program for the unemployed, while 22.6 per cent of

the unemployed were participating in the public works which is a temporary labor market policy. This means that social protection for the unemployed is more likely provided by ad hoc basis in Korea. In addition, there is still need to promote social safety net for the unemployed, by which the more unemployed could be protected.