Pushing Ahead with Reform in Korea
LABOUR MARKET AND SOCIAL SAFETY-NET POLICIES

At the end of 1997, Korea was hit by a major financial and economic crisis, which resulted, among other things, in a huge rise in unemployment. The event caught the country’s labour and social institutions unprepared, so that many workers and their families were hit hard.

The economy has now turned the corner. This book shows that government labour and social policies, together with improved basic workers’ rights, have helped minimise the costs of the crisis while also contributing to overcome it. However, this book also highlights the need for further actions in these areas in order to pave the way for a healthy, socially-sustainable economic performance and argues the case that the momentum of reform should not be slowed.
Foreword

This report examines labour market and social safety-net programmes, as well as issues of industrial relations and labour law reform in Korea. It has been prepared within the OECD Secretariat by Willem Adema, Elena Stancanelli, Peter Tergeist and Raymond Torres (team leader), with the assistance of Jaehung Lee and Sylvie Jeannot. The analysis is based on information collected by the Secretariat team during a visit to Korea in October 1999 and on subsequent data submissions by the Korean government.

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Introduction

Until the 1997 financial crisis, Korea exhibited one of the most impressive economic records of modern capitalism. In 1953, the country emerged from the ashes of the Korean War as one of the poorest in the world. Several decades of rapid economic development followed, as amply documented in many studies, and, in 1996, Korea became member of the OECD.

With the advent of the financial crisis, the impressive economic development process came to a sudden halt. The crisis hit many workers and their families hard, in a country where the social safety-net was not as firmly established as in other OECD countries.

However, the economy has now turned the corner. GDP has grown vigorously over the past few quarters and the prospects are for a continuation of the solid recovery underway. The recovery owes much to supportive macroeconomic policies, including the substantial devaluation of the Won that occurred at the beginning of the crisis. However, the implementation of structural reforms, including in the area of labour and social policies, has also played an essential part in the recovery.

The fact that a solid recovery is now underway should not lead to any let-up in the reform process, and the purpose of this Review is to identify those areas where labour market and social safety-net policies could be further strengthened. The Review begins with a summary of the main findings and policy conclusions. It then provides an overview of the Korean labour market and an analysis of the main employment and social challenges that lie ahead (Chapter 1). The extent to which different policies can address these challenges is then reviewed in the following chapters, namely the complex issue of labour law and industrial relations reforms (Chapter 2), labour market programmes and the public employment service (Chapter 3), and social assistance policies (Chapter 4).
Summary and Policy Conclusions

Korea was a star economic performer before the 1997 crisis. Korea has experienced one of the most impressive economic records of modern capitalism. Following the Korean War, from which the country emerged as one of the poorest in the world, the economy registered four decades of almost uninterrupted rapid growth. Today, per capita income has reached about 65 per cent of the OECD average (close to the levels in Greece and Portugal), while Korea has earned an international reputation as a successful exporter of technologically-advanced goods, such as micro-chips and electronic equipment.

The economy has recovered from the crisis quickly, ... The financial crisis which started at the end of 1997 brought the growth process to a sudden, unexpected halt. The crisis forced the government to agree to a rescue package with the IMF. Unemployment rocketed from 2½ per cent to a peak of 8½ per cent in early 1999, and more than one million Koreans were thrown into poverty. The difficult economic and social situation forced the authorities to implement quickly a wide range of macroeconomic and structural reforms, including in the areas of labour market policies and social safety-nets. In response to these reforms, the economy has now turned the corner, permitting the unemployment rate to fall rapidly to about 5 per cent, and short-term prospects point to a continuation of the solid recovery.

... but the Review argues that much remains to be done. In this context, it may be tempting to assume that the crisis was just a blip in an otherwise high-growth path and that, as a consequence, a pause in the reform agenda might be called for. On the contrary, while it pays due tribute to what the Korean authorities have achieved in a very short period of time, this Review argues that much remains to be done to strengthen the social sustainability of the development process. It calls for further action to consolidate the industrial relations system, reform labour law, and to improve the...
coverage and effectiveness of labour market and social safety-net policies. The recovery should not lead to any let-up in these policy reforms.

The role of labour and social policy in the recovery

The Tripartite Commission has been instrumental in achieving agreement between the social partners and the government on the response to the crisis. Thus, the Tripartite Agreement of February 1998 urged the major industrial conglomerates (chaebols) to improve the effectiveness and accountability of corporate governance and 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 legalisation of agencies for so-called “dispatched workers”.

... substantial wage moderation, ... 

In addition, wage moderation has been substantial. In 1998, average nominal wages per employee fell by 2 1/2 per cent, equivalent to a cut by almost 10 per cent in real terms (which is unusually large by OECD standards), cushioning the effects of the crisis on unemployment. Such wage moderation was mainly attributable to the dramatic cut in bonuses and overtime payments, which account for a significant portion of Korean wages and are mainly determined by firms’ economic performance. In 1999, as a result of increased overtime and bonus payments, real wages rose robustly (by over 10 per cent), so recuperating their pre-crisis level. However, since in the meantime labour productivity has increased (by about 6 per cent, cumulatively, in 1998-99), real unit labour costs have been reduced, thereby improving business profitability and providing room for reducing corporate indebtedness. Together with the depreciation of the Won in 1998, these wage and productivity trends have enhanced the cost-competitiveness of the Korean economy, contributing to an export-led recovery.
… and the strengthening of labour market and social safety-net programmes.

Also, a wide range of labour market programmes was either strengthened or introduced since the start of the crisis, and this has helped provide a degree of social insurance for job losers and their families and maintain the employability of many individuals who otherwise might have lost contact with the labour market. Reflecting these efforts, government expenditures on labour market programmes increased from negligible levels in 1997 to $2\frac{1}{4}$ per cent of GDP in 1998 and $3\frac{3}{4}$ per cent in 1999. Finally, an effort has been made to provide modest social assistance support to those who have fallen out of the social safety-net, thereby alleviating social hardship and making the much-needed structural reforms socially sustainable.

Remaining challenges

However, the Korean economy still faces several major labour market and social policy challenges as it seeks to consolidate the recovery and the social sustainability of its development process. First, it is more necessary than ever to create a less confrontational and more consensual system of industrial relations if the Korean economy and society is to modernise and prosper. Unfortunately, past confrontational attitudes between the social partners have re-surfaced in a context of economic recovery. The result is that consensus on wage moderation and reforms of employment conditions and workforce practices is increasingly difficult to achieve.

Second, joblessness remains a problem. True, open unemployment is low by international comparison but, unlike the case of many other OECD countries, the majority of unemployed workers do not receive any unemployment benefits. In addition, the degree of labour market slack is significantly higher than suggested by the open unemployment rate, as indicated by the high number of discouraged workers (the total participation rate in 1999 was 1.7 percentage points lower than in 1997) and of participants in labour market programmes such as public works. Importantly, the youth (especially those with high-school education) are disproportionately affected by unemployment, suggesting that school-to-work transition is difficult in Korea.
Third, jobs tend to be much more precarious in Korea than is the case in most other OECD countries. Only 30 per cent of the employed have a “regular” (i.e. permanent) contract, which is the lowest figure in the OECD area, followed by Turkey. Another third have a temporary or daily job. As a result, job tenure in Korea is low by international comparison – on average, workers stay with the same employer about six years, compared with over 11 years in Japan and 7½ years in the United States. Importantly, the incidence of non-regular jobs in small businesses and among women is very high. As the recovery gets firmly established, the expectation is that employers will become more confident about the economic prospects and that, as a result, they will be less reluctant to convert non-regular jobs into regular ones. However, it should be stressed that the incidence of regular employment did not increase much in 1990-97, a period characterised by near-full employment. Job precariousness indeed seems to be a structural characteristic of the Korean economy, which is problematic not only from the social point of view, but also for reasons of economic efficiency. Job precariousness seems to be associated with a relatively low incidence of vocational training (in particular in small businesses), in turn inhibiting productivity growth.

Fourth, income inequalities have started to widen. Over the past three years, average incomes of the poorest 20 per cent of households have declined by over 8 per cent, while average incomes of the richest 20 per cent of households have increased somewhat.

Fifth, a large number of households live with very low incomes. In 1999, 8 to 12 per cent of Koreans (depending on the source) were officially estimated to live in poverty – based on a minimum monthly cost of living representing the equivalent of US$ 350 (in purchasing power parity terms). Job-losers, the elderly and lone-parent households are disproportionately affected by poverty. The extended family has long provided an effective source of income support in Korea – the so-called “Confucian social welfare system”. However, the supportive role of the extended family has weakened in recent years.

Finally, the productivity of the Korean economy is a matter of concern. Past economic growth performance rested on a formidable investment effort. During the 1990-97 period, the
The share of national income devoted to real fixed capital accumulation averaged 37 per cent, a very high figure by international comparison. The returns from some of these investments, however, have turned out to be very small or even negative – one of the underlying factors behind the 1997 crisis. Reflecting the poor returns from many investment projects, multi-factor productivity (a measure of overall economic efficiency) stagnated over the period 1990-97, while it grew in nearly all other OECD countries. Clearly, in order to strengthen the growth process in the future, it is essential that resources are used more productively than hitherto.

Addressing these challenges requires an improvement in the coverage and effectiveness of labour market and social safety-net programmes, while also making further progress in bringing industrial relations and labour laws into line with internationally-agreed standards.

### Policies to address the key challenges

#### Freedom-of-association and collective bargaining rights

It is useful to recall the context under which the issue of freedom-of-association rights has been discussed in the OECD. Aware of concerns regarding these rights, the OECD Council, when inviting Korea to join the organisation in October 1996, welcomed the commitments made by the Korean authorities “to reform existing laws on industrial relations in line with internationally-accepted standards, including those concerning basic rights such as freedom of association and collective bargaining”. The Council also instructed the OECD’s Employment, Labour and Social Affairs (ELSA) Committee to “monitor closely the progress made on labour law reforms in the light of that commitment”. In discussions on these issues in the Council, the ELSA Committee and other international fora (notably at the International Labour Organisation and its Committee on Freedom of Association), attention has centred on a number of areas where Korean law and practice in industrial relations was believed to be in conflict with internationally-accepted standards. These include issues of trade union pluralism, third-party intervention in collective bargaining, the right to organise of public servants and teachers, the
right to strike in the public sector, trade union membership of dismissed or unemployed workers and the payment by companies of their full-time trade union officials. Concerns have also been voiced in these fora about the arrest and imprisonment of trade unionists for activities that would be regarded as pursuit of legitimate trade union goals in other Member countries.

Since the start of the monitoring process, there is no doubt that the legislative reforms have shifted Korean labour laws significantly in the desired direction. Major examples include the recognition of the principle of trade union pluralism, the legalisation of teachers' unions, freedom for many civil servants to engage in workplace associations, the gradual reduction of the list of so-called “essential services” where compulsory arbitration applies, as well as the recent recognition of the KCTU as the second national trade union centre. In addition, the government has decided to allow, from 2002 onwards, trade union pluralism at the enterprise level.

However, there are some outstanding issues and resolving them would probably contribute to create a climate of trust between the social partners. First, civil servants are not allowed to join trade unions and bargain collectively. Second, trade unions face legal and practical impediments in deciding who to accept as members. Third, the law will, as of 2002, prohibit the payment of full-time union officials. On these three issues, the government, in consultation with social partners, should explore avenues for amending the relevant provisions of the law. Finally, over the past few years, waves of militant trade union action and subsequent arrests of trade unionists have succeeded each other. It will thus be particularly important for the Korean authorities to take all the necessary steps to avoid large-scale arrests and detentions of trade unionists engaged in pursuit of union activities. In particular, legal provisions, which are often used to arrest trade unionists for what other OECD countries consider legitimate trade union activities, need to be revised or used with utmost restraint.

Finally, alongside further progress on the legislative front, concern remains about the present climate of industrial relations in Korea at both the national and enterprise levels. The repeated withdrawals by both labour and business representatives from the Tripartite Commission and the lack
of any agreed agenda and timetable for its discussions are disturbing. In order to foster social dialogue and mutual trust in the Tripartite Commission, the government could take the lead by presenting reform proposals for discussion in the Commission. Needless to say, the government should also make appropriate efforts to act upon compromises reached within the Commission (as required by the 1999 Tripartite Commission Act), while the social partners need to recognise the futility of “empty chair” attitudes and come forward themselves with constructive proposals rather than always looking to the government to solve deadlocks. Perhaps more importantly from the point of view of Korean productivity performance, tripartite agreements at the national level need to be supplemented by active labour-management consultation and effective co-operation at the enterprise level.

**Labour regulations and public pensions**

While the new lay-off provisions are clearly a step in the direction of increasing numerical flexibility in firms, “regular” workers still enjoy a relatively high degree of employment protection compared with their counterparts in other OECD countries. While the one-month notice period, even for workers with high tenure, is low by international standards, the legal severance pay requirements applying to regular workers would seem to be relatively onerous. In addition, the preconditions for dismissals based on economic reasons (advance notification to a trade union, verifiable efforts to avoid dismissal, etc.) make conditions in Korea resemble closely those in other high-protection countries such as Japan, Portugal, France or Germany. Finally, the new provisions on notification of collective dismissals to the Ministry of Labour correspond to the strict regulations in force in EU countries. Overall, the OECD has ranked Korea as the second strictest country out of 27 member countries in terms of protection of regular (or permanent) employment contracts. There would therefore seem to be room for easing the legal severance pay requirements for regular workers. This reform, however, should take place gradually, and be dependent on a) the Employment Insurance System (EIS) becoming more firmly established in coming years; and b) the public pension system being adequately funded, which is far from being the case at present, and pension benefits providing sufficient income support.
Relaxing relatively strict employment protection for regular workers, under the above conditions, could also help ease job instability for temporary and daily workers (who form the core of “outsiders” in Korea). This would hopefully encourage employers to convert more non-regular contracts into regular ones, thereby reducing the degree of labour market segmentation, which is presently very pronounced, and laying the ground for greater investment in on-the-job training. In addition, the social protection of fixed-term and daily workers should be enhanced.

**Labour market programmes and the public employment service**

Labour market programmes have to be evaluated in the light of their twin objectives, namely a) to provide income support to the unemployed; and b) to foster the future employment and earnings prospects of unemployed workers, while minimising the dead-weight, substitution and displacement effects often associated with such policies.

 Regarding the first objective, the portfolio of labour market programmes has been expanded considerably in the past two years. However, official estimates show that only one in eight of the unemployed receive unemployment benefits (in addition, less than half participate in some type of labour market programme, the others being potential clients for social assistance benefits). It has recently been decided to expand the scope of the EIS to cover daily workers, but there remain serious implementation problems, in particular among small firms which often evade the payment of social contributions. The current situation is not satisfactory and the government should assign a high priority to increasing the coverage of the EIS and make sure that vulnerable groups are not left unprotected, as is presently the case.

As to the labour market effects of labour market programmes, it is not possible to draw clear-cut conclusions in the absence of any systematic evaluations. However, based on the examination of specific design features of the programmes, the following observations can be made:

- there is a general lack of targeting in many of the programmes. As a result, it is unclear whether they really reach disadvantaged groups, such as unemployed workers not covered by the EIS and young unemployed workers. Targeting is especially important in the case of
subsidies to SMEs, given that this programme is the largest in terms of government spending on active labour market programmes (ALMPs);

• despite a general lack of targeting, some of the programmes are not much used. This suggests that some regrouping of programmes may be called for, notably in the area of employment maintenance subsidies;

• now that a brisk recovery is underway, there is a strong case for scaling back substantially public works programmes. International evidence suggests that these programmes, unless they are well targeted on hard-to-place groups, are particularly susceptible to large deadweight losses;

• there may be cases where work does not pay – leading to a risk that some benefit recipients prefer to stay in the programme rather than look actively for a private-sector job. For instance, remuneration in public works programmes reportedly competes with market wages in certain unskilled occupations;

• training institutions have had difficulties in coping with the rapid and massive expansion of training programmes. In addition, the type of training provided by some of them may not be closely tied to the requirements of a complex, modern economy such as Korea. For these reasons, there is a good case for a greater involvement of social partners at the local industry level in programme design, while also expanding the training capacity; and

• the outcomes of the programmes should be carefully monitored and evaluated.

Finally, the role of the public employment service (PES) in the design and implementation of ALMPs could be enhanced. The concept of the “one-stop office” is a good one, and should be generalised by integrating the separate networks of Employment Security Centres and Manpower Banks. Also, while it may have been useful in the period of rising unemployment to operate another chain of placement offices under the authority of municipalities and other local governments, the rationale behind the co-existence of two types of “public employment services”, one under the Labour Ministry and the other under local government, that are involved in the same types of tasks (apart from benefit payment), may need to be reviewed.

As mass unemployment declines, PES officers will need to devote more efforts to counselling and monitoring of those
job-seekers who are at high risk of long-term unemployment and benefit dependency – at present there is little “profiling”. Needless to say, the efficiency of the PES crucially depends on the quality of its staff and the high turnover of counsellors is problematic in this respect. In present circumstances, improving training and job stability of the staff might be more important than increasing the number of officers. The steep decline in unemployment should provide the necessary breathing space to concentrate on improving the quality of PES staff.

... and opportunities be taken to strengthen complementarities with private employment agencies.

In addition, Korea should seek to take advantage of the extensive network of private employment agencies that presently exist. These agencies have an excellent intermediation record in the unskilled labour market and the PES could seek complementarities with them, for example by contracting out the placement of low-educated unemployed.

Social assistance programmes

Fourth, there is a need to introduce an effective social assistance programme. After the crisis, given the relatively low coverage of unemployment benefits and other labour market programmes, demand for social assistance benefits increased dramatically. The authorities responded by expanding the existing programme and creating a new one, specifically targeted on low-income individuals of working age. In 1999, nearly 2 million individuals received social assistance benefits. This, however, represents only about half of the estimated number of persons living in poverty in that year.

The new law seeks to expand coverage on a “productive welfare” basis, ... The weaknesses of the present social assistance system have prompted the Korean authorities to enact a new system, namely the National Basic Livelihood Security Law (NBLS), to take effect as from 1 October 2000. The concept underlying the new social assistance law is that of “productive welfare”, i.e. the purpose is to provide adequate income support while also encouraging benefit recipients to participate in the labour market. Thus, it is officially estimated that the proportion of individuals living in poverty that will receive benefits will be increased to two thirds after the new law comes into force. In addition, the level of benefits will be raised.
However, it is important to stress that many low-income individuals will remain unprotected under the NBLS. This might reflect the fact that benefit entitlement is subject to unusually strict income criteria, based on the income capacity (and not actual income) of the extended family. This particular provision of the law will have to be revised, if the official target of providing benefits of last resort to those in need is to be reached. Also, despite their increase, benefits will remain very modest. The authorities should consider raising them, perhaps in stages, so that they reach at least the poverty line.

The incentives to improve job prospects of recipients can be enhanced in various ways. In addition, making productive welfare a reality requires local government officials responsible for the delivery and administration of the system to screen recipients on their work ability and provide employment-oriented counselling services. Based on the experience of other OECD countries, it is possible to identify certain policy avenues which could help meet these goals:

• at present, there are about 250 recipients to each welfare officer, compared with an OECD norm of 80 to 120 recipients per officer. Korean welfare officers simply do not have the time to screen and adjudicate clients on their work-ability or provide intensive job-counselling services. The authorities have undertaken to hire additional welfare officers so that the number of recipients per welfare officer declines to 200, but many more would need to be hired and trained;

• welfare officers will require adequate funds to provide job-counselling or, in certain cases, offer social assistance recipients the possibility to attend training courses. In this regard, the authorities could consider the implementation of pilot projects, allowing private agencies to tender for the provision of employment services to NBLS clients;

• to encourage job search, it may be helpful to introduce in the NBLS a mechanism of earnings disregards which permits recipients to keep their benefits while at the same time earning an income, up to a certain threshold. Such a system would have to be rather different from the one embodied in the current set-up.
Financing arrangements could be improved by reducing distorted incentives between central and local governments.

Current financial arrangements between different levels of government may be conducive to a waste of resources. At present, most of the budget for social assistance benefits comes from central government, while local governments (and their welfare officers) are in charge of the delivery of benefits. In such a setting, local governments have a weak incentive to enforce the different eligibility criteria and they might therefore be inclined to provide benefits to whoever asks for them. Up to now, the central government has addressed this problem by announcing strict budget limits, effectively imposing hard-budget constraints on local governments. But, under the NBLS, the plan is to provide social assistance benefits as of right. Even so, it seems desirable to maintain the current budgetary “grant-based” system and not give the certainty to local governments that their financial demands will always be satisfied.

Education and training

Fifth, the quality of education and training needs to be upgraded.

Finally, the average educational attainment of the Korean population and work force has increased spectacularly over the past decades, contributing to the rapid growth performance. Practically one fifth of the total Korean population has a college degree, the highest figure in the OECD after the United States and the Netherlands. However, there is a need for improving the quality and relevance of education and training, in order to raise multi-factor productivity and allow Korean firms to compete effectively in the 21st century.

Financing of programmes

There is room for financing the expansion of much-needed programmes.

Some of the measures advocated above will exert upward pressures on government spending, raising the issue of how they can be financed. In the case of an expansion of the EIS, extending the coverage of benefits to workers of small enterprises, which often do not pay the social contributions, risks creating a deficit in the EIS. In order to prevent this, it is essential that the government step up its efforts to make all firms pay their social contributions. Otherwise, the government may face pressures for subsidising the EIS. In the case of programmes financed by central government, notably social assistance benefits for which an expansion is also planned, resources can be found by scaling down temporary programmes such as public works and unemployment loans. Further savings could materialise if rigorous evaluations of
ALMPs were carried out, thereby reducing the risk of waste of existing resources. Should these savings prove insufficient, the government could consider raising tax revenues. Preferably, this should be done by enlarging the tax base (through an intensified campaign against tax evasion and a reduction of the generous tax allowances and exemptions that presently exist) rather than raising tax rates which, at between 10 and 40 per cent, are not particularly low by OECD standards. In any case, general government revenues represent about 25 per cent of GDP, which is, after Mexico, the lowest figure among OECD countries for which comparable data exist.

Concluding remarks

In sum, despite the recovery, now is not the time to reduce the momentum of reforms. Korea has managed to catch-up rapidly vis-à-vis other OECD countries, but further progress may be more difficult than is often thought. Indeed, 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. A more qualitative approach to the development strategy may be called for, encompassing an increased emphasis on enterprise training, a reduced labour-market duality and the establishment of a well-functioning social safety-net that covers all individuals. It is particularly important to a) improve the quality of education and foster enterprise training, b) effectively expand the coverage of both the EIS and social assistance benefits, while scaling back programmes adopted as a temporary response to the crisis, c) ensure that employers pay their contributions to the employment security and public pension systems and, provided that is the case, gradually reduce enterprise retirement allowances for regular workers, thereby reducing the marked duality that presently exists and laying the ground for higher productivity gains, d) better target ALMPs, enhance the quality of the PES staff and undertake rigorous evaluations of the programmes, and e) make sure that work continues to pay in Korea.

Obviously, these measures need to be adopted in a context of full respect for basic workers’ rights and, in this sense, resolving remaining industrial relations issues should rank high in the policy agenda. In a modern, productive economy, it is important that all social actors be involved in the reform process in a climate of mutual respect and trust.
Chapter 1. The Labour Market

A. Introduction

Over the past three decades, the Korean economy developed at a remarkably fast rate and the country came to be known as one of the Asian “tigers”. This high-growth period was characterised by substantial increases in investment in physical and human capital, rapidly rising real wages and declining income inequalities. However, the economy was hit heavily in 1997 by the financial crisis that swept through much of Asia. The crisis brought in its wake dramatic labour and social consequences. However, it did not last long: by the first half of 1999, the Korean economy was already recovering strongly.

This chapter attempts to provide a synthetic overview of the labour market of Korea that embraces the 1997 economic crisis and the ongoing economic recovery. Next, the current challenges of the labour market are highlighted. In particular, an attempt is made to identify labour market imbalances that require further policy action.

B. Economic development, the financial crisis and the labour market

The first stages of economic development in Korea were characterised by heavy government intervention. After the division of the country in 1948 and the devastating Korean War, economic policy focused first on import substitution by means of high tariffs and strict import quotas. Korea’s phase of rapid economic growth began in the early 1960s, which saw a policy shift toward export promotion and increasing rates of investment in both human and physical capital. From the 1970s to date, educational attainment has increased considerably (Chart 1.1). For example, the number of lower-educated men fell from over 60 per cent of the population in 1970 to less than 18 per cent in 1995; for women, the corresponding figure decreased from 85 to 35 per cent. Participation in tertiary education increased fourfold during this period.

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At the same time, industrial policy aimed at promoting exports and increasing investment in heavy and chemical industries. A small number of large conglomerates, the chaebols, emerged as key engines of development, while at the same time acquiring considerable economic and political power.

By the 1990s, a shift towards more technologically-advanced products was underway, and high-technology and service industries were able to compete successfully with industries of more developed economies (OECD, 1996; Suh, 1992).

Throughout the different phases of the development process, output and employment grew steadily and rapidly, although for a long time this did not lead to a situation of overheating as there was ample rural labour supply available. In this period, Korea was transformed from one of the poorest countries in the world to an...
The Labour Market

important industrial nation and a major international economic player. Exports increased from 2 per cent of GDP in the early 1960s to around 35 per cent in the late 1980s. The country’s GDP per capita grew from a small fraction of the OECD average to about 65 per cent today (using purchasing power parities). The sectoral composition of economic activity also underwent a complete transformation: agriculture’s share of GDP fell from over a third in the early 1960s to about 5 per cent today, while its share of the labour force declined from more than half to about 12 per cent. Industry’s employment share, after expanding considerably between 1970 and 1990, has now fallen back to a quarter. By contrast, the employment share of the service sector is approaching two-thirds, rapidly catching up with most other OECD countries.

Reflecting the high growth path, real wage increases were significant and far higher than for the average OECD economy. They were accompanied by strong labour productivity gains, although this was not the case in terms of multi-factor productivity, as shown below (Fields, 1994; Kim and Topel, 1995). Unemployment rates reached very low levels, averaging less than 3 per cent for men and less than 2 per cent for women during the 1980s and up to the 1997 economic crisis. As the labour force became more educated, a shortage of unskilled labour slowly emerged, which was filled up in part with foreign labour. For example, over 13 per cent of vacancies for unskilled workers remained unfilled in 1996, against an average number of unfilled vacancies for all skills of 3 per cent in the same year (Park, 2000).

1. How the 1997 financial crisis hit the labour market

Korean financial markets were severely hit in 1997 by a crisis that was sweeping throughout Asia. The economy was caught by surprise. Ex-post, the low profitability and high debt levels of the corporate sector, together with the poor functioning of the financial system and the large size of short-term foreign debt were identified as weaknesses that exposed the country to the crisis (OECD, 1999). In December 1997, the government negotiated a financial support programme with the IMF. Though financial markets started to stabilise in early 1998, GDP dropped by 5.8 per cent (Table 1.1).

The labour market was especially shaken by the crisis, in marked contrast with the near full employment situation prevailing during 1990-97.

- Many Koreans, notably low-skilled workers, lost their jobs and unemployment rose to 6.8 per cent in 1998 before peaking at 8.6 per cent in February 1999 (Table 1.2). The number of the 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 labour market slack is even more pronounced if discouraged workers are taken into account (Box 1.1). Unemployment was a shocking new experience for many Korean workers and their families.

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### Table 1.1. Background statistics

#### Panel A

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1st semester</td>
<td>2nd semester</td>
</tr>
<tr>
<td>Population (000s)</td>
<td>32,241</td>
<td>38,124</td>
<td>42,869</td>
<td>45,991</td>
<td>46,430</td>
<td>46,858</td>
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<tr>
<td>GDP per capita (US$)</td>
<td>650</td>
<td>2,324</td>
<td>7,751</td>
<td>15,585</td>
<td>14,684</td>
<td>15,566</td>
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<tr>
<td>Exchange rate (Won/US$)</td>
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<td>607</td>
<td>708</td>
<td>951</td>
<td>1,400</td>
<td>1,190</td>
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<tr>
<td>Unemployment rate</td>
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<td>5.2</td>
<td>2.4</td>
<td>2.6</td>
<td>6.8</td>
<td>7.5</td>
</tr>
<tr>
<td>Labour force (millions)</td>
<td>10,062</td>
<td>14,431</td>
<td>18,539</td>
<td>21,604</td>
<td>21,390</td>
<td>21,369</td>
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<tr>
<td>Labour force participation rate (percent of the population aged 15 and over)</td>
<td>47.6</td>
<td>59.0</td>
<td>60.0</td>
<td>62.2</td>
<td>60.7</td>
<td>60.5</td>
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#### Panel B

<table>
<thead>
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<td>2nd semester</td>
<td>1st semester</td>
<td>2nd semester</td>
<td></td>
</tr>
<tr>
<td>GDP growth</td>
<td>7.6</td>
<td>8.9</td>
<td>10.8</td>
<td>-5.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Employment growth</td>
<td>3.6</td>
<td>2.8</td>
<td>3.7</td>
<td>-5.3</td>
<td>-0.4</td>
</tr>
</tbody>
</table>

*a) Using current Purchasing Power Parities, at current prices.

*b) 1999 1st semester over 1998 1st semester for the first half of 1999, and 1999 2nd semester over 1998 2nd semester for the second half of the year.

*c) Average annual growth rate in percentage.

### Table 1.2. Recent trends in unemployment and participation rates

**Panel A. Unemployment by gender, educational attainment and age**

<table>
<thead>
<tr>
<th>Unemployment rates (%)</th>
<th>Incidence of unemployment by duration in 1999 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1997</td>
</tr>
<tr>
<td>Total</td>
<td>2.6</td>
</tr>
<tr>
<td>Men</td>
<td>2.8</td>
</tr>
<tr>
<td>Women</td>
<td>2.3</td>
</tr>
<tr>
<td>Middle school and under</td>
<td>1.5</td>
</tr>
<tr>
<td>High school</td>
<td>3.3</td>
</tr>
<tr>
<td>College and university</td>
<td>3.0</td>
</tr>
<tr>
<td>15-19 years old</td>
<td>9.9</td>
</tr>
<tr>
<td>20-29 years old</td>
<td>5.4</td>
</tr>
<tr>
<td>30-59 years old</td>
<td>1.6</td>
</tr>
<tr>
<td>60 years old and over</td>
<td>0.7</td>
</tr>
</tbody>
</table>

*The first four columns give the unemployment rates for both the total labour force and different groups of workers. The other columns give the number of those unemployed for a certain duration as a share of total unemployment in each category.*

The participation rate fell by $1\frac{1}{2}$ percentage points in 1998 (Table 1.2). Especially pronounced was the fall in participation rates for women, youth aged 20 to 29 and older workers.

Total employment decreased from 21.1 million in 1997 to 19.9 million in 1998 before falling further to 19 million in the first quarter of 1999, registering a decrease of almost 10 per cent in less than two years. During 1998, employment in agriculture grew slightly for the first time since the late seventies, as some women went back to the countryside; the number of women employed as unpaid family workers increased by 6 per cent in 1998.

Nominal and real wages fell dramatically from 1997 to 1998, by $2\frac{1}{2}$ per cent and 9.3 per cent, respectively (Chart 1.2). Nominal wage cuts are mainly attributable to a reduction in overtime payments and bonuses (by 15 per cent and 17 per cent, respectively). By contrast, the basic wage recorded a small increase of 3.7 per cent, which still represents a fall of $3\frac{1}{2}$ per cent in real terms. The response of wages to the crisis shows a flexibility that finds no equal in other OECD countries. This is to some extent due to the structure of wages in Korea, which are partly determined by pay elements that depend on enterprise performance. But moderation in collective agreements has also played a key role. Also, wages of civil servants were cut by about 10 per cent. In addition, according to a recent study,

Table 1.2. Recent trends in unemployment and participation rates (cont.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (population aged 15 to 64)</td>
<td>66.1</td>
<td>64.7</td>
<td>64.7</td>
</tr>
<tr>
<td>Total (population aged 15 and over)</td>
<td>62.2</td>
<td>60.7</td>
<td>60.5</td>
</tr>
<tr>
<td>Men (aged 15 and over)</td>
<td>75.6</td>
<td>75.2</td>
<td>74.4</td>
</tr>
<tr>
<td>Women (aged 15 and over)</td>
<td>49.5</td>
<td>47.0</td>
<td>47.4</td>
</tr>
<tr>
<td>15-19 years old</td>
<td>10.6</td>
<td>10.2</td>
<td>10.9</td>
</tr>
<tr>
<td>20-29 years old</td>
<td>59.0</td>
<td>54.8</td>
<td>53.5</td>
</tr>
<tr>
<td>30-59 years old</td>
<td>76.3</td>
<td>76.2</td>
<td>75.7</td>
</tr>
<tr>
<td>60 years old and over</td>
<td>44.1</td>
<td>40.8</td>
<td>41.4</td>
</tr>
</tbody>
</table>

* The labour force participation rate is defined as the ratio of the labour force to population of different age groups. Data relating to the breakdown by age groups are not strictly comparable to the rest of the figures due to differences in sources.

16 per cent of all job-losers experienced problems of wage arrears and 27 per cent of job losers who were entitled to a separation allowance reported that they had not been paid all or part of their entitlement (Park, Y.B., 1999).

The combination of lower earnings and job losses had dramatic consequences on household incomes. As discussed in Chapter 4, income inequality and poverty increased in the aftermath of the crisis (Fields, 1999; Kakwani and Hyun, 1999).

The government reacted promptly to the unprecedented rise in unemployment. A budget for public works and training programmes for the unemployed was set up quickly. Entitlement to unemployment benefits was progressively

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Box 1.1. The measurement of unemployment

Unemployment is measured on the basis of information drawn from the survey of the "Economically Active Population", which has been carried out by the National Statistical Office of Korea on a monthly basis since 1982. The survey sample refers to the resident population aged over 15. Foreigners, those in prison and the military are not covered by this survey. The unemployed are defined as those persons that are not working but are available for work and actively seeking work during the reference week. All individuals that worked over one hour for pay, or over 18 hours without pay, or that were out of work temporarily because of holidays or sick leave in the reference week, are counted as employed.

Unemployment in Korea, based on the above definitions, is not directly comparable with unemployment in other OECD countries, as measured by the standardised unemployment rate (SUR). According to the SUR methodology, the armed forces are counted as employed, while foreigners, either employed or unemployed, are considered as labour force participants. Finally, the reference period for job search according to the SUR is four weeks, rather than one week as in Korean practice. It is difficult to say a priori whether the Korean rate of unemployment would be higher or lower if measured according to the SUR methodology. Counting the armed forces and foreign labour as part of the employed would drive down the unemployment rate; in 1997, there were 690 000 individuals in the army and about 250 000 foreign workers, according to official sources. On the other hand, defining the job-search requirement over four weeks, rather than one, is likely to raise the number of the unemployed. Since the country joined the OECD in 1996, Korean authorities have started to adapt their statistical practices. Recent estimates suggest that, in September 1999, the Korean SUR would be 5.1 per cent, compared with 4.8 per cent under current definitions.

Finally, as in other OECD countries, official statistics tend to underestimate the extent of labour market slack, as many unemployed persons who cannot find a job within a short period of time report themselves as non-participants – the "discouraged worker effect". In the case of Korea, this effect was particularly pronounced during the crisis, when many job-losers and new entrants withdrew from the labour market. According to a recent study, in 1998, discouraged workers represented 1 1/2 per cent of the male labour force and more than 5 per cent in the case of women (Kim and Moon, 1999).

expanded and the duration of payments extended (see Chapter 3). Social assistance benefits were granted temporarily to the unemployed that had no other source of income (see Chapter 4). The rapid policy response reflects the gravity of the crisis but also, more fundamentally, the centralised decision-making set-up for labour market and social safety-net policies (see Annex A).

2. The recovery already under way in 1999

The economy has recovered relatively fast from the 1997 crisis. This can be ascribed partly to the quick response of the government and partly to the flexibility
of wages and the significant depreciation of the Won. The latter factors led to an improvement in business profitability and external competitiveness. In 1999, GDP grew at double-digit rates and, this year, it is projected to grow by about 8 per cent. Employment increased by about 300,000 jobs by the end of 1999. Most new jobs were created in the service sector, which was also the one less hit by the crisis; employment in manufacturing increased by 100,000 jobs while the recovery of construction has been slower. Reflecting the improved employment prospects, the unemployment rate has followed a downward trend. After the wage restraint of 1998, unions negotiated significant wage increases, starting in the spring of 1999. As a result, real wages have recovered their pre-crisis levels. However, despite these positive developments, the strong recovery still leaves some scope for concern.

C. Current labour market challenges

Some observers have noted a certain complacency in the face of the economic recovery. This section shows that the labour market is still facing difficult challenges of a complex nature, which call for policy action.

1. A relatively low employment/population ratio

Korean employment/population ratios are low by international comparison. In 1999, the overall employment/population ratio was less than 60 per cent, that is 5 percentage points less than the OECD average (Table 1.3). The employment/population ratio of women is particularly low. This is mainly attributable to structural factors (see below) and is only partly due to the 1997 crisis and the associated withdrawal from the labour market of many women.

These patterns differ considerably by age. Youth employment/population ratios are very low by international standards, which can be ascribed to the length of the military service (30 months) and the fact that a relatively high proportion of secondary school graduates go to university. On the other hand, employment/population ratios of workers aged 55 to 64 are among the highest in the OECD area. Given the modest level of retirement pensions, Koreans tend to work until late in their lives.

2. Groups at risk of unemployment

While unemployment rates are falling, it is unlikely that they will return to the frictional 2 per cent rate recorded in the mid-nineties. Although unemployment rates on the order of 4 to 5 per cent, such as those recorded in early 2000, are low by OECD standards, singling out the groups most at risk of unemployment, and especially of long-term unemployment, is important for the purpose of economic policy.

First, it would seem that youth unemployment is structural in nature and that it will require policy attention. Unemployment rates of young Koreans aged 15
### Table 1.3. Employment/population ratios, \(^a\) 1998

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Men</th>
<th>Women</th>
<th>All ages(^b)</th>
<th>All ages(^b)</th>
<th>All ages(^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All ages(^b)</td>
<td>15 to 24</td>
<td>25 to 54</td>
<td>55 to 64</td>
<td>All ages(^b)</td>
<td>All ages(^b)</td>
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<td>Australia</td>
<td>67.2</td>
<td>57.8</td>
<td>75.0</td>
<td>43.7</td>
<td>75.2</td>
<td>59.2</td>
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<tr>
<td>Austria</td>
<td>67.4</td>
<td>54.2</td>
<td>80.4</td>
<td>28.0</td>
<td>75.9</td>
<td>59.0</td>
</tr>
<tr>
<td>Belgium</td>
<td>57.3</td>
<td>26.0</td>
<td>74.4</td>
<td>22.5</td>
<td>67.0</td>
<td>47.5</td>
</tr>
<tr>
<td>Canada</td>
<td>69.0</td>
<td>52.6</td>
<td>78.3</td>
<td>45.4</td>
<td>74.7</td>
<td>63.3</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>67.5</td>
<td>43.0</td>
<td>83.7</td>
<td>37.1</td>
<td>76.3</td>
<td>58.8</td>
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<td>Denmark</td>
<td>75.3</td>
<td>66.4</td>
<td>83.4</td>
<td>50.4</td>
<td>80.2</td>
<td>70.2</td>
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<tr>
<td>Finland</td>
<td>64.8</td>
<td>38.8</td>
<td>78.9</td>
<td>36.2</td>
<td>68.2</td>
<td>61.2</td>
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<td>France</td>
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<td>77.0</td>
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<td>Greece</td>
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<td>38.5</td>
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<td>39.6</td>
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<td>72.7</td>
<td>16.6</td>
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<tr>
<td>Iceland(^c)</td>
<td>82.2</td>
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<td>88.9</td>
<td>86.7</td>
<td>86.0</td>
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<td>70.9</td>
<td>41.6</td>
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<td>81.7</td>
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</tr>
<tr>
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<td><strong>31.7</strong></td>
<td><strong>75.0</strong></td>
<td><strong>63.7</strong></td>
<td><strong>76.0</strong></td>
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<td><strong>70.3</strong></td>
<td><strong>59.0</strong></td>
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<td><strong>71.5</strong></td>
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<td>59.4</td>
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<td>55.7</td>
<td>77.1</td>
<td>62.1</td>
</tr>
<tr>
<td>Norway(^c)</td>
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<td>85.7</td>
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<td>82.7</td>
<td>73.5</td>
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<td>75.0</td>
<td>32.3</td>
<td>65.8</td>
<td>52.2</td>
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<td>80.3</td>
<td>50.9</td>
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</tr>
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<td>63.1</td>
<td>34.8</td>
<td>67.0</td>
<td>35.7</td>
</tr>
<tr>
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<td>41.6</td>
<td>81.3</td>
<td>63.0</td>
<td>73.5</td>
<td>69.4</td>
</tr>
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<td>Switzerland</td>
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<td>63.3</td>
<td>84.9</td>
<td>71.3</td>
<td>87.2</td>
<td>71.0</td>
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<td>58.4</td>
<td>41.1</td>
<td>73.6</td>
<td>28.0</td>
</tr>
<tr>
<td>United Kingdom(^c)</td>
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<td>61.0</td>
<td>79.1</td>
<td>48.3</td>
<td>78.1</td>
<td>64.2</td>
</tr>
<tr>
<td>United States(^c)</td>
<td>73.8</td>
<td>59.0</td>
<td>81.1</td>
<td>57.7</td>
<td>80.5</td>
<td>67.4</td>
</tr>
<tr>
<td>Total OECD(^d)</td>
<td>65.1</td>
<td>45.1</td>
<td>75.5</td>
<td>47.9</td>
<td>76.0</td>
<td>54.3</td>
</tr>
</tbody>
</table>

\(^a\) Employment/population ratios refer to persons in employment divided by the working-age population for the relevant groups.
\(^b\) “All ages” refers to 15 to 64.
\(^c\) Age group 15 to 24 refers to 16 to 24, and “All ages” refers to 16 to 64.
\(^d\) For above countries only.

Sources: OECD, Employment Outlook, June 1999, Statistical Annex, Tables B and C, except for Korea. For Austria, Belgium, Denmark, Germany, Greece, Italy, Luxembourg and Portugal, data are from the European Labour Force Survey. For Korea, data were supplied by the National Statistical Office.
to 24 have tended to grow, and they reached high levels in the aftermath of the crisis (Table 1.2). High rates of youth unemployment may reflect a long job-search process on the part of university graduates, who often stay at home and can therefore be selective when looking for a job. In addition, the mismatch between certain education curricula and labour market requirements creates serious school-to-work transition problems for many young new entrants.

Second, Korean unemployment has long been much higher among higher-educated workers than among their lower-educated counterparts, in contrast with the pattern prevailing in other OECD countries. However, since the crisis unemployment rates of the lower-educated have recorded a marked upward trend. Unemployment rates among workers with high-school educational attainment are relatively high, suggesting that high-school and vocational-training curricula might not adequately match labour market requirements.

Third, long-term unemployment – defined as unemployment durations of over one year – appears to be much less of an issue in Korea than in other OECD countries. This is probably explained by the low level of unemployment in the past, coupled with the absence, until recently, of any unemployment insurance system. Only 4.7 per cent of unemployed men and 2 per cent of unemployed women were unemployed for over one year in 1999, while in the same year 50 per cent of unemployed men and 61 per cent of unemployed women were unemployed for less than three months. For the OECD as a whole, 32 per cent of unemployed men and 34 per cent of unemployed women were unemployed for longer than a year in 1998. In Japan, as well, the incidence of long-term unemployment is considerably higher than in Korea.

3. Job precariousness and working hours

A large proportion of Koreans are employed in “non-regular” jobs, of short duration. In 1999, more than half of total employees had either a temporary or a daily contract, and the proportion of employees with a “regular” contract was therefore less than half (see Box 1.2 for definitions of “regular” and “non-regular” employment). A detailed analysis of employment by status suggests a high degree of labour market duality by gender, age and education level, with younger and higher-educated men performing most regular jobs. The incidence of non-regular work is particularly high among women, older workers and the lower-educated (Chart 1.3). The number of workers holding a permanent job is the lowest in Korea among OECD countries, followed by Turkey (Table 1.4). In 1999, 30 per cent of Korean workers had a regular job, less than half the share of regular employment in most other OECD countries. By contrast, the share of non-regular jobs is the largest in the OECD, followed by Spain. The incidence of self-employment is among the highest for OECD countries together with Mexico and second only to Turkey where self-employment stands at 31 per cent of total employment. Unpaid family workers make up for about 10 per cent of self-employment in Korea and Mexico, 12 per cent in Greece and 25 per cent in Turkey, while this figure varies between 0 and 3 per cent in most other OECD countries.
Reflecting the high incidence of non-regular employment, average job tenure (i.e. the length of stay in the same enterprise) is low by international comparison. In 1998, the average Korean worker stayed slightly over six years with the same employer – in 1995, the figure was almost ten years in the case of the European Union and over eleven years in Japan (Table 1.5). Tenure is even lower than in typical low-tenure countries such as the United States. Job tenure is especially low for Korean female workers. Average job tenure for men was about six years in 1996 and 1997 and almost seven years in 1998, while average job tenure for women was less than four years in 1996 and 1997 and just over four years in 1998 – by contrast, in 1995, the unweighted average for OECD countries was 10.4 years for men and 8.4 years for women. It also appears that workers with a college degree enjoy longer job tenure than lower-educated ones. However, tenure is higher for the lower-educated than for those with middle- or high-school education or junior college – again signalling problems of school-to-work transition.
Chart 1.3. Composition of employment by status of work


Panel B – Employment by gender and age, 1999
Koreans tend to work very long hours. The average wage and salary earner worked over 2 400 hours in 1997, which was between 400 and 900 hours more than in other OECD countries. Close to half of all employees, and even more blue-collar workers, work on average over 54 hours per week. There are several reasons for this phenomenon. First, statutory working hours are still 44 hours per week, and the work week is usually spread over six days. Next, the law allows a maximum of 12 working hours per day and a maximum of 12 overtime hours per week. Firms make extensive use of their discretion for hours adjustments, and Korean workers have become accustomed to rely on overtime to maintain or improve their living standards, considering that the overtime premium is set at 50 per cent. In fact, the share of overtime pay as part of total remuneration has varied between 8 and 10 per cent over the 1990s, and is even closer to 15 per cent for blue-collar workers (see Chart 2.3 further below). Finally, as in other OECD countries, possibilities for flexible working hour systems were introduced over the 1990s.

Demands by labour unions and other interest groups to reduce statutory working hours to 40 and restrict maximum permissible overtime hours – inter alia as a work-sharing device to overcome the recent economic crisis – have not made much headway. The share of part-time work (referring to persons working less than 30 hours per week) is below that in almost all other OECD countries, and has only slowly increased over the 1990s, to reach 6.8 per cent in 1998 (5.2 per cent for men and 9.3 per cent for women).
### Table 1.4. International comparison of employment by status of workers, 1998\(^a\)

<table>
<thead>
<tr>
<th>Employees</th>
<th>Total</th>
<th>Permanent/Regular</th>
<th>Non-permanent/Non-regular</th>
<th>Unpaid family workers(^b)</th>
<th>Self-employment</th>
</tr>
</thead>
<tbody>
<tr>
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<td>63</td>
<td>23</td>
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<td>17</td>
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<td>7</td>
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<td>13</td>
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<tr>
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<td>9</td>
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<tr>
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<td>1</td>
<td>14</td>
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<tr>
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<td>77</td>
<td>12</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Germany</td>
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<td>78</td>
<td>11</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Greece</td>
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<td>7</td>
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<td>Korea, 1998</td>
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<td>Korea, 1999</td>
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<td>11</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Switzerland</td>
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<td>77</td>
<td>10</td>
<td>2</td>
<td>11</td>
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<tr>
<td>Turkey</td>
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<td>25</td>
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</tr>
<tr>
<td>United Kingdom</td>
<td>87</td>
<td>81</td>
<td>6</td>
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<td>12</td>
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<tr>
<td>United States</td>
<td>92</td>
<td>..</td>
<td>..</td>
<td>0</td>
<td>8</td>
</tr>
</tbody>
</table>

\(\ldots\) Data not available.

\(^{a}\) Data relate to 1997 for Greece, Ireland, Luxembourg and Portugal, and as indicated in the case of Korea.

\(^{b}\) Because the data are shown without any decimal, figures less than 0.5 appear in the column as zeros.

**Sources:**
- Japan: Ministry of Labour, Year Book of Labour Statistics, 1998; and for other countries: OECD, Labour Force Statistics, 1999 (for data on total employees, unpaid family workers and self-employment), and OECD/DEELSA Statistics and Indicators Division, temporary-work database (for the breakdown of permanent/non-permanent work).
4. The labour market situation of women

As mentioned earlier, the employment/population ratio of Korean women is very low by OECD standards. In addition, women are more affected by job precariousness than is the case of men, and many of them work as unpaid family workers. Moreover, a disproportionate number of women are employed in small firms, where employment protection, the incidence of training and union density are generally weaker than in large firms.

Despite recent progress, gender wage inequalities are large relative to other OECD countries. In 1997, female wages were about 40 per cent lower than male wages, compared with about one half in the early 1990s, suggesting some improvement in recent years, possibly reflecting the implementation of the Equal Opportunity Act adopted in 1989. According to this Act, employers should not discriminate against women with respect to hiring procedures, career opportunities and pay. However, the gender wage inequality remains one of the largest among OECD countries for which data are available (OECD, 1999g, p. 83). Gender wage inequalities are significantly smaller for more-educated, high-tenure women than is the case for low-educated, short-tenure ones. Thus, in 1997, women with a university degree and over ten years of tenure earned, on average, 15 per cent less than...
their male counterparts. Finally, wages of low-educated men increase with tenure much faster than is the case of wages of low-educated women.

5. Foreign labour in Korea

The number of foreigners working in Korea is comparatively low. In 1997, there were about 245 000 foreign workers, of which 40 per cent had a legal work contract and the remaining 60 per cent were illegally established in the country. The number of foreign workers fell to almost 160 000 by the end of 1998, as many illegal immigrants had to leave the country in the wake of the economic crisis. In 1999, as the recovery got under way, the number of foreign workers rose again to about 186 000 in June 1999. Most foreign workers perform so-called “3-D” jobs (i.e., jobs that are perceived as being dirty, difficult and dangerous), for which there is a shortage, notably at small and medium size enterprises and in labour-intensive manufacturing sectors.

Since 1999, the government offers a subsidy to firms that replace foreign workers with Korean nationals. Despite the recent doubling of the subsidy, this programme has had little success, given the small number of Koreans that are willing to take up 3-D jobs. More generally, there is concern that foreign workers do not benefit from the same degree of employment protection and social security coverage as Korean workers. For example, according to a survey of foreign labour in Korea, foreign workers often experience wage arrears (Kim, 1996).

6. Multi-factor productivity and the growth prospects of the Korean economy

The prospects for increasing living standards depend crucially on the patterns of economic growth. Economic growth, in turn, is mainly determined by a) the investment effort; b) the extent to which unused labour supply can be mobilised in the economy; and c) multi-factor productivity growth, which is a measure of the underlying efficiency gains recorded by firms. Interestingly, the fast growth experience recorded until 1997 was mainly based on the first factor, namely a spectacular investment effort. Thus, over the period 1990-96, Korea devoted 37 per cent of its yearly national income to real fixed capital accumulation. This is a very high figure by OECD standards – it actually represents one of the highest investment efforts in the world. On the other hand, over the same period, multi-factor productivity practically stagnated, whereas it grew in nearly all other OECD countries (Table 1.6). This is all the more surprising because multi-factor productivity is generally expected to grow faster in low per-capita income countries, as these countries acquire the new technologies already in use in highly developed countries – the so-called catch-up theory. Few observers have pointed out that the low rates of multi-factor productivity growth are attributable to the fact that part of the investment effort may have gone into inefficient projects of doubtful productive value – which is one factor behind the 1997 crisis. In addition, such high investment rates may not be sustainable over the medium-run, especially when they are financed by external borrowing as was the case in Korea.
### Table 1.6. International comparison of multi-factor productivity growth,¹ 1980-1998
Average annual growth rates (based on trend series)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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</tr>
<tr>
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<td>0.6</td>
</tr>
<tr>
<td>Belgium</td>
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<td>0.7</td>
</tr>
<tr>
<td>Canada</td>
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<td>0.7</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Finland</td>
<td>2.1</td>
<td>3.1</td>
</tr>
<tr>
<td>France</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Germany</td>
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<td>1.0</td>
</tr>
<tr>
<td>Greece</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Iceland</td>
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<td>0.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>3.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Italy</td>
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<td>1.2</td>
</tr>
<tr>
<td>Japan</td>
<td>1.6</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Korea</strong></td>
<td><strong>1.3</strong></td>
<td><strong>0.0</strong></td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Norway</td>
<td>0.6</td>
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</tr>
<tr>
<td>Portugal</td>
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<td>1.9</td>
</tr>
<tr>
<td>Spain</td>
<td>1.4</td>
<td>0.7</td>
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<tr>
<td>Sweden</td>
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<td>1.7</td>
</tr>
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<td>– 0.1</td>
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<tr>
<td>United Kingdom</td>
<td>1.9</td>
<td>0.4</td>
</tr>
<tr>
<td>United States</td>
<td>0.8</td>
<td>1.1</td>
</tr>
</tbody>
</table>

**Memorandum items (Korea)**

- **Investment to GDP ratio (%)**
  - 1980-1990: 30.0
  - 1990-1998: 37.0

- **Total employment growth**
  - 1980-1990: 2.8
  - 1990-1998: 2.3

- **Business sector capital stock growth**
  - 1980-1990: 10.9
  - 1990-1998: 11.5

---

¹ Multi-factor productivity is calculated as the weighted average of capital and labour productivity, with the weights measured as average factor shares: the weight attached to labour productivity equals the ratio of total compensation of employees to GDP averaged over the period under consideration; the weight attached to capital productivity equals one minus the weight attached to labour productivity.

² 1997 for Australia, Belgium, Canada, Italy, Japan, Norway, Spain and the United States; 1996 for Austria, Finland, Greece, Ireland, Korea, Sweden and the United Kingdom; 1995 for New Zealand and Switzerland; 1992 for Iceland and Portugal.

³ For Germany, data relate to 1991 instead of 1990; Western Germany before 1991.

**Sources:** Secretariat estimates. For Korea, estimates for the capital stock of the business sector were supplied by Professor Hak K. Pyo.
It is therefore essential that future policy strategies focus on improvements in productivity, as well as a greater mobilisation of individuals who are presently on the margins of the labour market. The experience of other OECD countries suggests that such a strategy encompasses various training, labour and social policies, which are reviewed in the next chapter. Implementing these policies may have budgetary repercussions, but Korea seems to have some room for improving the efficiency of certain programmes (as will be seen below). In addition, taxes and other government revenues are relatively light in Korea (Chart 1.4) and there would therefore be some scope for widening the tax base, particularly as regards income taxes.

Chart 1.4. *International comparison of general government revenues as a percentage of GDP, 1998* 

<table>
<thead>
<tr>
<th>Country</th>
<th>Revenues as % of GDP</th>
</tr>
</thead>
<tbody>
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<tr>
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<tr>
<td>Mexico</td>
<td>20.7</td>
</tr>
</tbody>
</table>

*a) 1997 for Mexico.*  
*Sources: OECD Economic Outlook, No. 66, December 1999. For Mexico, estimates from OECD Economics Department.*  

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Chapter 2. Industrial Relations and Labour Law Reform

A. Introduction

Industrial relations and labour law are important determinants of economic and labour market performance. Apart from influencing economic efficiency, industrial relations systems and labour regulations also pursue social goals, such as “fair” wages, decent working conditions and a healthy and safe working environment. The Korean industrial relations system and labour law, notwithstanding a legacy of authoritarian political regimes, have developed in a context of rapid real wage increases over the past several decades. Despite recent moves towards a closer adherence to international standards, Korean industrial relations and labour laws have particular characteristics that distinguish them from systems prevailing in other OECD countries.

This chapter reviews key features of the industrial relations system and ongoing labour law reform in Korea. It describes the main actors in labour relations – trade unions, employer associations and the state – and analyses trends in collective bargaining, wage determination and industrial conflict. It highlights the evolution of industrial relations and labour law, from their previous emphasis on ensuring smooth industrialisation and economic development, to current policies to guarantee the autonomy of the bargaining system and to bring labour legislation in line with internationally-accepted standards. Finally, it discusses current challenges facing the Korean industrial relations system, as it seeks to achieve these objectives.

B. The actors in industrial relations

From a legal point of view, the basic pillars of the Korean industrial relations system are the 1948 Constitution, which guaranteed workers the right to organise, bargain collectively and engage in industrial action, as well as four labour laws enacted in 1953 at the end of the Korean Civil War: the Trade Union Act, the Labour Dispute Adjustment Act, the Labour Standards Act and the Labour Relations Commission Act.
Interestingly, these laws followed the liberal tradition of western industrialised economies, even though they were adopted when the economy was still largely agrarian. The latter two acts, while repeatedly amended, still exist today, while the former two were merged in 1997 into the Trade Union and Labour Relations Adjustment Act. The purpose of this section is to briefly describe the historical background behind Korean industrial relations and to present the main actors in today’s system.

1. The historical legacy

In the three decades following the Korean War, industrial relations were primarily shaped by the government’s strategy for export-led industrialisation. After the advent of successive military governments in 1960, economic growth became the main priority under the slogan “develop first, share later”. The division of Korea and the threat emanating from the North was another crucial factor contributing to the evolution of an authoritarian industrial relations environment. Certain workforce characteristics and values were conducive to worker acquiescence. There was an abundant supply of people migrating from agricultural areas to the new industrialising urban centres. These recent migrants were accustomed to working hard and long hours, and their wages were high compared with those of rural workers (Vogel and Lindauer, 1997; Woo, 1997).

Reflecting these political and socio-economic factors, labour legislation was amended with a view to ensuring labour peace and minimising the influence of trade unions which slowly but steadily increased their membership as a result of industrialisation. One of its features was the requirement for trade unions to affiliate to industry federations under a single, government-sponsored national centre, the Federation of Korean Trade Unions (FKTU). This quasi-monopolistic trade union structure, characterised by a close connection between union leaders, large employers and the government, was broadly maintained until the late 1980s. At the enterprise level, military rule tended to strengthen management prerogatives, while collective bargaining was little developed. The chaebols established hierarchical and paternalistic labour relations within the enterprise and succeeded in keeping their enterprise unions under tight control (Kwon and O’Donnell, 1999; Lee and Lee, 1999; Lee, 1999a; Lee, 1998; Park and Leggett, 1998).

In addition, the intervention of “third parties” in collective bargaining and labour disputes was strictly forbidden. This was interpreted as prohibiting any interference by external parties other than the employees of a particular enterprise and, accordingly, led to the arrest of numerous trade unionists and their supporters. While the concept of the company and establishment level as the primary “locus of bargaining” also exists in other countries, for example Japan or the United States, this clause in Korean labour law carried the concept to an extreme. The fear of outsiders (such as agents of North Korea) supporting and “radicalising” trade union activities also led to the requirement that union membership be restricted to workers within a particular enterprise. In addition to these restrictions in the private sector, government employees and teachers did not enjoy the right to organise, and industrial disputes were forbidden in almost all public services and the defence industry.
As a counterpart to restrictions on freedom-of-association rights and collective bargaining, the government adopted or strengthened protective labour regulations to protect wages and working conditions which could not be determined through the operation of free collective bargaining. For example, occupational safety and health requirements and industrial accident insurance were expanded, the scope of application of the Labour Standards Act was progressively widened to small enterprises, and in 1986 a Minimum Wage Act was adopted, applying to all firms with ten and more (since 1999, five and more) employees. In the early 1980s, a Labour/Management Council Act was also adopted, which aimed at creating a stable framework for labour/management consultation. Also, companies offered facilities and full pay for trade union officials as well as enlarged welfare rights for their workers: lifelong employment patterns, guaranteed bonus and other supplementary payments, company housing, etc. In addition, a practice developed, without legal backing, for companies to compensate workers for their loss of salary during strike action, through back pay or other arrangements.

This situation was bound to change as industrialisation progressed, workers became settled and the rural labour supply dried up during the 1980s. More fundamentally, starting in 1987, the political system moved towards democratic forms of government. Indeed, the Democratisation Declaration of June 1987 represented a turning point in Korean industrial relations, bringing to an end the so-called “management paradise” (Kim, S., 1999). At the same time, the issue arose as to whether a measure of “flexibility” should be introduced in labour regulations. Altogether, a slow process of labour law reform and democratic consensus building, gradually incorporating trade unions in national decision-making, was set in motion. In this respect, the February 1998 Tripartite Agreement raised hopes for a stable and co-operative new industrial relations culture as called for by President Kim Dae-Jung, although a number of, sometimes violent, industrial conflicts in the course of the economic crisis of 1997-99 have recalled the old confrontational spirits.

2. The trade union movement

As a result of the 1987 social movements, the Korean trade union landscape has undergone substantial change, although the influence of the authoritarian legacy described above still lingers on. The democratisation process brought with it an upsurge in trade union membership and activity. At the same time, the quasi-monopolistic trade union structure started to split up, as many enterprise unions broke away from the FKTU and labour activists set out to establish a rival trade union centre, despite the legal restrictions on multiple unionism. Federations of blue-collar and white-collar workers outside of the FKTU structure formed national organisations in the early 1990s, and finally merged in 1995 to establish the Korean Confederation of Trade Unions (KCTU), now the second national trade union centre. After several attempts to register with the authorities, the KCTU was certified by the government in late 1999, ending a precarious status bordering on illegality (see Box 2.2 for more details).
affiliates could already register since 1997, after revised trade union legislation had allowed multiple trade unions at sectoral and national (but not at enterprise) levels.\textsuperscript{15}

The FKTU has survived as the largest of the two centres, with 26 industrial federation affiliates as of end-1999, 3 500 organised enterprises and about a million members. The KCTU, in turn, has 19 industrial affiliates, is represented in 1 200 enterprises and has about half a million members, which means that its local unions are somewhat larger in size than those of its rival (KOILAF, 1999d). Over the past five years, this relation of strength has not substantially changed. Both unions are represented among blue-collar and white-collar workers and in industrial and service sectors, with the KCTU occupying strategic positions in automobile factories and shipyards. It remains to be seen how the two unions will adapt their strategies to the possibility arising in 2002 to challenge their competitor as bargaining agent in individual establishments, and whether the relative strength of the two confederations will change as a result.

Both unions are in favour of the repeal of legal provisions which prohibit any payment by employers for full-time trade union officials and do not allow dismissed workers to remain trade union members. They also oppose further reforms of labour regulations in the direction of a higher degree of “flexibility”, as well as industrial restructuring, including layoffs, without full consultation of employee or trade union representatives.

3. Employer associations

Korean employers are organised in several associations. The oldest, founded in 1884, is the Korean Chamber of Commerce and Industry, which was given special status by an act of 1952, according to which all business owners gain automatic membership in the Chamber. The Chamber acts as a political/economic pressure group and, among other things, operates a number of vocational training centres.

The Federation of Korean Industry (FKI) is the representative of the large conglomerates (\textit{chaebols}) and represents its members’ interests, above all, in matters of economic policy. The key employer association in the area of labour, employment and industrial relations is the Korean Employers Federation (KEF), a nation-wide umbrella organisation which integrates numerous sectoral and regional employer and trade associations, as well as about 4 000 major enterprises. Its main function is to provide members with information and advice regarding labour legislation, labour/management relations and enterprise-level wage negotiations. It also participates in a number of tripartite organisations (such as the Labour Relations Commission and the Minimum Wage Council).

In contrast to the FKI, the KEF aims to represent the interests of both large and small businesses. However, the guidelines for collective bargaining, which it submits annually to member companies, take little account of firm size (KOILAF, 1999b). Small businesses are also represented by the Korean Federation of Small
and Medium-sized Business (KFSB). Among other things, it advises and collaborates with the Korean government on the latter's important loan and subsidy programmes for SMEs and venture capital.

Businesses responded to the upsurge in trade union activity and production losses due to industrial conflict after 1987 with numerous dismissals of union activists, and a tougher line on back pay after strike action. During the 1990s, as a more balanced power relationship between labour and business gradually emerged, employers pursued new strategies to keep in check what they perceived as excessive features of trade union influence. Apart from limited experimentation with new forms of human resource management and more flexible remuneration patterns, employers have insisted, in particular, on a higher degree of quantitative labour market flexibility by enabling redundancy dismissals, as well as the need to curb their payments for full-time union representatives; both these demands were adopted through legislation in 1997, although the latter provision was not to come into effect before 2002.

Employers maintain that the current dismissal legislation is still too restrictive to allow sufficient structural adjustment. They are also resisting any attempt to weaken the prohibition of payment for union officers, arguing that, without the assistance of the law, they are not sufficiently powerful to put an end to this practice through collective bargaining.

4. Labour-management councils

Korea is the only non-European OECD country that has legislated a works council statute, last revised in 1997 through the Act on the Promotion of Worker Participation and Co-operation. Works councils have received considerable attention in the literature as an institution of worker representation and labour-management communication which can provide effective “voice” to employees, even in non-unionised firms, and possibly also enhance workers’ productivity (Rogers and Streeck, 1994; Freeman and Lazear, 1994).

Works councils (“labour-management councils”) must be established in businesses or workplaces with 30 and more (initially 50 or more) employees; they are designed to maintain labour peace and to resolve actual or potential disputes at workplace level in a non-adversarial setting. The number of firms setting up works councils grew rapidly after 1987, up to a point where currently over 90 per cent of firms which fall under the requirement have set up a council. Half of these firms are in the manufacturing sector. Almost all unionised firms have established works councils; however, as trade unions are only present in about 5,000 Korean workplaces, most councils operate in non-union settings.

The councils are composed of an equal number of employee and employer representatives; each side may have between three and ten members. In non-union settings, employees elect their representatives; when a union is present which represents over half of the workforce, it has the authority to nominate members on the council. Works council members are allowed time off work to
prepare and participate in meetings; however, they do not have full-time status, even in the larger companies. Councils are required by the law to hold meetings every three months.

There is a long list of matters subject to consultation within the works council, from productivity concerns to recruitment, health and safety, and the introduction of new technologies. Certain items require the agreement of labour representatives, such as the establishment of a basic company training scheme, or the administration of company welfare facilities. The law distinguishes these matters from the collective bargaining function, but in unionised companies it is difficult to distinguish between works council and trade union activities. In addition, in certain non-unionised companies, the works council will engage in consultations \textit{(de facto not much different from bargaining)} over wage rates. The council also appoints a grievance-handling committee, again with equal representation of employer and employee members.\footnote{16}

5. The role of the state and tripartite arrangements

Government’s role in industrial relations has changed with the onset of the democratisation process in 1987. However, between 1987 and 1997, the progress towards a comprehensive labour law reform was slow and social consensus-building was hampered by the continuing prohibition of trade union pluralism, \textit{i.e.} the refusal to legalise new trade union organisations outside the FKTU monopoly. Important attempts to form tripartite institutions with a view to facilitate labour law reform were the Labour Laws Review Committee of 1992 and the Presidential Commission on Industrial Relations Reform established by President Kim Young-Sam in 1996. The latter body was the first to invite the participation of the KCTU, which was still not officially recognised. While there was a stalemate in the Presidential Commission on a number of the most important issues, it laid the groundwork for the partial labour law revisions of March 1997.

Labour law reform gathered momentum at the end of 1997 when a Tripartite Commission was created, under the auspices of President-elect Kim Dae-Jung, to help overcome the crisis. The Commission, composed of representatives of labour, business, government and the public interest, rapidly found consensus on a number of key economic and labour issues; most of its agreements, made in a spirit of “fair burden sharing”, were subsequently adopted by the National Assembly (see Box 2.1).

In May 1999, the Tripartite Commission was given legal status by requiring that it be given the opportunity to review and comment on all policies of relevance for labour and employment.\footnote{17} In this respect, the Commission now comes close to the status of tripartite or multi-partite Social and Economic Councils operating in many European countries, which are all consulted during the drafting of social and labour legislation (see ETUI, 1990; Trebilcock, 1994). The current Third Commission, established in September 1999, plans to tackle issues such as the national pension and medical insurance system, the implementation of the President’s
“productive welfare” concept, and enterprise bargaining under conditions of multiple unionism. However, it has not been able to function satisfactorily, due to repeated withdrawals, or restricted participation, of both employer and trade union representatives.

Another tripartite agency, composed of labour, business and public interest representatives, is the National Labour Relations Commission (NLRC), founded in 1953, which has recently been given increased autonomy, with its Chair elevated to ministerial rank. The main functions of this Commission are adjudication of

---

Box 2.1. Key contents of the tripartite commission’s “Social compromise to overcome the economic crisis”, February 6, 1998

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 labour market programmes
   - expansion and improvement of employment insurance
   - livelihood support for the unemployed
   - expansion and improvement of the public employment service
   - 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
   - wage guarantee in bankruptcy cases

5) Promotion of labour/management co-operation and respect for the autonomy of collective bargaining
   - efforts to establish a more rational wage system, including profit-sharing

6) Enhancing labour 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 labour 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
individual grievances, and mediation and arbitration of collective disputes. There were over 5 000 cases of adjudication in 1998, mostly concerned with unfair dismissals and unfair labour practices under the Labour Standards Act and the Trade Union and Labour Relations Adjustment Act.

Mediation committees consisting of three members representing labour, business and public interests are set up for each case of collective labour dispute. However, their decisions are not binding, and strikes are possible when their decision is rejected by one of the parties. By contrast, binding arbitration can be invoked for conflicts in “essential” public services, where previous mediation has not produced results. Arbitration committee members represent public interests, with no trade union or employer involvement.18

Apart from the above-mentioned agencies, more than a dozen tripartite or multi-partite advisory bodies used by the Labour Ministry, in the areas of employment policy, minimum wages and occupational health and safety, show the willingness of the Korean government to incorporate representatives of civil society in political decision-making.

C. Characteristics and outcomes of collective bargaining

For a better understanding of the controversial debate on industrial relations and labour law reform, it is useful to examine recent trends in union density, collective bargaining and industrial disputes. The extent to which collective agreements have influenced wages is also addressed.

1. A concentration of unions in large firms and among regular workers

Chart 2.1 shows the evolution of trade union density (defined as the share of union members in wage and salary employment) and of the number of local unions after 1980. Notable is, first, the explosion of the number of local unions (i.e. mainly companies where the union is recognised as bargaining agent) in the wake of the Democratisation Declaration of 1987. However, in subsequent years, there has been a slow, but continuous decline to a little above 5 000 in 1998, still more than twice the number in the early 1980s. This compares to a figure of 190 000 firms in Korea with ten and more employees – a measure of the overall trade union weakness. Similarly, trade union membership and density also grew substantially after 1986 to peak at almost 19 per cent in 1989, but has been steadily declining thereafter to below 12 per cent, that is to levels not experienced since the 1970s.19

Within the OECD area, Korea thus has the second-lowest overall trade union density, after France and before the United States. Even in manufacturing, a backbone of union organisation in many industrialised countries, the Korean
unionisation rate has fallen back to below 20 per cent. By contrast, the relatively high rate in transport and communication corresponds to the situation in other OECD member countries (OECD, 1991, Chapter 4). More liberal labour legislation over the past few years seems not to have had a discernible impact, and it is difficult to predict whether the unionisation of teachers, the envisaged unionisation of other public servants and the planned lifting of the ban on multiple unions at company level will halt the decline.

Despite the falling numbers of adherents, the trade unions' impact in the social and political arena is still considerable. This is, in particular, because union density in large enterprises is very high. As Table 2.1 shows, about four out of five trade union members are working in firms with over 300 employees. Another study on union membership in 1989 showed that, in 55 per cent of all firms of this size, trade unions were recognised as bargaining agents, and 60 per cent of the workers in these firms were unionised (Lee, 1998). Where the union covers two-thirds of the workforce, it has the possibility to negotiate a “union shop”, whereby a new hire has

to join the local union within a certain period of time; currently almost a third of all enterprise unions and half of all union members fall under such an arrangement. The high concentration of union membership and activity in the larger firms resembles industrial relations practices in Japan where, however, union density is twice as high as in Korea.

By contrast, Korean trade unions, in the absence of strong organisation at industry level, have found it hard to organise workers in small companies. According to the 1989 study mentioned above, union density is below 2 per cent in firms with less than 50 employees. In addition, few daily, temporary and part-time workers are unionised. For example, unionisation is almost nil in construction, an industry characterised by the use of day labourers. Finally, the share of women among union members is only at 20 per cent, compared to about a third in the average OECD country.

Some local unions have made efforts to transform their organisational structure into industrial or sectoral unions, which are no longer legally prohibited. This has been successful in a few cases and indeed small industrial or occupational unions have emerged among scientific and technical workers, bus drivers and hospital workers. However, as of today, less than 10 per cent of union members are organised outside enterprise unions.

### 2. A collective bargaining system mainly covering unionised enterprises

Collective bargaining is a process of decision-making between parties representing employer and employee interests which aims to establish “an agreed set of rules” to govern the terms of the employment relationship (Windmuller et al., 1987). In Korea, as in the case of trade union membership, collective bargaining tends to concentrate in large enterprises and cover only a small share of all employees. This reflects the fact that, in Korea, bargaining takes place mainly at the level of the individual firm, where unions have bargaining power.
As is well known, there exist a wide variety of collective bargaining models in OECD countries. In the absence of legislation, the bargaining parties need to choose the appropriate level, or mix of levels, for their negotiations. In Korea, the enterprise was initially determined by law as the "locus of bargaining", but remained so later through the voluntary decision of the involved parties. Only a small percentage of all collective bargains are not concluded at company, but at regional, sectoral or occupational level – this is, for example, the case in the transportation industry (taxis and buses) and parts of the banking sector. True, there is some co-ordinating role of the national centres. Before the annual bargaining round, FKTU, KCTU and KEF usually publish guidelines for enterprise-level bargaining. In addition, the law allows enterprise unions to delegate bargaining responsibility to other actors, for example to their industrial federation. Particularly within the KCTU, demands are getting stronger to shift bargaining to the industrial level once and for all. However, such proposals (made for example in the metal industry) are meeting with strong resistance from employers who appreciate the flexibility implied in negotiations at company level. The Korean trade union movement does not currently have the required strength to enforce such a shift against the declared intentions of the business community, and the chaebols in particular. Also, there are simply no strong and resourceful employer associations at industry level, which could act as a counterpart of industrial unions. Altogether, among OECD countries, the Korean collective bargaining system is therefore in a common group with Canada, the United States, New Zealand and Japan, where bargaining tends to be conducted at company or establishment level with either no or limited co-ordination among bargaining agents, in contrast to sectoral or economy-wide bargaining characteristic of many other OECD countries (see OECD, 1994, Chapter 5).

More than half of companies with over 300 workers, but less than 5 per cent of firms employing between ten and 100 workers are governed by a collective contract; furthermore, in firms with less than ten employees union membership and bargaining coverage are practically non-existent (Lee and Lee, 1999). Since there are no detailed surveys or administrative statistics on the extent of collective bargaining coverage, only an estimate can be given of the share of Korean workers covered by a collective contract. As a rule, it seems that the bargaining coverage rate in Korea is not substantially higher than the trade union density rate, which would correspond to the situation in Japan and the United States. Nevertheless, a certain number of factors are at work to increase somewhat the proportion of workers under collective agreements over those adhering to trade unions.

The law requires employers in companies where over half of the workforce is unionised to extend the contract to the total workforce in the firm. Data supplied by the Ministry of Labour imply that in 1998 about 350 000 workers were thus additionally covered in the 4 000 companies where this was the case. In addition, based upon experience in other industrialised countries, it can be assumed that employers do not usually pay different wage rates to unionised and non-unionised workers even in firms where, say, the local union represents only a third or a quarter of the workforce. This, and possible extensions by the Labour Ministry of the few
regional or sectoral collective agreements to employers and employees not affiliated with the bargaining parties, may increase the number of covered workers by another small percentage. On the other hand, it can be assumed that a certain number of union members belong to local unions which have not (yet) gained bargaining status and will therefore not be covered by a collective contract. In any event, considering that about 1.5 million Korean workers are organised in trade unions, no more than 2 million or 16 per cent of dependent employment can be estimated to fall under collective agreements, the lowest share within the OECD area, below even the United States and Japan (OECD, 1997a, Chapter 3). A certain additional proportion will be covered through the “quasi-bargaining” mechanism in labour-management councils.

3. Industrial conflicts

Labour disputes and dispute resolution are extensively regulated in Korea. In case of an impasse in collective bargaining, the local trade union and/or the employer need to file a request for mediation with the local Labour Relations Commission, after which a cooling-off period of ten days (15 days in public services) applies. Under no circumstances can collective action start before a decision has been made by a majority of the workforce concerned. Wildcat strikes and occupation of production facilities, as well as the replacement of strikers with workers outside the business, are prohibited. The lockout is recognised as a defensive weapon.

Chart 2.2 shows workdays lost through strikes per 1 000 workers in Korea and four other OECD countries since the early 1980s. It is evident, first, that strike activity in Korea, after stagnating in the early 1980s, grew explosively in 1987, after the Declaration of Democratisation. The lost workday ratio grew from 8 per 1 000 workers in 1986 to almost 800 in 1987, and the number of persons involved grew from less than 50 000 to almost 1.3 million. In the two months following the Declaration in June 1987, there were as many strikes as in the preceding two decades.24

After remaining at high levels up to 1989, the number of strikes and of lost workdays progressively declined, almost to pre-1987 levels, before turning up slightly during the recent economic crisis. As the chart also shows, however, even from 1987 to 1989, Korean strike rates did not reach the levels experienced in the 1980s by OECD countries such as Italy or the United Kingdom. With about 80 lost workdays per 1 000 workers on average during the period from 1993 to 1998, Korea now occupies a middle position among OECD countries, on a level with Ireland, Norway, Sweden and Australia (Davies, 1999; ILO, 1999).

As illustrated in Table 2.2, the share of wage demands among the causes for industrial conflict has gradually declined since the late 1980s. The major category since 1995 are contract-related issues which include, inter alia, the reduction of working hours, payment of union officials, union shop issues, and back pay
after strikes. Notable is also the increase in strikes for issues relating to firm closures and deferred wage payment after the onset of the recent economic crisis.

Data are also available on industrial conflict by industry and firm size. As a rule, four out of five disputes occur in only two industries, i.e. manufacturing and transport and communication. Also, on annual average, at least as many strikes occur in firms with 1 000 or more employees (where only 10 per cent of Korean wage and salary workers are employed), than in firms with up to 100 workers (where over 70 per cent are employed). These statistics throw additional light on the trend towards concentration of union activity.

4. A high degree of wage flexibility

As discussed in Chapter 1, real wages show a considerable degree of responsiveness to the labour market situation. Between 1985 and 1997, a period characterised by tight labour markets, the average real wage doubled – an increase without parallel in OECD countries. On the other hand, real wages were cut by about 10 per cent in response to the crisis. This included the wages of regular

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Table 2.2. **Industrial disputes by cause**
Percentages

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of disputes</th>
<th>Wage increases</th>
<th>Deferred wages</th>
<th>Shut downs and dismissals</th>
<th>Improvement of working conditions</th>
<th>Other collective agreement issues</th>
<th>Miscellaneous reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>3,749</td>
<td>69.7</td>
<td>1.2</td>
<td>1.7</td>
<td>15.1</td>
<td>12.3</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>1,873</td>
<td>50.5</td>
<td>3.2</td>
<td>6.9</td>
<td>7.3</td>
<td>32.1</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>1,616</td>
<td>45.9</td>
<td>3.7</td>
<td>6.9</td>
<td>1.3</td>
<td>42.3</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>322</td>
<td>51.9</td>
<td>3.1</td>
<td>7.5</td>
<td>0.6</td>
<td>15.2</td>
<td>21.7</td>
</tr>
<tr>
<td>1991</td>
<td>234</td>
<td>56.4</td>
<td>2.1</td>
<td>3.0</td>
<td>0.9</td>
<td>23.9</td>
<td>13.7</td>
</tr>
<tr>
<td>1992</td>
<td>235</td>
<td>57.0</td>
<td>11.5</td>
<td>1.7</td>
<td>..</td>
<td>20.9</td>
<td>8.9</td>
</tr>
<tr>
<td>1993</td>
<td>144</td>
<td>45.8</td>
<td>7.6</td>
<td>1.4</td>
<td>..</td>
<td>36.1</td>
<td>9.0</td>
</tr>
<tr>
<td>1994</td>
<td>121</td>
<td>42.1</td>
<td>5.0</td>
<td>2.5</td>
<td>..</td>
<td>34.7</td>
<td>15.7</td>
</tr>
<tr>
<td>1995</td>
<td>88</td>
<td>37.9</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>56.3</td>
<td>5.7</td>
</tr>
<tr>
<td>1996</td>
<td>85</td>
<td>22.4</td>
<td>1.2</td>
<td>..</td>
<td>..</td>
<td>72.9</td>
<td>3.5</td>
</tr>
<tr>
<td>1997</td>
<td>78</td>
<td>23.1</td>
<td>3.8</td>
<td>..</td>
<td>..</td>
<td>65.4</td>
<td>7.7</td>
</tr>
<tr>
<td>1998</td>
<td>129</td>
<td>21.7</td>
<td>17.8</td>
<td>8.5</td>
<td>..</td>
<td>44.2</td>
<td>7.8</td>
</tr>
<tr>
<td>1999</td>
<td>198</td>
<td>20.2</td>
<td>11.1</td>
<td>15.7</td>
<td>..</td>
<td>45.0</td>
<td>8.0</td>
</tr>
</tbody>
</table>

..: Means that no case was registered.

Source: Lee and Lee (1999), based on Korea Labour Institute, *Labour Statistics*; and additional information for 1999 supplied by the Ministry of Labour.
workers falling under collective agreements. Declines in real wages of such a magnitude are very unusual in other OECD countries. They suggest that the collective bargaining system in Korea has contributed to a high measure of wage flexibility.

Collective bargaining has also contributed to the evolution of remuneration patterns and wage differentials:

- As noted by certain analysts, the Korean system of wage payments has become very complex (Kim, 1995). Chart 2.3 shows the evolution of the three fundamental components of total wages – regular fixed pay, overtime pay and bonuses – over time. The share of bonus pay has increased from 12 per cent in 1980 to almost a quarter of total remuneration in 1996, before falling back to below a fifth in the crisis year 1998. Some Korean companies, particularly within the *chaebol* structure, pay much more in bonuses than is apparent from the above average; fairly typical among top *chaebol* companies seems to be a total bonus corresponding to six or seven monthly salaries, paid out in three or four instalments throughout the year (Lee and Rhee, 1996). The trend-rise in bonuses and special allowances is partly explained by the fact that, in the early and mid 1990s, the Korean government, concerned about...
business competitiveness, proposed wage targets to the collective bargaining parties. While the KEF and FKTU participated for a while in the government-led incomes policy, many companies and enterprise unions ignored the targets or circumvented them by restricting their application to the basic salary (thus claiming to fulfil government targets), but not observing them for the bonus or other special allowances. The Korean government continuously encourages the social partners to simplify the wage structure by consolidating the multiple allowances, and increasing the proportion of basic wages in total remuneration (KOILAF, 1999b). However, the increasing share of the bonus, which is at least partially related to cyclical conditions, has also made the wage system more flexible. For example, in 1998 regular pay still showed a small nominal increase, while in response to the deteriorating financial position of companies, bonus pay decreased by almost 20 per cent. The situation was reversed in the 1999 upswing, when regular pay increased by 6 per cent, and bonus pay by over a quarter.

- There is strong evidence of changing relative wages accompanying the high wage growth over the past two decades. Full employment patterns, the widespread availability of education and trade unions' bargaining power have contributed to a reduction in wage differentials, which nevertheless remain significant (Chart 2.4). Although age and seniority within a firm continue to be major factors in determining wages and promotion patterns, the relative pay of workers aged 40 and over has declined substantially compared with younger age groups. Craftsmen and production workers have considerably reduced the wage gap to white collar employees; similarly, the premium for education has narrowed as a result of the rising numbers of college and university graduates. The female wage gap in Korea has also decreased over time, which may reflect greater demand for female workers in the expanding service sector, as well as the passage of the Equal Employment Act in 1988; however, as Chapter 1 has already pointed out, it remains the highest among OECD countries where the corresponding data are available. By contrast, the chart illustrates the widening disparities in earnings between workers employed at small (ten to 29 employees) and large (over 500 employees) enterprises, which may reflect an increasing recourse of the larger employers' to paying efficiency wages, but also the impact of unions which, as shown earlier, are concentrated in large firms. This wage premium increased particularly between 1986 and 1991. Latest statistics show that workers in large firms (with over 500 employees) again received the highest wage increases during the 1999 upswing.

As illustrated in Table 2.3, low wages seem to have been little affected by the minimum wage system which was first introduced for manufacturing in 1988 and later extended to firms in all industries employing ten or more (since 1999 five or more) workers. The minimum wage level is set by the Labour Minister after a
Chart 2.4. Wage differentials

Panel A – A trend decline by gender, age and skills

Panel B – A trend increase by firm size

a) Average annual wages including all wage components as in Chart 2.3, referring to establishments with 10 workers or more. Sources: Ministry of Labour, Survey Report on Wage Structure, various issues, for data by gender, age groups and educational attainment; Monthly Labour Survey, various issues, for data on firm size; and direct submission from Korea Labour Institute for data on occupational status. Figures for 1998 and 1999 are provisional estimates supplied by national authorities.

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Table 2.3. Minimum wages

<table>
<thead>
<tr>
<th></th>
<th>Minimum wages(^a)</th>
<th>Minimum wages as a percentage of wages(^b) in manufacturing</th>
<th>Number of workers paid at minimum wage</th>
<th>Workers at minimum wage as a percentage of dependent employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Won per month</td>
<td>Won per hour</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>165 000</td>
<td>690</td>
<td>27.9</td>
<td>187 405</td>
</tr>
<tr>
<td>1991</td>
<td>192 700</td>
<td>820</td>
<td>27.9</td>
<td>393 183</td>
</tr>
<tr>
<td>1992</td>
<td>209 050</td>
<td>925</td>
<td>26.2</td>
<td>391 502</td>
</tr>
<tr>
<td>1993</td>
<td>227 130</td>
<td>1 005</td>
<td>25.7</td>
<td>227 519</td>
</tr>
<tr>
<td>Jan. 1994 - Aug. 1994</td>
<td>245 210</td>
<td>1 085</td>
<td>24.0</td>
<td>102 312</td>
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<td>264 420</td>
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<td>288 150</td>
<td>1 275</td>
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<td>103 191</td>
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<tr>
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<td>316 400</td>
<td>1 400</td>
<td>23.9</td>
<td>127 353</td>
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<tr>
<td>Sep. 1997 - Aug. 1998</td>
<td>335 610</td>
<td>1 485</td>
<td>26.1</td>
<td>123 513</td>
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<tr>
<td>Sep. 1998 - Aug. 1999</td>
<td>344 650</td>
<td>1 525</td>
<td>23.4</td>
<td>22 980(^c)</td>
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<tr>
<td>Sep. 1999 - Aug. 2000</td>
<td>361 600</td>
<td>1 600</td>
<td>..</td>
<td>53 760</td>
</tr>
</tbody>
</table>

\(^a\) Data not available.
\(^b\) Until August 1999, the minimum wage applies to firms with 10 or more regular employees; since September 1999 to those with 5 or more regular employees.
\(^c\) Average monthly total cash earnings.
\(^d\) The fall in the number of workers paid at the minimum wage from 1997/98 to 1998/99 is due to adjustments in the scope of application of the Minimum Wage Act.

recommendation by the tripartite Minimum Wage Council. The current level of 1 600 Won per hour corresponds to less than a quarter of average wages in the manufacturing industry (including overtime payments and special allowances), a slight decrease from the beginning of the decade. This ratio is among the lowest (with Mexico and the Czech Republic) of OECD countries where data are available. The number of Korean workers covered by the minimum wage has fallen to around half a per cent of all wage and salary earners, which corresponds to less than 1 per cent of those working in firms with 5 and more employees. No data exist on workers’ pay levels in those Korean firms that employ less than 5 employees, but it can be assumed that the share of workers paid at minimum wage level would increase significantly if these firms were included.

D. Recent labour law reforms

Since the mid-1990s, first under President Kim Young Sam and since 1998 under President Kim Dae-Jung, the Korean authorities have adopted several reforms in the area of industrial relations and labour law. The purpose of these reforms has been to improve freedom-of-association rights and to enhance numerical labour market flexibility. As was outlined above, in the past, a high degree of employment security had acted as a corollary to restrictions in trade union rights. With the labour law revisions of December 1996 and March 1997, as well as the 1998 agreement of the Tripartite Commission in the wake of the economic crisis, substantial changes were set in motion in both these areas. Importantly, after initial failure, a delicate balance between flexibility measures and improvements in trade union rights was struck in the Tripartite Agreement which was able to enlist the support of business and (albeit less enthusiastically) labour organisations.

1. Employment status and protection

The Labour Standards Act of 1953 (LSA) is the main piece of legislation which regulates working conditions and employment contracts. As a rule, it applies to companies with five or more staff, i.e. to about 70 per cent of total dependent employment. A number of its provisions do not apply to daily and other short-term workers; for example, notice periods do not apply to probationary periods, most daily workers and employees under short-term contracts, while legal severance pay provisions do not apply to employment relationships of less than one year duration. By contrast, other provisions defined in a Presidential ordinance (on equal treatment, wage payment, rest periods and holidays, for example) now apply to all workers, including those in firms with less than five staff (for more detail, see Hyun, 1999). The general trend has been for labour standards legislation to be extended to more enterprises and more employee categories. In addition, in the late 1990s major changes occurred in the area of dismissal protection for regular workers, and in the regulation of temporary work (so-called “dispatch”) agencies.

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Employment protection for regular workers

Under the Labour Standards Act, individual and collective dismissals of regular employees (usually those with an open-ended contract, currently less than half of dependent employment) are allowed for “just cause”. Dismissal for non-performance or lack of competence has therefore always been possible in Korean law, but was rare in practice, since the Labour Relations Commission (the initial appeals board in dismissal cases) and the courts have in the past applied high standards vis-à-vis the “just cause” provision.

The Act entitles employees to a 30-day notice period or wages in lieu, and to generous severance pay (retirement allowance) equal to at least 30 days per year of service. This severance payment must be made regardless of the circumstances of termination, even in the case of dismissal with just cause. Many firms exceed this requirement; they may pay, for example, 40 or more months wages to an employee with 30 years tenure. In the past, severance pay was the functional equivalent of pension income and, even after the public pension system was introduced in 1988, it continues to play an important role in assuring retirement income.29

The 1998 agreement in the Tripartite Commission led to the rapid introduction of a major revision to the LSA by introducing the concept of redundancy dismissal and employment adjustment for “urgent managerial needs”, which are further defined by a reference to “transfers, mergers and acquisitions” (art. 31).30

The 1998 Act also specifies that, prior to layoffs, employers must make every effort to avoid dismissal; apply fair standards in selecting employees for dismissal; and consult with trade unions or other worker representatives on efforts to avoid dismissal and on fair and reasonable selection criteria.

Worker representatives have to be informed 60 days prior to planned dismissals for managerial reasons. When recruiting new personnel at a later stage, an employer shall make efforts to rehire dismissed workers within a period of two years after the date of dismissal. Collective dismissals involving larger numbers of workers give rise to additional requirements; in these cases, the company also needs to notify the Ministry of Labour 30 days in advance, providing the rationale for lay-offs and proof of sufficient consultation. Such notification is required if lay-offs exceed more than ten employees in a workplace with less than 99 workers; more than 10 per cent of employees in a workplace with 100 to 999 employees; and more than 100 employees in workplaces with over 1 000 workers.

Under a separate act, a Wage Claims Guarantee Fund was established in 1998 to protect workers dismissed from bankrupt enterprises from loss of wages and severance pay. Maximum payments by the fund are equivalent to the sum of wages for the last three months and severance pay for the last three years before bankruptcy. The fund is financed mainly through an employers’ contribution, set at a level of 0.2 per cent or less of the wage bill.31

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While the new layoff provisions are clearly a step in the direction of increasing the freedom for firms to shed surplus employees, the current level of employment protection regulation for regular workers, as outlined above, is still higher than the OECD average. The newly added preconditions for layoffs, and the requirements for reaching consensual decisions and procedures between management and enterprise unions, continue to restrict firms’ room to manoeuvre when adjusting to structural changes.32

A detailed international comparison of employment protection provisions for regular employment draws the following picture. First, while the one-month notice period, even for workers with high tenure, is low by international standards, the severance pay regulation for workers in medium-sized and large companies appears to be relatively generous, although its origin as a replacement of both pension and unemployment insurance benefits has to be kept in mind. As the unemployment insurance system will become more firmly established and the public pension will become more mature, there seems to be room for easing the legal severance pay requirements for regular workers.

Next, even though economic reasons may now constitute a “just cause” for lay-offs, the newly legislated preconditions for such dismissals (advance notification to trade union, verifiable efforts to avoid dismissal, etc.) still make Korea resemble other high-protection OECD countries such as Japan, Portugal, France or Germany. Finally, the new provisions on notification of collective dismissals to the head of the local labour office correspond to regulations prevailing in the European Union. The language in the Korean Act nevertheless seems somewhat less restrictive than in many European countries, which provide for the negotiation of “social plans” in case of collective dismissals. After scoring the country on these and other features of regulation, a recent OECD study ranked Korea 26th out of a sample of 27 OECD countries in terms of the strictness of protection of regular (permanent) employment contracts (see OECD, 1999a).

**Employment protection for non-regular workers**

Employment protection for workers without a permanent employment contract is much weaker than for their regular counterparts. The result is a share of fixed-term and daily workers in dependent employment which, at over 50 per cent, is the highest in the OECD area.

In the case of fixed-term and temporary workers, the OECD ranked Korea on a middle position among OECD countries (OECD, 1999a). Employers who want to hire under fixed-term contracts face no restrictions in firms with less than 5 employees. In larger firms, the LSA permits fixed-term contracts of up to one year duration without specifying an objective reason (which is necessary, for example, in many European countries). Longer contract durations are only allowed for the “completion of a certain project” and, as in many other OECD countries, several successive renewals run the risk of a court declaring the employment contract null.
Employment flexibility has been further enhanced by the decision to allow temporary work agencies under the Dispatched Workers Act as from July 1998. Dispatching agencies are allowed to hire out workers to user firms for up to two years in 26 occupations that require special expertise and experience. In addition, an employee may be hired out in all industries and occupations in order to fill vacancies due to temporary absences of other employees, with the exception of construction, seafaring and hazardous occupations.

Certain restrictions to the employment of temporary workers apply to user enterprises. For example, before filling vacancies due to temporary absence of regular employees with temporary workers, the employer has to engage in sincere consultations with labour representatives. Also, without trade union consent, temporary workers cannot be used on a post for a period of two years after dismissal of the previous post-holder.

At the end of 1998, the Ministry of Labour reported the number of licensed agencies at about 800 and of hired-out personnel at 42 000. Other estimates give a much higher figure of temporary workers, which include those by illegally run agencies operating even before the adoption of the 1998 legislation (Hyun and Balfour, 1998).

As Chapter I has shown, the share of fixed-term, temporary and daily workers increased further during the recent economic crisis. It seems that during the current upswing employers, unsure about the prolonged character of the recovery, are making full use of opportunities given by the law for avoiding permanent employment contracts. This strategic choice seems, at least in part, due to employers trying to circumvent the high levels of employment protection legislation for permanent employees, including severance pay requirements, in case of future restructurings and retrenchments.33

2. Labour relations and trade union rights

Greater flexibility in allowing layoffs and the operation of temporary work agencies was accompanied by increased rights for labour unions. Indeed, this quid pro quo was one of the main elements of the February 1998 compromise agreement in the Tripartite Commission and the preceding Tripartite Statement on fair burden-sharing. Much of the labour unrest in the past two years seems to be due to sentiments among many workers and trade union officials that the measures decided on both accounts were not equitably implemented.

Nevertheless, there is no doubt that after the controversial labour law reform bill passed in the National Assembly in late December 1996, the two subsequent reform packages of March 1997 and February 1998 have moved Korean industrial relations and labour regulation away from its authoritarian legacy and closer to internationally-accepted standards. For example, the principle of trade
union pluralism has been recognised, teachers have been given the right to organise, and the previous ban on political activities of trade unions has been entirely lifted. The most important remaining problem areas will be briefly outlined below.

**Multiple trade union representation**

Up to 1997, trade union legislation specified that only one trade union was permitted at company, industry and national levels, and that rival unions which tried to organise the same potential membership as existing ones were prohibited. As newly formed trade unions were required to register with the authorities, these withheld recognition in multiple cases. Trade union centres and federations, particularly the Korean Confederation of Trade Unions (KCTU) and its sectoral affiliates, which were formed outside the framework of the long-established Federation of Korean Trade Unions (FKTU), were therefore legally and practically disadvantaged; in addition, it proved virtually impossible for new trade unions emerging at local level to challenge the position of established unions as bargaining units in a particular enterprise.

Basing its judgement on Conventions 87 on Freedom of Association and 98 on the Right to Organise and Bargain Collectively (which have not been ratified by Korea, an ILO member since 1991), the International Labour Organisation has held that the prohibition of multiple trade union representation in Korea does not conform to international norms and practices.

The revised 1997 *Trade Union and Labour Relations Adjustment Act* (TULRAA) allowed multiple trade unions at industrial and national levels, which ultimately paved the way for the legal recognition of the KCTU (see Box 2.2). By contrast, on the enterprise level, multiple unions will only be allowed from January 2002 onwards. This delay seems to be due to the Korean government’s concern about possible inter-union rivalry and recognition disputes between FKTU- and KCTU-affiliated trade unions. The Ministry of Labour has been given the legislative mandate to “introduce methods (...) to establish a single bargaining channel by December 31st, 2001” (TULRAA, Addendum, art. 5). This mandate was meant to prevent a situation where an employer would be forced to bargain separately with several unions in his enterprise. To comply with the legislation and prepare for the co-existence of multiple unions at company level, the Korean authorities have a choice between several models of union recognition for bargaining purposes which exist in different OECD countries. For example, in the United States and Canada, one union is recognised as the exclusive bargaining agent, usually after winning a majority in representation elections. Another model is characterised by different trade unions forming a joint committee to bargain with an employer or employer association. This system prevails in a number of European countries where the status of “most representative trade unions” may be based on the number of adherents within an enterprise, or on participation in national consultative bodies.

In late 1999, after consultations with representatives of public interest, the Tripartite Commission has presented a proposal to the government concerning the future bargaining set-up under conditions of multiple unionism. This proposal
mixes the two models outlined above. As a general rule, the trade unions should themselves autonomously define the "single bargaining channel". They can choose the committee model, where representatives of several unions bargain jointly with the employer. By contrast, if they cannot come up with unified representation, the union which represents the absolute majority of total union members within an enterprise will act as bargaining agent. If such a union does not exist (a situation that will probably be rare, considering the KCTU/FKTU duality), the composition of
the bargaining unit will be decided by Presidential Decree. The Korean government has submitted a draft bill containing the Commission’s proposals to the National Assembly.

**Third-party intervention**

The 1997 TULRAA removed the previous ban on third-party intervention and replaced it with provisions which specify those categories of persons who, while not being members of the local bargaining unit, may assist trade unions and employer associations in collective bargaining or cases of industrial conflict. The categories of authorised persons listed in the law include members from sectoral or national-level trade unions and employer associations. However, the names of other persons who assist the bargaining parties have to be notified in advance to government authorities. Persons other than those notified are still prohibited from intervening. This requirement has no parallel in other OECD countries.

The Korean authorities maintain that the notification clause is meant to guarantee the autonomous resolution of labour disputes between management and labour and to prevent any intervention or manipulation by outsiders unwanted by the parties to the particular conflict. They also note that advance notification does not imply a necessity for “approval” or “permission”, and that employer and employee associations can choose whomever they want to assist their activities. It appears, however, that the notification requirement is not a pure formality since non-notified persons who intervene in collective bargaining or labour disputes are liable to a maximum penalty of three years imprisonment or a fine of up to 30 million Won (TULRAA, art. 89). The ILO’s Freedom-of-Association Committee continues to be concerned that the provision entails serious risks of abuse and that circumstances could arise where the “notification” would be interpreted as an “authorisation” requirement. The Korean government, for its part, has complained that the number of third-party advisers notified by trade unions is sometimes so large as to contradict common sense (for example, in a 1998 case, over 84 000 advisers were notified by one local union with a membership of only 330; cf. ILO, 1998).

**The right to organise and bargain collectively for public servants and teachers**

Following on from the Trade Union Act, the 1997 TULRAA states that “workers are free to establish a trade union or to join it, except for the case of public servants or teachers who are subject to other enactments” (art. 5). Accordingly, the Public Services Act has prohibited public officials from joining trade union organisations. This provision refers to all levels and categories of government personnel, with the exception of manual workers employed mainly in telecommunications and the national railroads.

Following agreement in the Tripartite Commission, an Act Concerning the Establishment and Operation of Workplace Associations for Public Officials was adopted by the National Assembly which allowed the establishment of workplace associations in
the public service from January 1999. As of late 1999, 60 workplace associations had been established in central and local government.

The main purpose of these associations consists of consultation over working conditions and grievance-handling. The Act restricts the right of association to the lower four out of nine grades of public officials, since grades 5 and above are considered to be comparable to managers in the private sector. Police, firemen, security guards, chauffeurs, and other categories of officials involved in, inter alia, personnel administration, budgeting and accounting are also not permitted to join the associations. In total, over one third of public service personnel is thus ineligible.

The agreement in the Tripartite Commission also envisaged that, after some stock-taking of the experience with workplace associations, trade unions endowed with bargaining rights would be allowed to form at national, provincial and local level. The legal status of future collective agreements within the public service remains to be determined.

Teachers have already been granted trade union status. Before 1999 only teachers associations were allowed which were consulted over working conditions, but did not have the right to conclude collective agreements. Following agreement in the Tripartite Commission, a law on the Establishment and Operation of Trade Unions for Teachers took effect from July 1999, which granted teachers unions the right to bargain collectively over wages and working conditions. However, in the case of public school teachers, the Korean National Assembly keeps the final say in setting pay rates, and any strikes are prohibited.

The ILO's Freedom-of-Association Committee has taken issue with the prohibition of managerial/administrative staff to join employee associations, since it has previously judged, based on C. 87 and C. 151, that only “persons exercising senior managerial or policy-making responsibilities” could arguably be excluded from trade union membership. C. 87 on Freedom of Association guarantees the basic right to form and join organisations of their own choice to all workers “without distinction whatsoever”, including public servants. C. 151 concerning the Right to Organise in the Public Service confirms this requirement and requests governments to “promote the full development and utilisation of machinery for negotiation of terms and conditions of employment between the public authorities concerned and public employee organisations (…)”.

Most other OECD countries have recognised the right of public servants and teachers to organise in trade unions or other types of employee associations; however, important restrictions remain in many cases with respect to certain personnel categories, the nature and scope of bargaining (particularly on pay issues) and the right to reach collective agreements (Treu, 1987). The military, police and judges, in some cases prison guards, are typically excluded from the right to organise in most countries. Agreements reached through collective bargaining in the public service often acquire legal status only after approval by government or parliament. Consequently, only half of OECD countries have ratified
C. 151, and even some of these have been judged by ILO Committees to be in contravention of the relevant ILO instruments.

While many OECD countries do not conform fully to the requirements of these conventions, Korea remains unique in that it a) does not recognise the right of public officials to establish and join trade unions; and b) even restricts membership in consultative workplace associations to support staff alone. Much will depend on the speed with which trade unions will be allowed to form in the public sector, in the spirit of the 1998 Tripartite Agreement (currently no concrete plans or timetable seem to exist on this issue). But the restrictions of trade union rights in the public service could imply that, even after the removal of the ban on multiple trade unions at enterprise level in 2002, Korea will remain in contravention of basic freedom-of-association principles.39

The right to strike and compulsory arbitration in the public sector

The 1997 TULRAA and special public service legislation prohibit strikes by workers in central and local government and those engaged in the production of military goods. The Act also restricts the right to strike in the more broadly defined public sector by providing for special mediation and arbitration proceedings for two kinds of public service enterprises:

- **Ordinary “public service enterprises”** are defined as including regular public transportation services; gas, electricity and water; oil refineries and oil supply; hospitals and other medical services; banks and the Mint; and broadcasting and communication. In cases of pending industrial conflict, ordinary strike regulation applies (mediation by the Labour Relations Commission and cooling-off period).

- **“Essential public services”** are those where strikes “may endanger the daily life of the general public or undermine the national economy considerably”. In these enterprises, the Labour Relations Commission, after recommendation of a special mediation panel representing public interests, can invoke compulsory arbitration after which industrial action is considered illegal. Importantly, the list of enterprises that come under the heading of essential services is almost identical to that for ordinary public service enterprises, except that the Mint and broadcasting are not included and transportation services are more narrowly defined. It is also planned to drop banking (except for the Bank of Korea) and inner-city bus transportation from the list in 2001.

Under previous legislation, all public services were subject to compulsory arbitration. The ILO has repeatedly asked the Korean government to ensure that restrictions to the right to strike only apply to essential services in the “strict sense of the term”, under conditions of an “imminent threat to the life, personal safety or health of the whole or part of the population” (ILO, 1996; 1998); the distinction in the 1997 legislation between ordinary and “essential” public services seems to be a partial attempt to respond to these concerns.40

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Other OECD countries also have provisions which ban or restrict labour disputes in the public sector or in industries defined as “essential services”. The idea that strikes in the public sector are different from those in the private sector and should be regulated differently, in particular to guarantee the continuous provision of certain services to the general public, is indeed reflected in the laws of many Member countries. However, there is no consensus view as to which public services are deemed to be “essential”, in which the right to strike is restricted, and those which are not. This is partly explained by the fact that the necessity for continuous provision of a service in any given country depends on a variety of geographical, economic and technological factors; an emergency in one country is not necessarily an emergency in another.

To mention a few examples among other OECD countries, in Austria and Germany there is a blanket ban on industrial action by civil servants which includes police, judges, and many teachers, social workers and employees in postal and railroad services (while other public employees under private-law contractual status are allowed to go on strike). In Spain, government can order compulsory arbitration to end a strike that involves “serious prejudice to the national economy”. Italy has laid down a list of essential services in its strike law which allow provincial prefects to uphold minimum services in public health, waste disposal, TV news, maritime links to the islands, and the payment of social security benefits (see Ozaki, 1990; Jacobs, 1998).

Korea is therefore not unique in restricting labour disputes in some public services. However, Korean labour law provisions seem to go farther than in other Member countries in that they set out an unusually broad definition of “essential services” where a strike ban covering entire sectors is maintained. Other countries have been more successful in pursuing alternative solutions, which help minimise intervention in freedom of association and the right to strike. These include the conclusion of voluntary no-strike agreements between management and unions in particular sectors, and regulations which, while allowing most employees of a particular industry to take industrial action, nevertheless require the maintenance of minimum or skeleton services. It should be noted that the Tripartite Commission has included the “adjustment of the scope of essential public services” on its agenda for future deliberations, albeit with no timetable to produce an agreed solution on this issue.

Payment of trade union officials

In contrast to previous established practice, the 1997 TULRAA prohibits the remuneration of full-time trade union officers by the employer, as well as any financial payment for regular trade union operations. This clause is supposed to take effect by the year 2002, when multiple trade unions will be allowed to co-exist at company level. The law has thus incorporated employer concerns that they will at that time be forced to support large numbers of paid full-time union officials from both FKTU- and KCTU-affiliated enterprise unions. Already under current conditions, employer associations complain that their members are forced to pay
an unusually high number of union officers in relation to the workforce members they represent.\textsuperscript{41}

A survey of practices in other OECD countries shows that paid working time off for trade union representatives is not an uncommon feature of industrial relations systems. Additional time off for works council members (where these exist) is also widespread. In large enterprises, hours credits for both these functions often imply that many union officials devote their full time to union matters while being on the company payroll. In some countries, hours credits and time off for union officials are regulated in detail through labour law, while in other countries the matter is left to collective agreements.

To take one example, in France there are three major kinds of employee representation: the délégues du personnel (staff delegates), délégues syndicaux (trade union delegates) and members of the works council. All these representatives are guaranteed, by the Labour Code, a certain number of credit hours per month (varying by company size) to fulfil their functions. The number of delegates also increases with company size. More credit hours are available for work on health and safety issues, and for collective bargaining purposes. These hours can be cumulated and redistributed among delegates, and are also often extended by collective agreement, so that in fact there is a widespread practice of full-time trade union officials fully paid by their company (data do not permit the calculation of a ratio per workforce or union members).

In the United States, labour legislation aims to ensure that any payments for union officials are not for the purpose of interfering with or unduly influencing trade union activities, in which case they would constitute an unfair labour practice. However, payments to union officials, part-time or full-time, are allowed by law and court decisions if they are in the form of wages and benefits duly negotiated through collective bargaining, and do not restrict the union’s ability to exercise its rights of freedom of association and collective bargaining. In fact, union officials are needed to administer the collective agreement and solve grievances that arise during its lifetime. Similarly, in Australia the 1996 Workplace Relations Act, while guaranteeing the workers’ choice of bargaining agent, leaves the matter of payment of union officials to negotiations at company level. Only in Japan is this practice expressly outlawed through a clause in the Trade Union Act which prohibits employers to “give financial support in defraying the trade union’s operational expenditures”. In the view expressed on several occasions by the ILO’s Committee on Freedom of Association, the prohibition of the payment of full-time union officials by employers is a matter which “should not be subject to legislative interference”.

Among most recent developments, the Korean government has put a proposal before the National Assembly which would keep the prohibition of payment of full-time officials as a matter of principle, but would allow individual employers discretion to pay their union officials. However, strikes to enforce trade union demands in this matter would not be allowed, and a Presidential Decree would put a ceiling on the ratio of officials to union members.\textsuperscript{42}
Union status of dismissed workers

The 1997 TULRAA specifies that an organisation will not be regarded as a trade union when persons who are not workers are allowed to join it. Accordingly, dismissed workers are not allowed to retain their membership in a trade union as soon as the dismissal has become valid (i.e. in case of a legal complaint of the dismissed worker, after the Labour Relations Commission and/or the courts have made their final decision). Although the February 1998 Tripartite Agreement did recognise unemployed workers’ rights to join a trade union or remain a union member (although not at enterprise level), a corresponding bill subsequently submitted by the government was rejected by the National Assembly. Despite repeated statements of intent by the government, no further bill has been submitted, as there seems to be disagreement among the Ministries concerned as to what type of unemployed might be allowed to join upper-level trade union organisations (in particular as concerns the length of their unemployment spell). As the KCTU experience has shown, the fact that some trade union officials are dismissed or unemployed workers, can lead to difficulties in securing legal recognition of a trade union by government authorities. If the law remains unchanged, this problem is bound to re-appear as new unions are formed and seek to register with government authorities.

This particular provision of Korean labour law has no counterpart in other OECD countries which consider qualification for membership as a matter for the union itself to decide and not to be set down in legislation. Most trade unions in OECD countries have varying proportions of students, self-employed, unemployed and retired workers among their ranks (OECD, 1991, Chapter 4). For example, in Italy, the “gross” rate of trade union membership is about one third higher than the “net” rate which would include only workers currently employed. United States and Canadian local unions tend to restrict eligibility to union office to members of the particular bargaining unit, although it would be rare that laid-off workers lose their membership, as long as they pay their union dues. However, these are practices decided by the trade unions themselves.43

Similarly, in the Japanese system of enterprise bargaining, it is usually decided in the constitutional charter of each trade union, whether dismissed or laid-off workers can keep their status as union members. Up to the 1960s, Japan had provisions in its Public Corporations and National Labour Relations Law which disqualified those unions from collective bargaining which accepted as members, or elected as leaders, workers who were not employed by one of the public enterprises. After appeals to the ILO by the Japanese public sector trade unions, the Japanese government abolished these provisions and was then able to ratify ILO Convention 87 (Hanami, 1985).

3. Arrest and imprisonment of trade union officials

Apart from the issue of labour law reform, the practice of arresting and imprisoning trade union leaders and members for violations of existing laws has
also been a matter of considerable concern. Arrests of trade union demonstrators and officials have characterised the Korean industrial relations scene throughout the 1990s. As shown in Table 2.4, numbers fluctuate considerably, as most are not detained for long – however, some unionists, including high-ranking officials and even union presidents, have received substantial prison sentences. Charges tend to range from instigation of or participation in illegal strike action, to obstruction of business, violation of the National Security Act, breaking and entering and other forms of violence.

Table 2.4. Evolution of the number of trade union members subject to arrest procedures,\(^a\) 1993-2000\(^b\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade union members subject to arrest procedures</th>
</tr>
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<tbody>
<tr>
<td>1993</td>
<td>46</td>
</tr>
<tr>
<td>1994</td>
<td>161</td>
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<tr>
<td>1995</td>
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</tr>
<tr>
<td>June 1999</td>
<td>76</td>
</tr>
<tr>
<td>April 2000</td>
<td>40</td>
</tr>
</tbody>
</table>

\(^a\) Figures refer to persons subject to arrest procedures, i.e. 1) under arrest and detained; 2) under arrest, but set free on bail while awaiting trial; and 3) persons sought for arrest.

\(^b\) The first seven rows refer to the total number of persons that were subject to arrest procedures in the course of the year. The final three rows refer to the number of persons subject to arrest procedures at the moment indicated.

Sources: KCTU and TUAC for the first six columns, Ministry of Labour for the remaining columns.

During the economic crisis of 1998 and 1999, many union members reacted strongly to the announcement of business restructuring and collective dismissals. This included takeover of plants and equipment, and strike action in essential services where the law prescribes conflict resolution through arbitration. In this context, arrests were particularly numerous, going up to almost 500 persons during 1998. At the end of 1998, petitions were made at the ILO on behalf of 141 workers subject to arrest procedures. Of these, only a small number remained under arrest as of June 1999; however, by that time, 70 more found themselves arrested or sought for arrest after new strikes and demonstrations. According to latest information from the Korean government as from mid-April 2000, after new strikes in the automobile industry, eight KCTU members were under arrest, while another 32 were sought by the police with arrest warrants.

The OECD, as well as the ILO's Committee on Freedom of Association, have repeatedly urged the Korean government to take appropriate measures so that the persons detained or on trial as a result of their trade union activities are released.
or that the charges against them are dropped. The ILO Committee has objected, in particular, to the use of the clause in the Penal Code relating to “obstruction of business” as a basis for the arrest of union demonstrators and strike participants. The Korean authorities argue that the concerned trade unionists have been arrested on such grounds as violence during strikes, unlawful occupation of premises or damage to company facilities. They have also announced a long-range plan to “minimise” the number of arrests through focusing mainly on strike leaders and through applying fines, but not detaining other participants.44

4. Current status and further perspectives of labour law reform

Substantial revisions of labour law have been undertaken since Korea joined the OECD in 1996. In several years from now, Korean labour law can be expected to guarantee labour rights to a similar extent as that prevailing in many other OECD countries. This should be the case, in particular, once trade union pluralism at enterprise level has been established, public servants have been allowed to join trade unions and bargain – with all due restrictions pertaining to civil service – about their terms of employment, and the government ceases to prescribe to trade unions whom they should or should not accept as members. The step-by-step reduction of the list of “essential services” where compulsory arbitration applies, is also a move in the right direction. With these preconditions fulfilled, there should be no problem for Korea to sign and ratify ILO Conventions 87 and 98 on Freedom of Association and the Right to Collective Bargaining.

Solutions to the remaining problems need to be found to build up stability in Korean industrial relations and overcome the adversarial legacy characterised by an authoritarian management culture and trade union militancy. There are encouraging signs of a move away from past confrontational attitudes and of the emergence of new types of constructive and co-operative labour/management relations at workplace level. Not the least of these was the “concession-bargaining” of 1998, which saw trade unions prepared to bargain over wage restraint and even nominal and real wage reductions as an alternative to lay-offs and as a tool to overcome the economic crisis.

On the other hand, the repeated withdrawals by both labour and business representatives from the Tripartite Commission are not the right way to break out of the adversarial pattern and build up the necessary trust. It is hard to envisage how Korea will be able to 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 Tripartite Commission, now endowed with legal status, has the potential to evolve into a core body for promoting social dialogue and social peace and for fostering a new, more co-operative climate.45 However, it will probably take a considerable amount of time to overcome the legacy of distrust built up over past decades, as well as much good will on the part of government.
Chapter 3. Labour Market Programmes and the Public Employment Service

A. Introduction

As part of the response to the financial crisis, labour market programmes have been considerably expanded. The task has been especially challenging, in a country where the social safety-net was, at the start of the crisis, still in its infancy. Thus, the National Pension System was created in 1988 (and, as a result of its newness, it has not fully matured) and the Employment Insurance System was established in 1995. Even so, the government has managed to strengthen existing labour market programmes and to initiate new ones. A peculiar feature of these policies is that they have been supported by local governments, NGOs and indeed society at large. Thus, to a larger extent than in other OECD countries, local governments have adopted an active approach towards the unemployment problem. In 1998-99, many of them extended or created their own employment offices that functioned in parallel with central government ones. They also reshuffled the administration and indeed many local civil servants have been asked to shift jobs in support of labour market programmes. Remarkably, to help finance these programmes, civil servants' wages were cut by 10 per cent in 1998.

Reflecting these efforts, government expenditures on “unemployment measures” have increased from negligible levels in 1997 to the equivalent of 2.2 per cent of GDP in 1998 and 3.2 per cent in 1999 (Table 3.1). Moreover, these figures under-estimate total public spending, as they do not take into account some of the employment programmes launched by local governments – the cost of which was unknown at the time of writing. Given the improved economic situation and the falling unemployment rate, the prospect is for a lower expenditure on labour market programmes as a per cent of GDP.

Compared with other OECD countries, expenditure on labour market programmes appears to be highly sensitive to the cycle. During the crisis, it increased much faster than is the case in most other OECD countries facing similar economic circumstances. Table 3.2 shows patterns of expenditure on labour market programmes in different countries during periods of rapidly rising unemployment – defined in the table as periods where the unemployment rate rose by
over three percentage points. In the majority of the countries shown in the table, these expenditures grew by a few tenths of a percent of GDP. On the other hand, in Korea, as well as Finland, Sweden and, to a lesser extent, Australia, labour market expenditures have reacted strongly to the rise in unemployment. It can be argued that labour market programmes can be more effective in reducing the risk of long-term unemployment when they respond quickly and meaningfully to changes
Table 3.2. **International comparison of expenditures on labour market programmes in periods of rising unemployment**

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment rate</th>
<th>Government expenditures on labour market programmes as a percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trough</td>
<td>Peak</td>
</tr>
<tr>
<td>Australia (1989, 1993)</td>
<td>6.2</td>
<td>10.9</td>
</tr>
<tr>
<td>Belgium (1991, 1994)</td>
<td>6.6</td>
<td>10.0</td>
</tr>
<tr>
<td>Canada (1989, 1992)</td>
<td>7.5</td>
<td>11.3</td>
</tr>
<tr>
<td>Finland (1989, 1993)</td>
<td>3.1</td>
<td>16.4</td>
</tr>
<tr>
<td>France (1990, 1994)</td>
<td>9.0</td>
<td>12.3</td>
</tr>
<tr>
<td>Germany (1991, 1994)</td>
<td>4.2</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>Korea (1997, 1999)</strong></td>
<td><strong>2.6</strong></td>
<td><strong>6.4</strong></td>
</tr>
<tr>
<td>New Zealand (1989, 1992)</td>
<td>7.1</td>
<td>10.3</td>
</tr>
<tr>
<td>Spain (1990, 1994)</td>
<td>16.2</td>
<td>24.1</td>
</tr>
<tr>
<td>Sweden (1989, 1994)</td>
<td>1.5</td>
<td>9.4</td>
</tr>
<tr>
<td>United Kingdom (1990, 1993)</td>
<td>7.1</td>
<td>10.5</td>
</tr>
</tbody>
</table>

---

**a)** The table shows expenditure patterns during periods characterised by a rise of unemployment of over 3 percentage points. The selected period starts with a “trough”, which corresponds to the low-unemployment year, and it ends with a “peak”, i.e. the year when unemployment reached its highest level. In the case of Korea, the trough year is 1997 and the peak was reached during 1999.

**b)** Difference between programme expenditure (as a percentage of GDP) during the peak year and programme expenditure (as a percentage of GDP) during the trough year.

**c)** Unemployment trough for Germany refers to Western Germany in 1991, while the other figures refer to the whole of Germany.

**Sources:** OECD, *Quarterly Labour Force Statistics* for the standardised unemployment rates, and OECD database on labour market programmes.
Pushing Ahead with Reform in Korea

in labour market conditions, as has been the case in Korea. It is also worth noting that, in 1998 and 1999, the share in Korea of expenditures on active measures in total expenditure on labour market measures was 70 per cent (see bottom of Table 3.1), compared with about one third, on average, in the OECD area. However, the actual effects of these programmes depend on specific characteristics of the programme design and implementation (notably the interaction between programmes and job-search incentives, as well as the efficiency of public employment services in terms of programme delivery) which are examined in this chapter.

More specifically, the purpose of this chapter is to examine the extent to which labour market programmes have adequately covered disadvantaged labour market groups, and to analyse the impact of the programmes on labour market outcomes. It starts with a brief description of the Employment Insurance System, which is the core pillar of government employment policies (Section B). It then discusses active labour market programmes and their effectiveness (Section C). The chapter then reviews the functioning of a key institution in programme delivery, namely public employment services (Section D). It concludes with a preliminary assessment (Section E).

B. The Employment Insurance System and unemployment benefits

Together with the Industrial Accidents Compensation Insurance, Medical Insurance and the National Pension System, the Employment Insurance System (EIS) forms the basis of Korea’s social protection system. The EIS 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. Consequently, the EIS comprises three components, namely employment security (i.e. employment subsidies with the aim of either avoiding lay-offs or promoting employment of vulnerable groups), vocational training and unemployment benefits. The purpose of this section is to describe briefly the EIS and to examine the unemployment benefits component.

1. The Employment Insurance System (EIS)

A relatively limited scope of application

At the time of its creation, the EIS covered mainly regular workers in enterprises with over 30 workers (over 70 workers in the case of the employment security and vocational training components). Since then, the coverage has been expanded considerably in terms of both enterprises and types of workers that fall under the scheme. In January 1998, the system was expanded to cover firms of more than ten workers; in March 1998 to firms of more than five workers; since October 1998, it affects workers of all enterprises irrespective of their size. There remain important exceptions, however. In particular, the following workers are not covered by the EIS.
Labour Market Programmes and the Public Employment Service

- 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; and
- workers over age 65 and new employees over age 60.

Despite the recent strengthening of the system, only a relatively small proportion of the working population is insured. In July 1999, there were 12.8 million paid workers, compared with a total of over 20 million employed individuals. This large gap is attributable to the fact that, as in other OECD countries, the system applies neither to the self-employed nor to unpaid family workers who, in the case of Korea, make for a disproportionate share of total employment. More importantly, only two-thirds of total paid workers are eligible under the EIS (this is so because many daily workers and part-timers, as well as civil servants, are non-eligible) and only 71 per cent of those eligible are actually insured (Table 3.3). The latter figure is low by international comparison. This can be explained by the fact that, as discussed earlier, the EIS covers a small proportion of the working population, and in addition, there would appear to be serious implementation difficulties. Aware of this problem, the government is considering measures to improve the coverage by the EIS of daily workers.

Table 3.3. Coverage of the Employment Insurance System (EIS)
Number of workers in thousands

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid workers</td>
<td>12 824</td>
<td>12 500</td>
<td>12 603</td>
<td>12 819</td>
</tr>
<tr>
<td>Eligible workers</td>
<td>4 280</td>
<td>5 190</td>
<td>8 342</td>
<td>8 700</td>
</tr>
<tr>
<td>Insured workers</td>
<td>4 204</td>
<td>4 309</td>
<td>5 876</td>
<td>6 172</td>
</tr>
<tr>
<td>As a proportion of eligible workers (%)</td>
<td>(98.2)</td>
<td>(83.0)</td>
<td>(70.4)</td>
<td>(70.9)</td>
</tr>
</tbody>
</table>

Sources: Direct submission by Korean authorities, and Secretariat estimates.

Funding of the EIS: a low level of social contributions

The EIS is funded by way of social contributions calculated as a proportion of the total wage. There exist three different contributions, one for each component of the EIS: the contribution rate to the employment security component of the EIS is 0.3 per cent of the total wage; in the case of the vocational training component of the system, the contribution rate ranges from 0.1 per cent to 0.7 per cent of the total wage, depending on the size of the firm; a 1 per cent contribution rate has been set to finance the unemployment benefits component. While contributions to the employment security and training components of the EIS are borne by the employer only, half of the unemployment benefits contribution is paid by the employer and the other half by the employee. The three contributions together

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add up to a maximum of 2 per cent, but authorities can bring the total contribution rate to up to 3 per cent, depending on the economic circumstances.

Despite the low level of EIS contributions, it is somewhat surprising that the Employment Insurance Fund has maintained a surplus over the past two years. In 1998, the revenues to the Fund exceeded expenditures by about 170 billion Won, or 12 per cent of the total Fund revenues. This is mainly due to the fact that many unemployed workers have not been entitled to receive unemployment benefits, thereby reducing pressures on the expenditure side. In addition, on the revenue side, the Fund has enjoyed a sizeable inflow of interest income, reflecting reserves accumulated in 1995-1997 – a period characterised by a nearly full-employment situation. Excluding interest income, the Fund would have been in the red in both 1998 and 1999, thereby raising the issue of whether the EIS is adequately funded.\textsuperscript{51}

2. Unemployment benefits

The main role of unemployment benefits is to provide income support to workers who lose their job. At the same time, the system should encourage the re-employment of benefit recipients by making sure that they actively look for a job and remain employable. The Korean unemployment benefits system aims to meet both the income support and the re-employment objectives. It was established in 1995 as one component of the EIS, when the labour market situation was one of near full-employment. With the advent of the financial crisis, the coverage of the system has been widened and benefits have been made more generous, i.e. the income-support element is stronger. Despite these efforts, a relatively small number of the unemployed receive benefits while, for those who do receive them, the re-employment element of the system remains weak. These remaining problems are attributable to legal and practical difficulties regarding eligibility requirements, the rules that govern the duration and calculation of unemployment benefits and job-search enforcement mechanisms.

A relatively low proportion of workers eligible for benefits

In Korea, the main type of unemployment benefit is the job-seeking allowance. It is available to workers who contribute to the EIS, under certain rules and conditions. The other type of unemployment benefit is the employment promotion allowance. Its role is to encourage the early re-employment of recipients of the job-seeking allowance (see below).

The unemployment benefits component of the EIS has been designed to provide income support to job-losers – new entrants are not covered. In addition, not all job-losers qualify for unemployment benefits under existing eligibility criteria:

- The claimant must be insured in the EIS for at least a specified period. The law provides that, as of 1st April 2000, the insured period should be no less than 180 days over the 18 months preceding the date of unemploy-
ment – but the insured period can be interrupted (e.g. because the employee shifts jobs) provided that it totals 180 days as legally stipulated. 52

- The claimant should be actively looking for a job. This implies that the claimant must register at an Employment Security Centre immediately upon separation and, when doing so, indicate the kind of job he/she is looking for.

- The loss of employment should not be motivated by a “serious fault” of the claimant. Neither should it reflect a personal choice of the claimant to leave the enterprise without justifiable reasons. Justifiable reasons include economic restructuring, the prospect that the company will suspend its operations or close down, the geographical transfer of the company and difficulties in adapting to new technologies. 53

It is important to note that a separated worker does not lose his/her entitlement to unemployment benefits if he/she receives separation allowances. However, if retirement and other separation allowances granted by the enterprise exceed a certain amount, the payment of job-seeking benefits may be deferred by three months.

Although these criteria would not seem to be particularly strict, they effectively leave uncovered a large number of unemployed people. There are several reasons for this. First, new entrants, daily workers, part-timers and unpaid family workers are excluded, simply because they cannot be insured in the EIS. Second, even those workers who should be insured in principle may not be eligible to receive unemployment benefits when the employer does not transfer the social contributions to the Employment Insurance Fund. The non-payment of contributions is endemic among small businesses, which to some extent reflects the fact that the system has only been extended to these businesses recently and implementation inevitably occurs with a delay. But the non-payment of contributions might also be attributable to unwillingness on the part of these businesses to pay any taxes and social contributions. However, in order not to penalise the workers of those businesses, Employment Security Centres can provide benefits to job-losers who meet all eligibility criteria except the payment of contributions by their employers. Third, there is significant turnover among certain categories of workers, notably those hired under temporary contracts. Therefore, some job-losers contribute for too short a period (less than six months) to qualify for unemployment benefits. Fourth, certain unemployed workers reportedly are not aware of the existence of the system and fail to claim their entitlements.

Reflecting the legal eligibility requirements as well as practical difficulties in increasing the coverage of the EIS, the proportion of unemployed workers who receive an unemployment benefit is very low. As of June 1999, about 170 000 unemployment benefit recipients were registered, that is 12 1/2 per cent of total unemployment and for 1999 as a whole, it is estimated that 13.5 per cent of the unemployed received benefits (see Chart 3.1). In all other OECD countries for
which data are available, the share of the unemployed that receive benefits is significantly larger – in certain countries, almost all unemployed workers are granted an unemployment benefit.\footnote{54}

In addition, certain categories of workers are more likely to receive benefits than others. Table 3.4 shows that during the first half of 1999, some 187 000 workers received unemployment benefits.\footnote{55} There is little variation in the benefit recipients/unemployment ratio by gender (even though the number of male benefit recipients was twice as high as that of female recipients, the figures are practically identical as a proportion of unemployment). By contrast, the benefit recipients/unemployment ratio varies significantly by 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. Interestingly, despite the adoption of new legislation easing dismissal protection, less than 20 per cent of benefit recipients registered during the first half of 1999 had lost their job as a result of “urgent managerial reasons”. Also, in about 10 per cent of the cases, the reason for job loss was either termination of the contract or retirement and 7\% of recipients were previously employed in a company facing bankruptcy.

It is not possible to assess with any degree of accuracy the respective roles of the different factors that might explain the low coverage of benefits. It seems that more than half of the unemployed workers do not receive benefits simply because

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart3_1.png}
\caption{Participation of unemployed workers in different labour market programmes in 1999}
\end{figure}

\textit{Source: Korea Labour Institute estimates.}
they were not insured in the EIS prior to becoming unemployed. Available data suggest that 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.

**Level of benefits and duration of payment: an ungenerous system for low-wage workers**

Not only is coverage limited by international standards but, in addition, benefits are rather modest for the limited number of unemployed workers who receive them.

The (daily) job-seeking allowance amounts to 50 per cent of the so-called “basic daily wage” at the time of separation. There is a certain risk that the basic daily wage at the time of separation is lower than the usual basic daily wage, the risk being especially high in the case of enterprises facing financial difficulties.
Therefore, the law provides that the wage used as a basis for the calculation of the job-seeking allowance should be the “ordinary” wage, when the latter is greater than the basic daily wage at the time of separation. Importantly, the job-seeking allowance is not subject to taxes and social contributions. As a result, the net (after-tax) replacement rate, defined as benefits relative to expected income in work, exceeds 50 per cent. The privileged tax treatment of unemployment benefits may also have implications in terms of labour market incentives – an issue addressed below.

The job-seeking allowance is subject to a ceiling and it cannot fall below a minimum level. The ceiling for the job-seeking allowance is set at 30,000 Won per day, that is approximately US$25 per day or 56 per cent of the average daily wage. Since January 2000, the minimum job-seeking allowance has been brought to 90 per cent of the minimum wage (up from 70 per cent before January) or about US$9.50. The minimum job seeking allowance is now slightly above the minimum cost of living, which in December 1999 was officially estimated at 268,500 Won per month, or 8,950 Won per day.

The effective level of benefits depends on the insured wage at the time of job loss. Available data for 1999 show that the majority of the benefit recipients are low-wage workers. For about two-thirds of them, benefits were calculated on the basis of a wage below average. Conversely, only 21.2 per cent were entitled to the maximum benefit. On average, in 1999, the daily job seeking allowance amounted to 23,680 Won.

The maximum duration of payment of unemployment benefits ranges between three and eight months, depending on the age at the time of job loss of the recipient and the period of contribution to the EIS (the insured period).

It is, however, possible for a job seeker to obtain an extension of the payment of benefits – thereby lengthening the maximum duration of benefit payment. This possibility arises in three circumstances. First, the Employment Security Centre may decide to extend the payment of benefits for a period of up to two months to any qualified recipients who have exhausted their ordinary benefits and face particular difficulties in finding a job – this is termed “individual extended benefit”. The job-seeking allowance for recipients of the individual extended benefit is 70 per cent of the ordinary job-seeking allowance, i.e. 35 per cent of the basic daily wage at the time of separation. But this is subject to the same floor as in the case of the normal job-seeking allowance, i.e. 90 per cent of the minimum daily wage. Second, in special circumstances such as when unemployment increases markedly, the Minister of Labour can decide to provide unemployed recipients who have exhausted their benefits with “special extended benefits” for a period of up to two months. The level of the special extended benefit is calculated as in the case of the individual extended benefit and is therefore subject to the same floor. Third, a recipient who participates in a training programme on recommendation of the Employment Security Centre can receive 70 per cent of the job-seeking allowance until the end of the programme. The “training extended benefit” is paid for the entire duration of the training programme, with a limit of two years.
The law provides that the extended benefits should be offered only on exhaustion of the ordinary job-seeking allowance. Also, according to the law, a recipient cannot be granted different types of extended benefits simultaneously. But the extended benefits can be offered subsequently and in any particular order. Reflecting these rules, the maximum duration of payment of the job-seeking allowance, including the individual and special extension benefits, is ten months in the case of a recipient aged less than 30, 11 months in the case of prime-age recipients and 12 months for those older than 50. When the training extended benefit is taken into account, the maximum duration of benefit payment increases by two additional years.

The EIS was established in July 1995 and, therefore, in practice the maximum entitlement at present cannot exceed six months (seven months as of 1st July 2000), which combined with the individual extended benefits makes for a maximum of eight months (nine months as of 1st July 2000). In addition, given that not all unemployed workers have been insured since 1995, the maximum is de facto much less for many recipients. Overall, in 1999, it is estimated that the average recipient has received benefits for about 98 days.

In addition, given that not all unemployed workers have been insured since 1995, the maximum is de facto much less for many recipients. Overall, in 1999, it is estimated that the average recipient has received benefits for about 98 days.

An international comparison shows that, in most respects, benefits provided by the Korean unemployment insurance system are less generous than is the case in the majority of the other OECD countries where such benefits exist. The level of unemployment benefits is relatively low by international comparison. The statutory replacement rate is 50 per cent (or about 54 per cent when taking into account the fact that benefits are tax- and contribution-free in Korea). In addition, benefits are subject to a relatively long waiting period of two weeks, and the duration of benefits is shorter than in the majority of OECD countries.

Job-search requirements and incentives

As in other countries, the system includes control mechanisms to verify that recipients effectively look for a job. There are also financial incentives for early re-employment, i.e. to find a job before expiration of benefits. Finally, the availability of other support systems also shapes labour market incentives. These schemes are described in Box 3.1.

It is safe to assert that the relatively low re-employment rate of benefit recipients is mainly due to the overall economic situation during most of the period analysed in this study. Indeed, there would seem to be relatively little risk of benefit dependency in Korea. For one thing, work is financially rewarding vis-à-vis benefits. The modest level of benefits (and their limited duration) provides a strong financial incentive for job-seekers to look for a job. In addition, under certain earnings conditions, recipients can continue to receive benefits when they accept a job. They can also be granted a re-employment allowance. The income effects of the different benefits and incentive mechanisms are shown in Table 3.5. More fundamentally, work is highly valued from the social point of view. According to a recent attitudinal survey, three quarters of the unemployed would be prepared to accept a job entailing lower wages and working conditions than in the previous job (see Park, Y.B., 1999).
Box 3.1. **Job-search requirements and re-employment incentives**

The Korean unemployment benefits system includes several “activation” elements with the purpose of encouraging the re-employment of benefit recipients. First, the system provides for the following job-search requirements:

- **Job-seekers are encouraged to register at the Employment Security Centre as soon as they become unemployed.**
- **In order to ensure that job-search and income support go hand-in-hand, a claimant who applies for unemployment benefits at the Employment Security Centre must simultaneously apply for work.**
- **Every two weeks, unemployed recipients have to demonstrate to the Employment Security Centre that they are looking for a job. Failing this in any two-week period, the payment of benefits is suspended for the period in question – though the recipient can obtain benefits in the following two-week period, provided the job-search requirement is fulfilled.**
- **The law includes the possibility of sanctions in cases where the recipient has fraudulently circumvented the job-search requirement. In this case, no benefit payment is made and the Employment Security Centre may request reimbursement of the benefit either in part or fully. Depending on the nature of the fraud, it may additionally impose a fine on the recipient amounting to up to one two-weekly benefit payment.**
- **The payment of unemployment benefit is suspended if the recipient rejects a job offer or a training programme recommended by the Employment Security Centre, unless there are justifiable causes for the refusal. These causes include cases where a) the job and/or training offer are inadequate vis-à-vis the skills of the worker; b) the offer entails a “difficult” geographical relocation of the residence of the worker; and c) the wage level of the offered job is “unreasonably” low with respect to market wages for the same occupation and area. The suspension of benefits lasts two weeks when a job offer is rejected and four weeks in the case of a training programme refusal. In other words, benefit entitlements are not lost entirely.**

These requirements are not uncommon among OECD countries. Their effectiveness depends on how they are made operational by public employment services – an issue treated in Section D.

Unemployment benefits also comprise a re-employment bonus, namely the employment promotion allowances. The purpose of these allowances is to provide financial incentives to recipients of the job-seeking allowance to find a job before termination of the benefit period. There exist four such allowances. **First**, the early re-employment allowance can be paid to recipients of the job-seeking allowance who find a “stable” job before exhaustion of half of the job-seeking benefits to which they are entitled. The re-employment allowance amounts to half of the unused job-seeking benefits. In order to avoid possible abuse of the system and fraud, the re-employment allowance is provided on certain conditions, notably that the re-employed worker stays at least one year in the new job and that the new job is not located in the enterprise where he/she was last employed. The employer who hires the recipient of the re-employment allowance can in turn be granted a re-employment subsidy. **Second**, a so-called vocational ability development allowance is available to recipients of the job-seeking allowance who participate in a training course on recommendation of the Employment Security Centre. **Third**, a wide area job-seeking allowance is available to recipients of the job-seeking allowance who, following the suggestion of the Employment Security...
Box 3.1. **Job-search requirements and re-employment incentives** (cont.)

Centre, look for jobs in areas over 50 km from their place of residence. The allowance is supposed to cover transportation and accommodation expenses incurred when prospecting in a wide area. Fourth, the Employment Security Centre may decide to provide a moving allowance to recipients who have to change their place of residence in order to either take up a new job or participate in a training course prescribed by the Centre. The amount of the allowance is supposed to cover the moving expenses and it therefore varies with the distance and the size of the recipient’s household.

Despite their potential benefits, these schemes are not much used. For instance, less than 20 000 recipients of the job-seeking allowance were granted the early re-employment allowance in both 1998 and 1999.

Finally, a recipient who finds a job can keep part of the unemployment benefits. Indeed, the system includes a total earnings’ disregard when the income earned is less than a certain threshold – the latter is calculated as the difference between the daily wage at the time of separation and the daily job-seeking allowance. The earnings’ disregard is partial when income earned ranges between the threshold and 80 per cent of the wage at the time of separation. When earnings exceed 80 per cent of the wage at the time of separation, the job-seeking allowance is lost. These rules apply to all types of income. Unfortunately, no data are available on the number of benefit recipients who have been allowed to keep part of their benefits while earning income from work. Experience from other OECD countries suggests that earnings’ disregards can provide an important incentive mechanism for part-time work.

There is no systematic evaluation of the extent to which the activation elements of the unemployment benefits system discussed above contribute to increase re-employment probabilities. Available data show that one quarter of those who qualified for unemployment benefits between July 1998 and July 1999 managed to find a job during the same period. The remaining three-quarters remained unemployed or dropped out of the labour market (and it is conceivable that some of them will have found a job in the unregistered economy).

---

1. Unemployment benefits are paid within 12 months upon the date of separation.
2. There exist, however, exceptions to the two-week interview requirement, notably in the case of illness and participation in training programmes.
3. See KLI (1999a), Table 44.

C. **Active labour market policies**

Active labour market policies (ALMPs) have attracted considerable attention among OECD policy makers. ALMPs are often regarded as a useful alternative to “passive” policies, especially in the face of high and persistent unemployment. They include a broad range of measures such as training, employment subsidies targeted to particular groups and direct job creation.®

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However, the cost-effectiveness of ALMPs needs careful evaluation; dead-weight losses, substitution and displacement effects may be quite high in many cases.62

Table 3.5. Benefits and work incentives, 1998
Income by level of wages prior to unemployment\(^a\)

<table>
<thead>
<tr>
<th>Monthly wage prior to unemployment</th>
<th>Average wage (pre-tax)</th>
<th>Two thirds of the average wage</th>
<th>133 per cent of the average wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before taxes and contributions</td>
<td>1 427 000</td>
<td>951 333</td>
<td>1 902 667</td>
</tr>
<tr>
<td>After taxes and contributions</td>
<td>1 304 183</td>
<td>881 294</td>
<td>..</td>
</tr>
<tr>
<td>Job-seeking allowance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Won</td>
<td>713 500</td>
<td>475 667</td>
<td>951 333</td>
</tr>
<tr>
<td>As a percentage of the pre-tax wage</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>As a percentage of the after-tax wage</td>
<td>54.7</td>
<td>54.0</td>
<td>..</td>
</tr>
<tr>
<td>Total benefits when the recipient participates in a training programme</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Won</td>
<td>863 500</td>
<td>625 667</td>
<td>1 101 333</td>
</tr>
<tr>
<td>As a percentage of the pre-tax wage</td>
<td>60.5</td>
<td>65.8</td>
<td>57.9</td>
</tr>
<tr>
<td>As a percentage of the after-tax wage</td>
<td>66.2</td>
<td>71.0</td>
<td>..</td>
</tr>
<tr>
<td>Income when the recipient works half-time</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Won</td>
<td>1 141 600</td>
<td>761 067</td>
<td>1 522 133</td>
</tr>
<tr>
<td>As a percentage of the pre-tax wage</td>
<td>80.0</td>
<td>80.0</td>
<td>80.0</td>
</tr>
<tr>
<td>As a percentage of the after-tax wage</td>
<td>87.5</td>
<td>86.4</td>
<td>..</td>
</tr>
</tbody>
</table>

.. Data not available.
\(^a\) The calculations shown in the table come from micro-simulations of the tax-benefits Secretariat model. Lines in italics show the relevant benefit replacement rates.

In Korea, given the relatively low levels of unemployment prevailing until recently, the focus on ALMPs is a new one – except in the case of programmes for the employed. This section discusses the main features of these measures, leaving the role of public employment services to another section.

1. Training programmes

Training programmes can be instrumental in adapting or upgrading workers’ skills, thereby enhancing their productivity and earnings. Korea has an established tradition in the area of training policies addressed to individuals in employment. These policies date back from the early 1950s, when the Korean government instituted centralised vocational training programmes to meet the requirements of the incipient industrial sector. By contrast, most training policies for the unemployed were introduced in the wake of the 1997 crisis.
Training programmes for the employed: a concentration in large firms

Korea suffers from under-provision of enterprise training, particularly among small enterprises. The system of training for the employed, which exists under the EIS, has helped improve the situation somewhat, but major problems remain.

The rapid economic development recorded since the 1960s and a shortage of skilled workers prompted the government to set up a training levy system in 1976. 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 1977-80 to less than one-fifth during 1991-93. In 1995, a new training system was established as one component of the EIS.

The new system embraces different types of schemes targeted to employed workers (others, targeted to the unemployed, are discussed below) namely: a) subsidies to firms that conduct in-plant training; b) subsidies to firms that assign workers on paid leave for education and training; c) subsidies to firms for education and training courses that take place outside the firm premises; and d) subsidies to employees for education and training, training for older workers and tuition loans. Data on expenditure and number of participants for the first half of 1999 show that, among the four programmes, in-plant vocational training is the most important one (Table 3.6). The programmes are financed by way of employers’ contributions to the EIS, along the lines explained in Section B. The EIS supports 40 to 90 per cent of the cost of the training and, additionally, in the case of the paid leave scheme, also one third to one half of the wage for courses that last over 30 days (Ministry of Labour, 1999).

The number of workers trained has increased since implementation of the new training policy under the EIS. In addition, most in-plant training schemes include “advanced” courses, instead of basic training as tended to be the case under the levy system (KLI, 1999).

However, despite these encouraging results, it would appear that current training programmes for the employed suffer from certain deficiencies:

- Only a small proportion of the firms that pay contributions to the fund actually provide training for their workers. To take the example of in-plant training, which is the main programme, during 1999 slightly more than 7 per cent of the insured firms provided in-plant training (Table 3.7). During the same period, only 13 per cent of all insured workers received such training. The take-up of the other training programmes for the employed is even lower.

- Large firms are the main beneficiaries of the training programmes for the employed. As shown in Table 3.7, in 1999 the participation rate of firms with less than 150 workers in in-plant vocational training was negligible, while it came close to 600 per cent in the case of firms with over

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1 000 workers – this high participation rate is explained by the fact that firms may claim support more than once over a given period of time. Less than 3 per cent of those employed in small firms received in-plant training, compared with 40 per cent in the case of large firms. Other training programmes for the employed are mainly used by large firms.

It would therefore appear that training under the EIS has not succeeded in increasing substantially training provided by small enterprises. As large firms would, in any event, tend to train workers in the absence of specific policies, it seems highly likely that the training subsidies yield large “windfall” gains to large firms. Although the provision of training is likely to increase with the economic recovery, the system’s effectiveness suffers from the excessive number of programmes and the fact that training tends to be concentrated in large enterprises. As in other OECD countries, there is a risk that workers in small firms, once trained, are hired by either another small firm or a bigger one. This risk may be higher in Korea, given the unusually large gap in terms of wages and working conditions between large and small firms (see Chapter 2). Future policies may consider introducing special financial

---

Table 3.6. **Training programmes for the employed: participation and expenditures, January to June 1999**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>In-plant vocational training</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of firms providing training</strong></td>
<td>23 011</td>
<td>16 338</td>
</tr>
<tr>
<td></td>
<td>(100.0)</td>
<td>(71.0)</td>
</tr>
<tr>
<td><strong>Number of trained workers (A)</strong></td>
<td>266 478</td>
<td>257 069</td>
</tr>
<tr>
<td></td>
<td>(100.0)</td>
<td>(96.5)</td>
</tr>
<tr>
<td><strong>Programme expenditures</strong></td>
<td>44 842 332</td>
<td>27 776 943</td>
</tr>
<tr>
<td>(000's of Won) (B)</td>
<td>(100.0)</td>
<td>(61.9)</td>
</tr>
<tr>
<td><strong>Average expenditure per participant</strong></td>
<td>168.3</td>
<td>108.1</td>
</tr>
<tr>
<td>(B/A)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Paid training leave</th>
<th>Subsidies for course attendance</th>
<th>Loans for school fees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of firms providing training</strong></td>
<td>148</td>
<td>..</td>
<td>6 525</td>
</tr>
<tr>
<td></td>
<td>(0.6)</td>
<td>..</td>
<td>(28.4)</td>
</tr>
<tr>
<td><strong>Number of trained workers (A)</strong></td>
<td>1 425</td>
<td>15</td>
<td>7 969</td>
</tr>
<tr>
<td></td>
<td>(0.5)</td>
<td>(0.0)</td>
<td>(3.0)</td>
</tr>
<tr>
<td><strong>Programme expenditures</strong></td>
<td>2 604 783</td>
<td>13 525</td>
<td>14 447 081</td>
</tr>
<tr>
<td>(000's of Won) (B)</td>
<td>(5.8)</td>
<td>(0.0)</td>
<td>(32.2)</td>
</tr>
<tr>
<td><strong>Average expenditure per participant</strong></td>
<td>1 827.9</td>
<td>901.7</td>
<td>1 812.9</td>
</tr>
<tr>
<td>(B/A)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

..: Data not available.
Source: KLI (1999a).
Table 3.7. **Beneficiaries of the in-plant vocational training programme, by firm size, 1999**

<table>
<thead>
<tr>
<th>Firm size (number of workers)</th>
<th>Total</th>
<th>Less than 150</th>
<th>150-1000</th>
<th>More than 1000</th>
<th>Construction&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidised firms (A)</td>
<td>43 511</td>
<td>30 478</td>
<td>9 946</td>
<td>3 087</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>(100.0)</td>
<td>(70.0)</td>
<td>(22.9)</td>
<td>(7.1)</td>
<td>..</td>
</tr>
<tr>
<td>Firms paying contributions (B)</td>
<td>601 394</td>
<td>569 417</td>
<td>4 679</td>
<td>531</td>
<td>26 767</td>
</tr>
<tr>
<td></td>
<td>(100.0)</td>
<td>(94.7)</td>
<td>(0.8)</td>
<td>(0.1)</td>
<td>(4.5)</td>
</tr>
<tr>
<td>Firms' participation rate (%) (A/B)</td>
<td>7.2</td>
<td>5.4</td>
<td>212.6</td>
<td>581.4</td>
<td>..</td>
</tr>
<tr>
<td>Subsidised workers (C)</td>
<td>781 408</td>
<td>98 479</td>
<td>232 062</td>
<td>450 867</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>(100.0)</td>
<td>(12.6)</td>
<td>(29.7)</td>
<td>(57.7)</td>
<td>..</td>
</tr>
<tr>
<td>Insured workers (D)</td>
<td>6 054 479</td>
<td>3 569 666</td>
<td>1 258 811</td>
<td>1 132 077</td>
<td>93 925</td>
</tr>
<tr>
<td></td>
<td>(100.0)</td>
<td>(59.0)</td>
<td>(20.8)</td>
<td>(18.7)</td>
<td>(1.6)</td>
</tr>
<tr>
<td>Workers' participation rate (%) (C/D)</td>
<td>12.9</td>
<td>2.8</td>
<td>18.4</td>
<td>39.8</td>
<td>..</td>
</tr>
<tr>
<td>Amount of subsidies (000s of Won)</td>
<td>82 764 007</td>
<td>11 600 307</td>
<td>26 606 676</td>
<td>44 557 024</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>(100.0)</td>
<td>(14.0)</td>
<td>(32.1)</td>
<td>(53.8)</td>
<td>..</td>
</tr>
</tbody>
</table>

<sup>a</sup> Data not communicated.

<sup>a</sup> Construction is shown separately given that special contribution rules, not based on firm size, apply to firms in this sector.

*Source.* Direct submission by Korean authorities.
incentives to encourage training by small firms and some targeting of the programmes at older workers, women and low-skilled workers.

Training policies for the unemployed: expansion, problems and possible reform avenues

Training programmes for the unemployed were considerably expanded during the crisis. The main training programmes available to the unemployed are:

- **a)** re-employment training of the unemployed, a programme targeted to workers dismissed from enterprises covered by the EIS, independently of whether these workers are entitled to unemployment benefits or not;
- **b)** training for employment promotion, which focuses on dismissed workers, not previously insured at the EIS, i.e. mostly temporary, daily and part-time workers;
- **c)** training for unemployed new entrants into the labour market (but most young unemployed have been granted internships under public work programmes, as discussed below);
- **d)** training for business start-ups, targeted at elderly unemployed, disabled individuals and school drop-outs; and
- **e)** manpower development training, which comprises initial training for craftsmen and training for “3-D” jobs. Of these, only the first programme is set up under the EIS and therefore funded by the Employment Insurance Fund. The others are financed out of the general government budget.

Remarkably, a large number of unemployed workers have participated in these programs. In both 1998 and 1999, more than 350,000 unemployed attended a training course, accounting for roughly one fifth of the unemployed in the period considered (see Table 3.8).

However, most training programmes for the unemployed appear to be insufficiently targeted at disadvantaged labour market groups. Moreover, they tend to suffer from relatively high drop-out rates, while re-employment probabilities of those who complete the courses are low:

- Available evidence suggests that unemployed workers covered by the EIS are more likely to receive training than other unemployed individuals, and moreover, they receive a higher training allowance than other trainees. As shown in Table 3.8, almost half of all trainees in 1998, and 63 per cent in 1999, were trained under the EIS programme, i.e. re-employment for the unemployed, even though unemployed workers covered by the EIS represent a minority of the unemployed. The unemployed trained under the EIS are given either the standard job seeking allowance or a monthly training grant of 300,000 to 350,000 Won (which includes allowances for transportation, family support and child care). Somewhat lower allowances are provided to participants in employment promotion training, while, under the other non-EIS programmes, trainees are either paid a standard training allowance amounting to roughly 80,000 Won per month or not remunerated at all.

- Slightly over half of the unemployed who undertook training courses in 1998 completed them within the same year (Table 3.8). Completion rates for 1999 are generally much lower. An important reason for non-completion is dropping out from the course. The estimated drop-out
Table 3.8. Outcomes of training programmes for the unemployed

<table>
<thead>
<tr>
<th></th>
<th>Total number of trainees</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(100.0)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>Total number of</td>
<td>362 941</td>
<td>170 096</td>
<td>226 356</td>
</tr>
<tr>
<td>trainees</td>
<td>(100.0)</td>
<td>(46.9)</td>
<td>(63.2)</td>
</tr>
<tr>
<td>Number of trainees who completed the course</td>
<td>193 837</td>
<td>116 429</td>
<td>93 268</td>
</tr>
<tr>
<td>Completion rate$^d$</td>
<td>53.4</td>
<td>68.4</td>
<td>41.2</td>
</tr>
<tr>
<td>Found employment$^c$</td>
<td>43 470</td>
<td>26 193</td>
<td>36 223</td>
</tr>
<tr>
<td>Total number of trainees who completed the course</td>
<td>131 638</td>
<td>93 268</td>
<td>4 933</td>
</tr>
<tr>
<td>Completion rate$^d$</td>
<td>36.7</td>
<td>41.2</td>
<td>63.9</td>
</tr>
<tr>
<td>Found employment$^c$</td>
<td>48 864</td>
<td>72 99</td>
<td>51 7</td>
</tr>
<tr>
<td>Other programmes</td>
<td>14 515</td>
<td>12 942</td>
<td>561</td>
</tr>
<tr>
<td>3-D jobs</td>
<td>11 000</td>
<td>8 724</td>
<td>4 933</td>
</tr>
<tr>
<td>Business start ups</td>
<td>13 598</td>
<td>12 515</td>
<td>562</td>
</tr>
<tr>
<td>New labour market entrants</td>
<td>43 012</td>
<td>5 762</td>
<td>56 2</td>
</tr>
<tr>
<td>Other programmes</td>
<td>9 011</td>
<td>13.4</td>
<td>..</td>
</tr>
<tr>
<td>Other programmes</td>
<td>9 011</td>
<td>13.4</td>
<td>..</td>
</tr>
</tbody>
</table>

..: Data not available.
$^a$: Re-employment training accounts for 80 per cent of total expenditures under the training fund of the EIS. Training programmes of the employed make for the remaining 20 per cent.
$^b$: Completion rate equals the number of trainees who completed the course divided by the total number of trainees.
$^c$: The proportion of trainees who found employment (figures in parenthesis) is computed over those who completed the course.

Source: Direct submission by Korean authorities.
rate for the first 6 months of 1999 was over 23 per cent (Kang, 1999). This might suggest some mismatch between the contents of the courses and labour market requirements. In addition, the fact that some trainees are not remunerated may have also played a role.

- The re-employment rate also tends to be relatively low, except in the case of training for 3-D jobs (Table 3.8). Job-finding rates are the lowest for training for business start-ups.
- Evidence on the programme of re-employment training for the unemployed suggests that older workers are relatively less likely to receive training than other unemployed workers. Table 3.9 shows that a majority of programme participants are aged less than 29, while only 6 per cent are over 50.

In the absence of studies that compare re-employment rates with labour market outcomes of a control group (individuals with similar characteristics who did not participate in the programme), it is not possible to make a fully-fledged evaluation of the Korean training system. However, based on experience of other OECD countries, future reforms of the Korean training programmes could take into account a number of considerations. First, it is important to better target the programmes at disadvantaged labour market groups. Evaluation studies of training for the unemployed in different OECD countries have come to the conclusion that many programmes are not cost-effective, as returns in terms of increases in individuals’ re-employment probabilities and earnings are not large enough to justify expenditures on the programmes. Well-targeted programmes, however, tend to be relatively successful. For instance, in the case of training for disadvantaged adult women, positive labour market outcomes seem to outweigh costs. Second, training courses are best targeted at those unemployed at risk of becoming long-term unemployed. As shown in Chapter 1, it appears that in Korea older workers face the highest risk of becoming long-term unemployed. Hence, targeting could focus on this group, if possible a few months after inception of their unemployment spell in an attempt to prevent them from entering long-term unemployment. Third, reforms of the programmes may perhaps improve on the matching of the unemployed to the content of training courses. In this respect, “training vouchers” may be an attractive solution, but only to the extent that vouchers are accompanied by professional guidance by the public employment offices in the selection of a suitable training course. Fourth, the design of training courses, and in particular their adequacy to labour market requirements, should be paid careful attention, in order to avoid inefficient expenditure on training. Finally, evaluation of the existing schemes in terms of total expenditure and labour market outcomes of participants relative to control groups should be conducted and repeated at regular intervals.

The delivery of training: an insufficient capacity to absorb the large inflow of trainees

It is often the same institutions that provide training for both the employed and the unemployed. There exist public training institutes |such as the
Korean Manpower Agency (KOMA) and other central and local government institutes] and private training institutions (i.e. in-plant training centres and authorised training institutes, usually run by NGOs). Since 1990, the number of public training institutions has increased only slightly, while, during the same period, the number of authorised training institutions rose by about 60 per cent and that of in-plant training institutions almost doubled. About 80 per cent of all training programmes for the employed and the unemployed are run by private training institutions.

Many courses run by private authorised training institutions are targeted at the “hard-to-place” unemployed and focus on providing basic skills. In particular, all training courses for female heads-of-household are run by NGOs under government sponsorship. The job-finding rate of trainees who completed these courses is estimated to be about 40 per cent.

Public training institutions have suffered from the fact that the increase in the number of trainees has not been accompanied by a corresponding increase in staff members, so that the average number of trainees per instructor has increased considerably. As a result, the quality of training may have worsened. Future policies in this area will need to address this issue. In addition, the adequacy of training may benefit from stronger participation of employers and workers in the design of training programmes to make them more responsive to labour market requirements, as is the case for collective agreements on training existing in some OECD countries, such as Denmark and the Netherlands.

<table>
<thead>
<tr>
<th>Characteristics of participants in the programme of re-employment training for the unemployed, 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants</td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Age</td>
</tr>
<tr>
<td>Less than 25</td>
</tr>
<tr>
<td>25-29</td>
</tr>
<tr>
<td>30-39</td>
</tr>
<tr>
<td>40-49</td>
</tr>
<tr>
<td>more than 50</td>
</tr>
<tr>
<td>Gender</td>
</tr>
<tr>
<td>Men</td>
</tr>
<tr>
<td>Women</td>
</tr>
</tbody>
</table>

a) Owing to differences in data sources, the total number of participants shown in this table does not match with the total shown in the previous table.
b) Excluding allowances for transportation, family support and child care.

Source: Direct submission by Korean authorities.
2. Employment maintenance and promotion programmes

A wide range of programmes for maintaining and promoting employment exist under the EIS and expenditure on these programmes has increased consider-
ably in the wake of the 1997 crisis. Their aim is two-fold: a) to subsidise employment at firms that would otherwise lay off workers – the so-called Employment-maintenance programmes. A situation that may require dismissals of workers must be recognised for the subsidies to apply;\textsuperscript{72} and b) to promote hiring of certain disadvantaged categories of workers, such as laid-off workers, women and older workers, and also to encourage workers who take over their enterprise – the so-called Employment-promotion programmes. An overview of these programmes is provided in Table 3.10. These programmes are financed by way of employers’ contributions to the EIS (see Section B). The level of subsidies is usually calculated as a proportion of the wage of the workers benefiting from the programme, but some employment-promotion subsidies are provided in the form of lump-sum payments. The subsidy is typically set lower for larger firms. The maximum duration of the subsidies was initially of 180 days, but was increased to 200 days in 1999.

These programmes were especially useful in the face of the economic crisis. In 1998, almost 800 000 workers benefited from the programmes, that is about 6\textfrac{1}{2} per cent of total dependent employment, and available data suggest similarly large numbers of programme participants in 1999 (Table 3.11). The programme addressing the temporary shut-down of firms has been the most im-
portant one in terms of both the number of participants and, to a lesser degree, expenditures. This programme may have contributed to maintain employment in firms encountering financial difficulties.

However, many of the programmes have not been much used, e.g. programmes aiming at maintaining employment by way of working hour reductions (Table 3.12). In addition, the rationale behind some of these programmes is difficult to understand. For example, it is unclear why the programme of training for employment maintenance is not administered as part of the general training programmes under the EIS. Moreover, employment promotion programmes do not sufficiently address the problems of certain disadvantaged groups. Expenditures on, and participation in, the programme for the re-employment of laid-off workers have tended to grow, while an opposite trend has been recorded in the case of the programme for the employment of women. Finally, employment stabilisation programmes tend to be biased in favour of large enterprises. Indeed, as in the case of training programmes, it emerges from Table 3.12 that less than half a per cent of small firms receive subsidies, compared with one third in the case of large firms.

Not much evaluation of employment stabilisation programmes is available to date. Some estimates of the net employment effects of the programmes, based on employer surveys, set the overall net employment effect at 22 per cent (Kim, 1999). This is estimated to be larger for paid leave training programmes (29 per cent) and smaller for reduction of working hours (19 per cent).
<table>
<thead>
<tr>
<th>Name of the programme</th>
<th>Selected conditions under which a subsidy is provided</th>
<th>Level of the subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment maintenance programmes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary shutdown in working hours</td>
<td>Shut down of the firm at least two days a month</td>
<td>2/3 of wage (1/2 in large firms) for 6 months</td>
</tr>
<tr>
<td></td>
<td>Hours reductions by at least 1/10 of usual hours over a month or by 8 hours in a week</td>
<td>1/10 at wages before hours reduction (1/15 in large firms) for 8 months</td>
</tr>
<tr>
<td>Dispatching of workers</td>
<td>To an associate firm or subsidiary company where workers are dispatched for at least a month</td>
<td>2/3 of wages (1/2 in large firms) for 6 months</td>
</tr>
<tr>
<td>Training</td>
<td>At least 4 hours per day and at least 30 hours in total</td>
<td>2/3 of wages (1/2 in large firms) for 8 months, plus a subsidy covering all training costs</td>
</tr>
<tr>
<td>Paid or unpaid leave</td>
<td>For at least a month</td>
<td>2/3 of wages (1/2 in large firms) for 6 months</td>
</tr>
<tr>
<td>Re-organisation of business</td>
<td>At least 60% of the workforce is maintained</td>
<td>2/3 of wages (1/2 in large firms) for up to one year</td>
</tr>
<tr>
<td><strong>Employment promotion programmes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hiring of laid-off workers</td>
<td>Must hire at least 5 displaced workers or more than 5% of the firm workforce or a worker displaced for less than a month</td>
<td>1/2 of wages (1/3 in large firms) for 8 months; 2/3 of wages (1/2 in large firms) of the workers laid off over a year earlier (6 months earlier in the case of workers aged over 55)</td>
</tr>
<tr>
<td>Hiring of older workers</td>
<td>a) Must hire at least 10 older workers or a number larger than 5% of the firm workforce</td>
<td>1/4 of wages (1/5 in large firms) for 6 months</td>
</tr>
<tr>
<td></td>
<td>b) Must hire an older worker aged 45 to 55 who retired from the same company not longer than two years earlier</td>
<td>600-800 000 Won (400-600 000 in large firms)</td>
</tr>
<tr>
<td>Employment of women</td>
<td>a) Providing childcare leave of 30 days to 11 months additional to maternity leave</td>
<td>140 000 Won per month (110 000 in large firms) in 1999; 150 000 (120 000 in large firms) in 2000</td>
</tr>
<tr>
<td></td>
<td>b) Hiring a woman that left the previous job, no longer than 5 years earlier, to have or take care of children</td>
<td>800-1 000 000 Won (600-800 000 in large firms) in 1999; 1.2-2 000 000 Won in 2000</td>
</tr>
<tr>
<td></td>
<td>c) Hiring female heads of household who registered as job seekers</td>
<td>1/2 of wages (1/3 in large firms) for 6 months</td>
</tr>
<tr>
<td>Support for child-care facilities</td>
<td>a) Building in-house child-care facilities</td>
<td>Loan up to a maximum of 300 million Won at 3-3.5% rate payable in 5 years</td>
</tr>
<tr>
<td></td>
<td>b) Recruitment of nursing teachers</td>
<td>550-600 000 Won per teacher</td>
</tr>
<tr>
<td>Take-over by employees</td>
<td>At least 60% of the company’s workforce to take over at least a 50% share of the company</td>
<td>600-800 000 Won per worker (400-600 000 in large firms)</td>
</tr>
</tbody>
</table>

The estimated net effects are larger for small firms employing less than ten workers (33 per cent) and smaller for large firms employing 100 to 300 workers (17 per cent) and over 300 workers (19 per cent). This is suggestive of a better performance in terms of employment creation than that of similar programmes implemented in some other OECD countries whose net employment gains have sometimes been estimated at no more than 10 per cent.73

Future policy should consider reducing the number of programmes, enhancing their flexibility to respond to different labour market situations and simplifying the procedures to claim the subsidies. There is also an urgent need for careful evaluation of the costs and benefits of the different programmes. Since they may worsen employment opportunities of ineligible workers such as youths entering the labour market, possible substitution effects need to be evaluated carefully.

3. Subsidies to small and medium size enterprises74

Small and medium-size enterprises account for a large proportion of employment in the Korean economy. The government has traditionally implemented a broad range of different policies to promote SMEs. These range from the provision of financial and technical support, to special taxation arrangements and to the setting of barriers to entry into sectors of economic activity reserved to small firms (see OECD, 2000a, for more details):

- Product lines reserved to SMEs were first established to promote SMEs’ share in economic activity, and lately slowly reduced to improve macro-economic competitiveness. There were 23 product lines reserved to SMEs in 1979, 237 in 1989, and there are currently 88. The government plans to continue reducing the number of product lines reserved to SMEs to improve competition in the product market.

- In 1998, a total of 6.1 trillion Won was spent to support about 30 000 SMEs with loans and grants by the Technology Credit Guarantee Fund. Moreover, 45.7 billion Won was allocated to support 983 venture firms by the Enterprise Promotion Fund for Software. 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 (Ministry of Labour, 1999c, pp. 15, 16).

- 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. In particular, the creation of firms in the cultural and tourism sector was promoted.
Table 3.11. **Expenditures on employment stabilisation programmes and number of participants**

<table>
<thead>
<tr>
<th></th>
<th>Number of participants</th>
<th>Expenditures$^a$ (Millions of Won)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1998 1st half 2nd half</td>
<td>1999 1st half 2nd half</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>174 361 606 218 340 607</td>
<td>19 942 76 539 82 261</td>
</tr>
<tr>
<td><strong>Employment maintenance programmes</strong></td>
<td>(100.0) (100.0) (100.0)</td>
<td>(100.0) (100.0) (100.0)</td>
</tr>
<tr>
<td>Temporary shutdown</td>
<td>118 865 483 943 190 485</td>
<td>11 879 41 452 29 369</td>
</tr>
<tr>
<td>(68.2) (79.8) (55.9)</td>
<td>(59.6) (54.2) (35.7)</td>
<td></td>
</tr>
<tr>
<td>Reduction in working hours</td>
<td>.. 3 774 2 753   178   388   313</td>
<td></td>
</tr>
<tr>
<td>.. (0.6) (0.8) (0.9) (0.9)</td>
<td>(0.9) (0.5) (0.4)</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>942 35 171 14 529 243 15 425 9 924</td>
<td></td>
</tr>
<tr>
<td>(0.5) (5.8) (4.3) (1.2)</td>
<td>(0.8) (0.8) (0.8)</td>
<td></td>
</tr>
<tr>
<td>Dispatching of workers</td>
<td>120 702 852 159 643 656</td>
<td></td>
</tr>
<tr>
<td>(0.1) (0.1) (0.3) (0.5)</td>
<td>(0.5) (0.5) (0.1)</td>
<td></td>
</tr>
<tr>
<td>Re-organisation of business</td>
<td>148 345 209 95 389 114</td>
<td></td>
</tr>
<tr>
<td>(0.1) (0.1) (0.1) (0.5)</td>
<td>(0.5) (0.5) (0.1)</td>
<td></td>
</tr>
<tr>
<td>Paid or unpaid leave</td>
<td>.. 10 365 20 686 .. 3 372 7 277</td>
<td></td>
</tr>
<tr>
<td>.. (1.7) (6.1) .. (4.4)</td>
<td>.. (8.8)</td>
<td></td>
</tr>
<tr>
<td><strong>Employment promotion programmes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hiring of laid-off workers</td>
<td>169 5 024 22 330 63 5 815 22 517</td>
<td></td>
</tr>
<tr>
<td>(0.1) (0.8) (6.6) (0.3)</td>
<td>(7.6) (27.4)</td>
<td></td>
</tr>
<tr>
<td>Hiring of older workers</td>
<td>49 929 63 466 85 602 5 082 7 034 10 284</td>
<td></td>
</tr>
<tr>
<td>(28.6) (10.5) (25.1) (25.5)</td>
<td>(9.2) (12.5)</td>
<td></td>
</tr>
<tr>
<td>Employment of women</td>
<td>2 774 1 767 1 191 1 444 881 732</td>
<td></td>
</tr>
<tr>
<td>(1.6) (0.3) (0.3) (2.1)</td>
<td>(1.3) (0.9)</td>
<td></td>
</tr>
<tr>
<td>Child-care facilities</td>
<td>1 329 1 456 1 368 780 865 979</td>
<td></td>
</tr>
<tr>
<td>(0.8) (0.2) (0.4) (3.9)</td>
<td>(1.1) (1.2)</td>
<td></td>
</tr>
<tr>
<td>Take-over by employees</td>
<td>.. .. 12 3 (0.0) .. (0.1)</td>
<td></td>
</tr>
<tr>
<td>.. .. (0.0) .. (0.1)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$^a$ Data not communicated.

$^a$ These expenditures are part of the total expenditures for employment stabilisation under the EIS, shown in the first line of Table 3.1.

*Source: KLI (1999b).*
No information is available to date on the employment effects of these programmes. The restriction of some product lines to SMEs would appear to interfere with free competition, and indeed recent policy initiatives go in the direction of progressively eliminating them. The provision of financial and technical support to SMEs is common to other OECD countries. However, in the case of Korea, the size of the support appears quite large and it is unclear whether this has helped SMEs become more competitive.

4. Public works programmes and internships

Public works programmes have been introduced in many OECD countries, usually with the aim of providing unemployed workers with professional experience, while reducing the risk of demoralisation, which is often associated with long unemployment spells. In Korea, public works programmes were set up in 1998. In principle, these programmes are targeted at the unemployed who do not have another source of income and are not entitled to unemployment insurance or training allowances. In addition, programme participants should be selected on the basis of certain criteria, including age, head of household status, number of dependants, house-ownership, assets, household income, gender, physical handicap and duration of unemployment. Public works appear to have covered a whole range of activities, from picking up cabbage to home-caring for the elderly and to PES job counselling. The programmes take place in stages of three-months duration. Individuals can take part in up to three consecutive stages, after which they can be selected again into public works only under special circumstances. An interval of a few days is provided between different stages of the project to allow participants to look for a job.

As far as the number of participants is concerned, public works programmes have been significant. About 440,000 individuals participated in the programmes in 1998, of which 100,000 in central government programmes and
340,000 in local government programmes. Participation in 1999 is estimated at about 780,000.

However, the implementation of the programmes has been criticised on different grounds:

- selection criteria for participation have been applied with some laxity. In contrast with the official targets, the incidence among total participants of well-educated individuals and prime-age workers has been relatively high (Table 3.13);
- some individuals have allegedly participated in a public works' programme while continuing to receive unemployment benefits or other public income support. Although these allegations could not be verified by the OECD Secretariat, overlap with other labour market programmes is all the more conceivable, considering that many actors are involved in the administration of public works. Indeed, as explained in Annex A, several Ministries and many local government entities often run their own programmes;
- the funding of public works programmes introduces an element of unevenness in programme delivery across regions. Public works programmes are co-financed by three levels of government, namely central, provincial and district governments, based on a “matching fund system” (see Annex A for more details). But the co-financing rates of each government level vary from one region to the other;
- some displacement effects may have occurred, as wages under public works are in some cases higher than market wages for certain occupations in agriculture and 3-D jobs. The average daily wages of public works participants vary between 19,000 Won, for basic skills work and 29,000 Won, for professional and skilled jobs. This is much higher than the minimum wage, which is currently set at 12,800 Won per day. In addition, it comes close to the average wage in occupations for unskilled workers, which is about 25,000 Won per day.

These problems highlight the need for careful monitoring of public works. Controls on the use of the funds provided to local governments to run the programmes should be made tighter, while targeting and remuneration of participants should be improved so as to ensure that participants have an incentive to look for a regular job. Experience from other OECD countries shows that, unfortunately, these programmes rarely serve their stated purpose of improving re-employment prospects of participants in regular jobs. Generally, they seem to work better if targeted at the most disadvantaged groups (Martin, 2000; and Betcherman et al., 1999). The Korean government has now started to scale back public works.

The programme of graduate internships is targeted at unemployed new graduates. The aim of the programme is to provide college graduates with some
Table 3.13. Characteristics of public works programmes, 1999

Panel A - Expenditures on public works programmes by gender and age of participants

<table>
<thead>
<tr>
<th>Gender</th>
<th>Age</th>
<th>Stage 1</th>
<th></th>
<th>Stage 2</th>
<th></th>
<th>Stage 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than 20</td>
<td>Men</td>
<td>58.7</td>
<td>50.5</td>
<td>45.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>20-29</td>
<td>Women</td>
<td>41.3</td>
<td>49.5</td>
<td>54.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>30-39</td>
<td>Less than 20</td>
<td>1.0</td>
<td>0.9</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>40-49</td>
<td>20-29</td>
<td>11.6</td>
<td>13.5</td>
<td>16.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>50-59</td>
<td>30-39</td>
<td>22.7</td>
<td>21.4</td>
<td>18.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>60-65</td>
<td>40-49</td>
<td>32.4</td>
<td>30.4</td>
<td>27.2</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>50-59</td>
<td>27.4</td>
<td>22.5</td>
<td>29.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>60-65</td>
<td>5.1</td>
<td>11.2</td>
<td>7.8</td>
<td></td>
</tr>
</tbody>
</table>

Panel B - Expenditures on public works programmes by educational attainment of participants

<table>
<thead>
<tr>
<th>Education</th>
<th>Stage 1</th>
<th></th>
<th>Stage 2</th>
<th></th>
<th>Stage 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary school graduates or under</td>
<td>Men</td>
<td>37.4</td>
<td>36.0</td>
<td>34.7</td>
<td></td>
</tr>
<tr>
<td>Middle school graduates or dropouts</td>
<td>Women</td>
<td>22.3</td>
<td>23.3</td>
<td>21.3</td>
<td></td>
</tr>
<tr>
<td>High school graduates or dropouts</td>
<td>Less than 20</td>
<td>27.2</td>
<td>27.3</td>
<td>27.1</td>
<td></td>
</tr>
<tr>
<td>College graduates or dropouts</td>
<td>20-29</td>
<td>5.0</td>
<td>4.9</td>
<td>6.1</td>
<td></td>
</tr>
<tr>
<td>University dropouts or higher</td>
<td>30-39</td>
<td>8.0</td>
<td>8.5</td>
<td>10.7</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Labour (1999a).
practical work experience and to increase their employment chances in light of the
difficulties they face in the labour market. According to some estimates for 1999, re-
employment probabilities of programme participants are of the order of 51 per cent
(Ministry of Labour, 1999a). However, dead-weight losses are bound to be very
large, underlining the need for an evaluation of the cost-effectiveness of this pro-
gramme. It may also be important for future alternative policies in the area of grad-
uate youth unemployment to assess which fields of study carry with them higher re-
employment probabilities.

5. Policies targeted at the disabled

There exist different training programmes for the disabled that are
financed by the employment promotion fund for the disabled and general
accounting funds. The average duration of these programmes ranges from
six months to two years, depending on the type of disability. Participants receive
a monthly allowance of 40 000 Won, plus transport allowances (1 400 Won per day)
and food expenditure allowances (2 500 Won per day). Between January and June
1998, 1 320 disabled individuals participated in the training programme organised
by the Korean Employment Promotion Corporation for the Disabled, under the
Ministry of Labour. Of these trainees, 73 per cent were men and the dominant age
group was 15 to 30. Overall, the Korean government has made some worthwhile
efforts to integrate disabled workers into the labour market, though programmes
could better take into account disabled women and disabled older workers.

D. Public and private employment services

In most OECD countries, many labour market programmes are adminis-
tered by the public employment service (PES). The establishment of a well-
functioning PES is therefore essential to their success. For example, the extent to
which unemployed workers will engage in job search, instead of relying on
continued income support, depends to a large extent on the activation strategies
of PES officers.

In Korea, the PES has long played only a modest role in the job placement
market. During industrialisation and in the tight labour market of the past decades,
Korean companies have relied mainly on their own recruitment channels, in par-
ticular by placing newspaper advertisements, holding competitions among candi-
dates or hiring relatives and other contacts of existing employees. Private
employment agencies, which were legalised in the 1960s, have also been important
players in job-search assistance and placement, particularly of low-skilled, but also
more recently of highly-qualified personnel. However, a notable feature of the
Korean response to the recent economic crisis has been the rapid expansion of the
PES, in terms of both infrastructure and staff.
1. Quantitative indicators of job-broking activities

Public employment services in Korea started after the Korean War, as industrialisation was about to get underway. At the time, the most important task consisted of assisting in the transformation of the excess labour supply in rural areas into an efficient urban industrial workforce. Around 50 employment offices were established throughout the country, operated by the Labour Ministry. The government also encouraged local governments to operate their own placement and counselling services, and by the mid-1990s, almost 300 offices were run mainly by municipalities. However, both types of PES suffered from lack of resources and staffing, with Ministry offices never reaching 1 000 staff nation-wide before the late 1990s (for a labour force rapidly approaching 20 million), and local governments seldom offering more than one or two job-search assistants in city halls. Private agencies filled the gap and tended to place many more workers per year into employment than the two types of public offices combined.

Available indicators suggest that the Korean PES occupy a relatively small share in the labour market intermediation process, compared to private employment agencies and also vis-à-vis the PES in other OECD countries.

First, Table 3.14 gives an indication of the relative importance of the three chains of employment offices outlined above. Notably, there are four times as many private as public offices, although the Ministry of Labour has almost tripled its office network since the onset of the economic crisis, and municipalities provide additional placement services of their own. By contrast, due to the quadrupling of the number of employees in the Ministry’s offices, and a parallel increase in local government counsellors, the number of placement staff in public employment offices now probably surpasses that working in private agencies (detailed staff numbers of local government offices are not available). Nevertheless, even the over 3 000 staff in the Ministry’s network represent a limited resource considering the size of the Korean labour force (see below for an international comparison of workload indicators).

Second, indicators of annual inflows of job-seeker registrations and notified vacancies and of annual placements, all as a percent of the labour force, illustrate the high market penetration of private agencies when compared with the national and local offices of the public employment service (Chart 3.2). The annual inflow

---

Table 3.14. Public and private employment offices

<table>
<thead>
<tr>
<th></th>
<th>Ministry of Labour offices</th>
<th>Local government offices</th>
<th>Private employment offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offices</td>
<td>52</td>
<td>142</td>
<td>285</td>
</tr>
<tr>
<td>Staff</td>
<td>1 000</td>
<td>3 200</td>
<td>360</td>
</tr>
</tbody>
</table>

.. : Data not available.
a) 31st December.
Source: Ministry of Labour.

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Labour Market Programmes and the Public Employment Service

of vacancies reported to public offices remained below 2 per cent of the labour force up to 1997 before increasing significantly with the expansion of the PES and the availability of public works administered by government authorities in 1998 and 1999. In comparison, annual vacancy inflows at PES offices in over a dozen countries reviewed by the OECD in the mid- to late 1990s have ranged from 3 to 14 per cent of the labour force, with the exception of Portugal and Switzerland (OECD 1996a and 1999b). By contrast, the annual vacancy inflow in private employment agencies increased steadily from 3 to over 10 per cent of the labour force throughout the 1990s (reaching over 2 million in 1997), before falling back to 6 per cent during the economic crisis (i.e. at the same time as the inflow of vacancies in public offices started to grow). When comparing these data, it is important to keep in mind the different nature of vacancies at private and public agencies. In particular, private agencies are known for placing large numbers of low-skilled “daily workers” into short-term jobs, for example as housemaids or construction workers. PES-induced placements, while not all for permanent jobs, tend to be of longer duration.

Third, throughout the 1990s, private employment agencies in Korea have managed to fill over 80 per cent of their vacancies, as well as to place a similarly large share of their registered job seekers. By contrast, between 1989 and 1996, Ministry of Labour offices only succeeded in filling 15 per cent or less of all vacancies reported to them. This compares with vacancy filling ratios of over 50 per cent in most of the countries reviewed by the OECD where such data were available (Table 3.15). The proportion of vacancies filled by the Ministry’s offices increased up to 50 per cent in 1998 and 1999 when, however, placements into public works projects need to be taken into account. Such projects did not exist before 1998, and it remains to be seen how the vacancy-filling ratio in PES offices will develop as public works are being scaled back or phased out in the post-crisis era.

Fourth, it usually is much harder for public offices to place their job seekers into jobs than it is for private agencies. For example, in 1997 it took the Ministry's offices about half a million referrals to fill 40 000 vacancies, and they succeeded in placing less than one fourth of all registered job seekers into a job. By contrast, on average over 90 per cent of job-seeker referrals by private agencies are usually successful. Again, the different nature of jobs available at public and private offices needs to be taken into account. The high success rate of private agencies can at least partially be explained by the fact that such persons are placed several times a year and every short-term hire is counted as a placement.

Fifth, the share of vacancies notified to the PES in total hirings in the economy increased from 3 per cent in 1995 to 13 per cent in 1998, while the share of PES-induced placements in total hirings grew from 1 per cent in 1995 to 6 per cent in 1998 (Table 3.15). By these and other measures the market share of the PES in Korea has grown significantly in recent years, but is still lower than in almost all other OECD countries surveyed. For example, in various years in the mid-1990s, the share of PES-induced placements in economy-wide estimated hirings among the countries shown in the table ranged from 8 per cent in Ireland to 38 per cent in Germany.

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Chart 3.2. **Job-seeker registrations, vacancies and placements, 1989 to 1999**
Annual flows in per cent of total labour force

---

**Employment offices under the Ministry of Labour**

**Local government offices**

**Private job placement institutes**

---

*a*) Data for 1999 are based on preliminary estimates.

Source: Ministry of Labour.
Table 3.15. Basic PES flows, stocks and market share indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>1995</th>
<th>1998</th>
<th>Belgium</th>
<th>Denmark</th>
<th>Finland</th>
<th>Germany</th>
<th>Ireland</th>
<th>Japan</th>
<th>Netherlands</th>
<th>Spain</th>
<th>United Kingdom</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>PES administrative data (000s)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual vacancy registrations</td>
<td>130</td>
<td>335</td>
<td>149</td>
<td>157</td>
<td>145</td>
<td>3 133</td>
<td>45</td>
<td>5 465</td>
<td>272</td>
<td>534</td>
<td>2 537</td>
<td>6 038</td>
</tr>
<tr>
<td>Annual placements</td>
<td>12</td>
<td>138</td>
<td>109</td>
<td>82</td>
<td>76</td>
<td>2 347</td>
<td>17</td>
<td>1 448</td>
<td>174</td>
<td>495</td>
<td>1 927</td>
<td>2 205</td>
</tr>
<tr>
<td>Labour market data</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependent employment (000s)</td>
<td>12 740</td>
<td>12 190</td>
<td>2 990</td>
<td>2 340</td>
<td>1 716</td>
<td>32 093</td>
<td>1 034</td>
<td>52 360</td>
<td>5 920</td>
<td>8 626</td>
<td>21 907</td>
<td>118 873</td>
</tr>
<tr>
<td>Monthly hiring rate (approximately)</td>
<td></td>
<td>2.7</td>
<td>1.7</td>
<td>1.1</td>
<td>3.0</td>
<td>2.2</td>
<td>1.6</td>
<td>1.7</td>
<td>1.7</td>
<td>2.2</td>
<td>2.5</td>
<td>..</td>
</tr>
<tr>
<td>Derived indicators (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Placements/registered job vacancies</td>
<td>9</td>
<td>41</td>
<td>73</td>
<td>53</td>
<td>52</td>
<td>75</td>
<td>38</td>
<td>26</td>
<td>64</td>
<td>93</td>
<td>76</td>
<td>37</td>
</tr>
<tr>
<td>Registered job vacancies/dependent employment</td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>7</td>
<td>8</td>
<td>10</td>
<td>4</td>
<td>10</td>
<td>5</td>
<td>6</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Placements/dependent employment</td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>6</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Registered job vacancies/hirings</td>
<td>3</td>
<td>13</td>
<td>39</td>
<td>19</td>
<td>32</td>
<td>51</td>
<td>22</td>
<td>51</td>
<td>23</td>
<td>23</td>
<td>39</td>
<td>..</td>
</tr>
<tr>
<td>Placements/hirings</td>
<td>0</td>
<td>6</td>
<td>28</td>
<td>10</td>
<td>17</td>
<td>38</td>
<td>8</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>22</td>
<td>29</td>
</tr>
</tbody>
</table>

..: Data not available.
a) Placement and vacancy data refer to the chain of PES offices administered by the Ministry of Labour.
b) Vacancies notified to the PES by employers (in Denmark, also vacant positions advertised in newspapers and used by PES).
c) Countries may use different definitions, such as placements filled with the active help of the PES, or placements into vacancies notified to the PES which have been filled by PES registered job seekers.
d) Monthly new hires as a percentage of dependent employment. Estimates for OECD countries are based on a combination of data from labour force surveys (job tenure less than one year, number of job changes in the last three months), employer surveys (number of external hires, new employment contracts in the private sector), or administrative records of hires kept by the PES. The Korean figures are based on surveys showing the annual “accession rate” in firms with 10 or more employees, using the simplified assumptions that turnover is similar in smaller firms and that a small number of job starts consists of transfers within the same company or establishment.
Sources: Korea: Ministry of Labour, Yearbook of Labour Statistics, various issues; other countries: OECD PES database; and OECD (1996a).
Sixth, the low PES market share is confirmed by surveys enquiring about the job-finding channels used by recently hired wage and salary earners. According to a special survey, in 1998 less than 10 per cent of recent hires indicated that they had found employment through the PES channel. By contrast, over 45 per cent of the surveyed population had found work through recommendations or referrals by relatives, and the rest through newspapers and other advertising, recommendations by teachers, and other information available in schools and universities (Ministry of Labour, 1998). Importantly, the share of new hires indicating use of the PES tends to decrease with educational level.

Client surveys show that many unemployed still lack confidence in the efficiency of PES staff and resources. For example, in the fall of 1998, over half of respondents in a survey taken by the Korea Labour Institute held negative views about the availability of suitable job openings at PES offices, the speed of service provision and the adequacy of counselling on career development. Although no comparable survey data exist for the employers' use of hiring channels, there seems little doubt that employers have relatively little confidence in PES efficiency, when it comes to hiring new staff. Particularly when recruiting higher-skilled personnel, employers are generally reluctant to use the PES and turn more readily to newspaper advertisements or private agencies, even if they have to pay for the services.

2. Placement and counselling activities in public employment offices

Previous OECD work has shown that an important institutional factor influencing the effectiveness of labour market policies is the degree of integration of the three core PES functions: a) job brokerage; b) unemployment benefit administration; and c) referral of the unemployed to ALMPs (OECD 1996a and 1997b). Only half of the OECD member countries currently have fully-integrated PES front-line offices. In Korea, to improve the complementarity between these core functions, placement and benefit departments, which used to operate as separate parts of the local employment office, have recently been combined into an integrated “Employment Security Centre” which now offers a “one-stop service”, handling all the classical tasks of a public employment service under one roof (the legal framework for employment services is explained in Annex A). These tasks are, in particular: labour market information and analysis; registration of vacancies and job-seekers; job placement and counselling; job-search assistance through, for example, holding job-market fairs; registration of claims and payment of unemployment benefits; administration of subsidies to job seekers and employers and referral to training and public works programmes.

In the future, it is planned that job seekers will also profit from a more intensive “profiling” service, by which they are classified at the moment of registration according to their need for more or less intensive job-search assistance.
Office resources: the coexistence of different networks

As noted above, the Ministry of Labour has substantially increased the number of its PES offices and available staff during the recent economic crisis, to respond to the growing inflow of unemployed job seekers. As of December 1999, under the 46 regional labour offices there were 122 “one-stop” Employment Security Centres in operation, as well as 20 “Manpower Banks”. The latter handle placement, but not benefit administration, and tend to specialise in services for higher-skilled job seekers, although this may vary from office to office. The Ministry also manages over a dozen placement centres targeted at daily workers.

In addition, practically every municipality and local government have established employment services of their own, which have also been provided with increased staffing during the crisis. The local “Job Information Centres” offer placement assistance and counselling and refer clients to training places and public works; however, they do not pay out unemployment benefit and do not perform eligibility checks. Job seekers may register both at national and local offices, and employers may also report their vacancies to both, so that there is some degree of overlap between office activities. Placement offices in local government are more numerous than those under the responsibility of the Ministry of Labour. Korea is unique among OECD countries in this respect.

Workload of PES staff

To provide a comparison of office networks and staff workload with other OECD countries (where the involvement of local government in job-brokering is much less widespread), the analysis below focuses mainly on the office structure under the Ministry.

First, Table 3.16 provides information about the density of the PES network in Korea and nine other OECD countries. With the exception of Sweden, the latter are all countries with a fully integrated PES that, like in Korea, combines all three core functions. The geographical area covered by a local office, still comparatively large in 1995, is now less than in many other OECD countries. However, due to Korea’s high population density, an average Ministry’s PES office still services a higher proportion of the population and labour force than in the other countries shown in the table, in particular the Nordic countries with their highly decentralised office network. The exception is Germany, which has large office districts covering on average over 400 000 inhabitants. The average size of a Ministry’s PES office in Korea has tended to be small, which is in harmony with the trend in most other OECD countries, where small offices are seen as more responsive to local labour market conditions and opportunities.

Chart 3.3 shows the resource intensity of the Ministry’s PES offices as measured by the average workload per PES employee, using various stock and flow indicators. Whether one considers the total labour force or the number of wage and salary earners as the potential clientele of the PES, the chart shows that on these
indicators the Korean PES is less well resourced than its counterparts in the other countries shown, although the ratios improved considerably since 1995.

When reviewing Table 3.16 and Chart 3.3, it should be kept in mind that the actual number of staff working on PES-related tasks is currently much higher than the 3,200 staff shown, due to the flexible response of local governments to the crisis which transferred hundreds, perhaps thousands of their staff to employment services. If the local government offices were added (although there is territorial overlap with Ministry offices) the average area of a district and the average population and labour force served per office would show Korea as closer to the average for other OECD countries.

A more realistic measure of workload may be stocks and flows of job seekers and vacancies that a counsellor has, on average, to deal with. It should be kept in mind that these indicators are influenced by the conjunctural situation and are shown only for a single year (with the exception of Korea). The international comparison may also be biased by the varying proportions of PES staff that actually process vacancies or come into contact with job seekers. In Korea in 1999, there was an average monthly inflow onto the register of 47 job seekers per PES officer, more than in all other countries shown, apart from Spain (the OECD country with the highest unemployment rate). One officer had, on average, 20 new vacancies available per month to help place his applicants, similar to the situation in Japan. The current 2:1 ratio between new job seeker registrations and newly available vacancies per PES official is roughly similar to that prevailing, for example, in Austria, Germany and Sweden.

Table 3.16. PES office networks and staff resources

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of local offices</th>
<th>Average area of a district (km²)</th>
<th>Average population of a district (000s)</th>
<th>PES staff</th>
<th>Average staff in a local office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>195 142</td>
<td>1 894 694</td>
<td>867 330</td>
<td>1 000 3 200</td>
<td>16 18</td>
</tr>
<tr>
<td>Austria</td>
<td>96 881</td>
<td>84</td>
<td>4 230</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>184 1 949</td>
<td>4 43</td>
<td>89 300</td>
<td>440</td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>149 886</td>
<td>70</td>
<td>2 100</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Italy²</td>
<td>516 583</td>
<td>110</td>
<td>12 080</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>479 788</td>
<td>262</td>
<td>15 300</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>168 1 986</td>
<td>26</td>
<td>4 230</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>753 667</td>
<td>52</td>
<td>15 060</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>380 1 221</td>
<td>23</td>
<td>8 740</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>2 260 4 143</td>
<td>118</td>
<td>70 050</td>
<td>..</td>
<td></td>
</tr>
</tbody>
</table>

¹ Data not available.
² Figures refer to employment offices run by the Ministry of Labour.
³ 31st December.
⁴ All data for PES offices and staff exclude Sicily.
Source: OECD PES database.
Labour Market Programmes and the Public Employment Service

Chart 3.3. Workload indicators
Stocks and flows per PES staff member

Labour force
(Stock)

Wage and salary earners
(Stock)

New job-seeker registrations
(Monthly flows)

Vacancy inflow
(Monthly)

Placements
(Monthly)

a) 1994 ratios for all countries, except for Korea, and the United States (1997). For Korea, figures refer to employment offices run by the Ministry of Labour.

Source: OECD PES database.

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The precarious employment status and inadequate qualifications of new PES staff

The expansion of national (i.e. Ministry-run) PES staff during the economic crisis has relied mainly on the hiring of salaried job counsellors who work under time-limited contracts of mostly one-year duration. By contrast, before 1998, the large majority of staff were full-fledged civil servants. A fluctuating number of employees are even hired under “daily worker” contracts, in particular to examine unemployment insurance eligibility (Choi, 1999). About two out of three staff are now salaried employees. These are mostly recent college graduates with computer skills, but no counselling experience. They are recruited on the open job market, while civil servants undergo the usual civil service entrance examination.

The precarious status of the salaried job counsellors, as well as the legal restrictions for contract renewal, make it difficult for employment offices to retain these staff over the long term. The situation is also not conducive to investment in job training, although the Labour Ministry runs its own training centre and in theory all counsellors should receive training in job-counselling methodology, labour law and the processing of unemployment benefit claims. For civil servants, the custom of frequent transfers between posts, while it does not seem favourable to long-term specialisation, may facilitate rotation of staff between the core PES functions as outlined above.85

In expanding their own employment services, municipalities and other local governments have either transferred personnel from other departments or are relying on public works posts. Either way, staff has relatively little specific expertise in placement and counselling, which is problematic given the nature of the tasks they perform (Box 3.2). There is also considerable turnover, particularly among public works personnel. It seems, therefore, that both types of public offices could benefit from a higher degree of employment stability.

3. Placement activities by private employment agencies

The Korean PES has never enjoyed the “placement monopoly” characteristic in the past of many OECD countries, as private employment agencies have existed for many years – there are currently almost 1800 of them – and have a market share superior to that of public services. For many years up to 1998, private agencies accounted for over 90 per cent of all registered placements in Korea. By contrast, temporary work agencies have only become fully permitted through the 1998 Tripartite Agreement and the subsequent Dispatched Workers Act.

As noted earlier, private employment agencies have been able to capture a relatively large market share for several reasons. First, public services have long had comparatively little resources. In addition, the private agencies specialise in types of jobs which the PES has given little attention to in the past, in particular to managers, professionals and skilled specialists at the upper end, and to unskilled workers, such as housemaids, waiters and construction workers, at the lower end of the market. Only recently has the PES provided competition at the upper end, by
Box 3.2. Selected activities of the Korean PES

Job-seeker registration and follow-up

Job-seeker contacts with the PES start with registration. Employed job seekers and unemployed persons not eligible for benefit fill out a job-application form, which remains valid for three months. Job-losers who want to claim unemployment benefit, have to register with an Employment Security Centre within 15 days upon dismissal; they fill out both a job application and a benefit application form. During the registration process, the office classifies the job seeker into one of different categories with a view to re-employment probabilities – a rudimentary form of profiling which is envisaged to be more fully introduced in the PES system over the coming years. In principle, this job-seeker classification should be made on the basis of a comprehensive interview, but interviews have tended to be quite short recently due to the large influx of job seekers during the economic crisis.

The employment insurance department subsequently contacts the applicant’s last employer to find out the reasons for job loss and checks the person’s contribution record in order to decide on benefit eligibility. To receive confirmation of their status as an unemployed benefit recipient, job seekers need to visit the PES office every two weeks after registration and demonstrate proof of job-search activities during the period in question.¹ Counsellors are supposed to verify the exactitude of job-search records by contacting companies, but are hampered by insufficient staff.

After their benefit eligibility is established, the unemployed are often asked to participate in collective information sessions on office premises. A kind of “job club” has also been started, intended to develop a greater degree of autonomy on the part of job seekers by preparing them for self-employment or business start-ups, or teaching them more efficient job search techniques. In the past, there has been very little long-term unemployment beyond a duration of 12 or even 6 months. Consequently, there is little formal regulation concerning a more intensive, personalised follow-up of long-term unemployed persons such as the job-guidance or back-to-work plans which have, over the years, been developed in other OECD countries. However, counsellors do keep electronic interview records as a basis for more intensive job seeker follow up over time.

Handling of vacancies

In many countries, it is a priority task of the PES to increase the number of vacancies received. In Korea, in the past, the great majority of vacancies were not notified to the PES, which can be attributed to the entrenched custom of recruitment through personal connections, and to employers’ low assessment of the PES staff’s ability to screen applicants.

As in other OECD countries, Korean offices have now started to search actively for vacancies by visiting employers. Otherwise, employers will report vacancies by phone or come to the office to fill out the necessary forms and describe their detailed needs. Many employers will notify their vacancies to both national and local government offices.
Box 3.2. **Selected activities of the Korean PES (cont.)**

Job information to be given by the employer includes basic working conditions such as pay (regular and bonus), working hours and contract status. The desired gender, age and education level of the future jobholder, as well as the number of staff and the presence of union representation within the firm also tend to be indicated. PES counsellors may negotiate with the employer on the various ways of advertising a vacancy. The latter will have the final choice as to whether to treat it as an “open” vacancy where full details of the job are advertised on bulletin boards and on the PES electronic information system; as a “semi-open” vacancy, where the applicant needs to contact a counsellor to get full information; or as a “closed” vacancy, where the counsellor decides not to advertise widely the vacancy, but instead pre-selects a certain number of candidates to refer to the employer.

It seems that up to now, PES offices have preferred open vacancies without much intervention of staff, as screening and pre-selection of applicants through in-depth interviews were limited by the small number of office personnel. The great majority of vacancies are made available to office clients through bulletin boards and self-service terminals, and also to the general public through the PES Internet site. Currently, vacancies put on the web usually include the full address of the prospective employer. This may change as a result of high unemployment and slowly emerging long-term unemployment, which tend to increase the need for personal follow-up and targeted job referrals of the hard-to-place. With high unemployment, semi-open and closed vacancies would seem to be more effective to place workers with employment handicaps. However, when opting for a strategy of referring pre-selected candidates, the employment service needs to be aware that employers who find that too many referred job seekers are not genuinely interested in a job offer, become reluctant to notify vacancies to the PES (OECD, 1996a).

In the case of semi-open and closed vacancies, counsellors have the option to limit job referrals to the vicinity or commuting area. The administrative guide for placement services recommends that this be done; however, if no appropriate vacancies are found in the commuting area, nation-wide search and referrals are available.

Special placement assistance is given to companies suffering from labour shortages; for example, special office personnel handle vacancies for the so-called 3-D jobs (dirty, difficult and dangerous) which are not easily filled, mainly due to the rising education level of the Korean workforce and the accompanying job aspirations.

**Job matching and job referral practices**

The computerised Worknet system is the primary tool for the matching of vacancies and job seekers. This is regularly done by job counsellors with the help of the information provided by employers and job seekers on their respective registration forms. In addition, job-aptitude tests may help counsellors to steer applicants to the most appropriate vacancies. Many clients will also do their own matching operations by using the self-service terminals available in PES offices (both under the Ministry and local government). Two search functions are available: one for job seekers looking for vacancies and one for employers looking for suitable candidates.
focussing on high-skilled labour in some Manpower Banks. However, the high market share of private agencies in placements is mainly due to their focus on short-term and daily jobs. For example, of all placements by one private agency in Incheon over the last seven years, only 5 per cent consisted of placements into permanent employment.
The Employment Security Act regulates the operations of private employment agencies. Free private placement services, such as those operated by trade unions, employer associations or non-profit organisations, were always allowed to operate with little administrative restriction. By contrast, fee-charging agencies used to operate under more important restrictions, which have only been lifted in early 1999. Since then, new agencies no longer have to apply for a three-year permit and can start operating simply by registering in writing with the competent government office. In addition, reporting requirements were relaxed, most limitations on job categories where private agencies can operate were removed, and rules specifying material details such as the amount of office space were lifted.

The Ministry of Labour has also relaxed to some extent the restrictions on the size of fees, which private agencies can charge. In contrast to most OECD countries, a practice has developed where private agencies may collect fees from both employers and job applicants. The Ministry has fixed the upper limit of the job applicant’s fee at 40 per cent of the fee asked from employers.86

As outlined in Chapter 2, a 1998 Act on Dispatched Workers has set the framework for the use of temporary work contracts. This act legalised a practice that was already widespread before. Temporary workers tend to be less skilled, often production workers or office clerks. In contrast to private placement agencies, temporary work (or “dispatching”) agencies still need permission to operate and are subject to restrictions in terms of the range of occupations, types of work and length of contract. Agencies are also required to pay regular employment insurance contributions for their dispatched workers. They are not allowed to hire out workers to firms where industrial disputes are taking place, and usually need to wait two years before replacing workers dismissed for managerial reasons (redundancy). Outside of the 26 specific occupations detailed by Presidential Decree, where a two-year limit on overall duration applies, the hiring-out period is restricted to three months duration, renewable only once.

As in other OECD countries, the law makes a clear distinction between such temporary work agencies and offices for private placement. In particular, there needs to be a triangular contractual relationship between the dispatching agency, the temporary worker, and the user firm. When hiring out a worker to a user enterprise, the agency maintains a contractual relationship with the person; a private placement agency, by contrast, has no such relationship with a worker who found employment through its services.

For this reason, there is little overlap between the two types of offices. Compared with placements by private agencies, the number of referrals by TWAs is still relatively low; in mid-1999, some 46 000 workers were hired out from about 800 registered “dispatching” agencies, a share of 0.4 per cent in dependent employment. According to 1999 survey data, almost half of these workers were hired out for periods over nine months, which implies that employers tend to substitute them for regular workers instead of using them for short, intermittent work. Their average wages were barely above 50 per cent of the Korean national average (Jeong, 1999).
The extent of private sector involvement in placement which is characteristic of Korea is useful for the debate in OECD countries about the role of private employment services and public/private contestability. The dominant trend in OECD countries has been to liberalise employment services, end the public sector monopoly in placement (where it existed) and allow for stronger private competition. In Korea, it has already been possible for many years to challenge (“contest”) public employment services in the area of job placement, and private training providers have long competed with public sector training institutes. Nevertheless, as outlined, competition in placement has remained limited as both office types have tended to service different clients. Competition has recently increased as the PES was expanded during the economic crisis.

There are currently no notable links between PES offices, on the one hand, and private employment or temporary work agencies, on the other, apart from the fact that the latter can use the openly available Worknet files. This may be considered surprising, as the government could have made use of the extensive network of private agencies to stimulate competition between public and private providers, for example through payment of fees to private agencies for placing unemployed job-seekers, instead of relying solely on its own services. Examples of this type of “contestability” exist, inter alia, in the Netherlands, Switzerland and Australia.

The most radical reform of the delivery of labour market assistance through emphasis on private providers has been underway in Australia. Under the Australian “case-management” system, private, community and public sector organisations are contracted as providers of employment services under a market-oriented approach. The public provider operate under the same conditions (regarding tendering, fees for successful placements, etc.) as private providers. The role of the Ministry (the Department of Employment, Education, Training and Youth Affairs – DEETYA) is to purchase employment services on behalf of job-seekers, and to manage the tendering and contracting process, while ensuring that service delivery is subject to contestability by public, private and community providers (OECD, 1997b; Fay, 1997).

In the mid-1990s, the Swiss cantonal labour office in St. Gallen, in the face of rising unemployment, started to commission private employment agencies to place unemployed workers registered with the PES. These agencies spend on average more time on placement efforts than the public offices could afford (OECD, 1996b). In the Netherlands, the PES has since the early 1990s paid a subsidy to TWAs which take the long-term unemployed on their payrolls. It has also become active itself in the market for temporary work by creating a joint venture with two other TWAs (INFORMISEP, 1999). On the basis of the 1996 Employment Act, unemployment benefit institutions (which do not form part of the PES in the Netherlands) and social assistance offices can “buy” reintegration services from either public or private providers.

The Korean authorities might well consider these examples of stimulating private sector initiatives in the area of job placement as a possible alternative to
further expanding their own placement services and as a possible boost to the effectiveness of back-to-work programmes. The aim to increase PES market share may ultimately be less important than innovative strategies to speed up and facilitate the reintegration of unemployed job-seekers into the labour market.

E. Assessment

Labour market programmes have to be evaluated in the light of their twin objectives, namely a) to provide income support in the face of rising unemployment and b) to encourage the re-employment of unemployed workers, while minimising the dead-weight, substitution and displacement effects often associated with such policies.

Regarding the first objective, the portfolio of labour market programmes has been expanded considerably in the past two years. However, it is officially estimated that, out of the 1.5 million individuals unemployed in 1999, only 61 per cent participated in one of the various labour market programmes (Chart 3.1). The remaining 39 per cent were potential clients for social assistance benefits (discussed in Chapter 4). Only 29 per cent of all unemployed workers received benefits from the EIS, in the form of either unemployment benefits, training or employment security schemes. Almost one quarter were engaged in public work programmes and 9 per cent participated in the other non-institutionalised schemes, i.e. unemployment loans and internship programmes. In addition, training programmes for the employed have not succeeded in increasing the provision of training on the part of SMEs.

As to the labour market effects of labour market programmes, in the absence of any systematic evaluations it is not possible to draw clear-cut conclusions. However, based on the examination of specific design features of the programmes, the following observations can be made. First, there is a general lack of targeting in many of the programmes. As a result, it is unclear whether they really reach disadvantaged groups identified in Chapter 1, such as unemployed workers not covered by the EIS and older workers. Targeting is especially important in the case of subsidies to SMEs, given that this programme is the largest in terms of government spending on ALMPs. Second, despite a general lack of targeting, some of the programmes are not much used. This suggests that some regrouping of programmes may be called for, notably in the area of employment maintenance subsidies. Third, in a context of much brighter economic prospects, there is a case for reducing substantially the scale of public works programmes. International evidence suggests that these programmes, unless they are well targeted on hard-to-place groups, run the danger of entailing large dead-weight losses. Fourth, there may be cases where work does not pay – leading to a risk that some benefit recipients may prefer to stay in the programme rather than looking for a job in the private sector. For instance, there are cases where remuneration in public work programmes reportedly competes with market wages in 3-D jobs and, if that is the
case, the remuneration of certain programme participants should be reduced as the economy recovers. Fifth, training institutions have had difficulties in coping with the rapid and massive expansion of training programmes. For these reasons, there may be a case for increasing resources and staff of training institutions. In addition, the type of training provided by some of them may not be closely tied to the requirements of a complex, modern economy such as Korea. It would be useful to review programme design in close collaboration with social partners.

Finally, the role of the PES in programme delivery could be enhanced. The concept of the “one-stop office” is a good one, and should probably be generalised by integrating the separate networks of Employment Security Centers and Manpower Banks. Also, while it may have been useful in the period of rising unemployment to operate another chain of placement offices under the authority of municipalities and other local governments, the co-existence of two types of “public employment services”, one under the Labour Ministry, and one under local government, that are involved in the same types of tasks (apart from benefit payment), may not prove efficient in the long run. As mass unemployment declines, PES officers will need to devote more efforts to counselling and monitoring of disadvantaged groups which run the risk of long-term unemployment and benefit dependency. Needless to say, the efficiency of the PES crucially depends on the quality of its staff and the high turnover of counsellors is problematic in this respect. In present circumstances, improving training and job stability of the staff might be more important than increasing the number of officers. The decline in unemployment should provide the necessary breathing space to concentrate on improving the quality of PES staff.
A well-functioning social safety-net has become an essential component of modern market economies. The experience of central and east European countries in transition shows that, in the absence of a social safety-net, economic restructuring will be socially unsustainable, in view of workers’ resistance to change, thereby endangering the transition process. The recent Asian crisis has also underlined a need for social safety-nets in the countries in question and indeed most of the affected countries have reinforced or, in certain cases, created a social safety-net. At the same time, it is important that the social safety-net, while protecting individuals against labour market contingencies, does not unduly distort the economic incentives to work, invest and innovate. These considerations have motivated the reform of social safety-nets in many OECD countries (OECD, 1998c, 1998d, 1999b, and 1999c).

In the case of Korea, where those in need traditionally rely on support provided by family members, the social safety-net has been developed later than in other OECD countries. For example, a National Pension System was created in 1988 and, as discussed in the previous chapter, the Employment Insurance System was introduced in 1995. However, because of the newness of these systems, many individuals are not yet eligible for benefit payments. There is, therefore, a need for social assistance support, all the more so because the 1997 crisis led to a marked increase in unemployment and falling real incomes. In the first instance public authorities responded by introducing a set of temporary measures, while at the same time the debate intensified on how a more comprehensive social safety could be developed. In 1999, the Korean authorities enacted a new framework for social assistance, based on its “productive welfare” concept which seeks to enhance economic sustainability of the welfare system by reducing administrative inefficiencies, while simultaneously improving adequacy of benefits and maintaining financial incentives in order to avoid the emergence of unemployment and poverty traps.

It is not possible to discuss in detail all the pillars of the Korean social safety-net. Instead, the chapter focuses on social assistance policies for individuals
of working age. The chapter starts with a description of the Korean social policy context. It then examines the extent to which existing social assistance policies cover adequately those in need, while encouraging their reinsertion in the labour market. Finally, the chapter discusses how the concept of "productive welfare" can be made a reality.

B. The changing social policy context

Recent trends in poverty and income distribution suggest a need for a more comprehensive income support system in Korea:

- Despite the impressive economic performance registered until 1997, a considerable number of Koreans have continued to live in poverty. According to estimates based on the official poverty line, the number of households in poverty declined from 20 per cent in 1975 to about 7 per cent in the mid-1990s (Park and Kim, 1998). This downward trend came to an abrupt halt with the economic crisis. Available indicators on urban poverty suggest that the poverty incidence peaked in the third quarter of 1998 at around 16 per cent and has abated somewhat since then (PSPD/UNDP, 2000, forthcoming; and World Bank, 1999). In 1999, 8 to 12 per cent of the population had incomes below the official poverty line. Apart from job-losers and the elderly, the groups most at risk of poverty include households with low levels of educational attainment, the long-term sick and disabled, as well as large and lone-parent families (Park and Kim, 1998; and PSPD/UNDP, 2000, forthcoming).

- Importantly, about 20 per cent of the Korean middle class now consider themselves to live in poverty while the incomes of other middle class households have moved closer towards the poverty line. Reduced social cohesion is also exemplified by a sharp increase in homelessness during the crisis.

- Income inequality (in terms of both earnings and total income) has also increased, with little sign of improvement despite the ongoing economic recovery (Table 4.1). Over the past three years, average incomes of the poorest 20 per cent of households have declined by over 8 per cent, while average incomes of the 20 per cent richest households have increased somewhat.

To address these problems, there exist in Korea four main types of income support systems: a) support coming from the extended family; b) help from civil society, notably non-governmental organisations (NGOs); c) social insurance; and d) public assistance. Traditionally, in Korea, the first two pillars have provided an effective social safety-net. However, reflecting changes in Korean society, the role of the extended family has weakened. Therefore, given the limited coverage of

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Social Safety-Net Policies

social insurance benefit payments, there is a need for a more comprehensive social assistance policy in order to complete the social safety-net.

Table 4.1. Recent trends in income distribution

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Gini coefficients</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total income</td>
<td>0.29</td>
<td>0.28</td>
<td>0.31</td>
<td>0.30</td>
</tr>
<tr>
<td>Earnings</td>
<td>0.29</td>
<td>0.29</td>
<td>0.30</td>
<td>0.36</td>
</tr>
<tr>
<td>Income growth, compared to 1996</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st quintile (richest 20 % households)</td>
<td>20.9</td>
<td>5.6</td>
<td>3.7</td>
<td></td>
</tr>
<tr>
<td>5th quintile (poorest 20 % households)</td>
<td>-8.2</td>
<td>-10.3</td>
<td>-8.4</td>
<td></td>
</tr>
</tbody>
</table>

a) Data refer to the first quarter of each year, they are based on a survey on the income of wage and salary earners in urban areas.

1. The weakening of family ties

The role of the extended family as a source of income support is one important aspect of the “Confucian social welfare system”. Its continued importance is underlined by a survey which finds that for a considerable proportion of those in poverty, support from members of the extended family is essential.90

However, the supportive role of the extended family has weakened for several inter-related reasons. First, the proportion of the urban population in the overall population has increased spectacularly, from 17 per cent in 1950 to 77 per cent in 1995. As a result, traditional forms of support, often based on rural values, are being lost. Second, the younger generation may be less willing or able to provide support for parents within the household. Traditionally, in Korea, children take care of their parents in old age, which often involves living in the same household.91 Between 1984 and 1998, the proportion of old-age people not living with their children more than doubled to 47 per cent (KIPH, 1985; and KIHASA, 1998). Third, the distress associated with job loss seems to have increased family break-up and, as a result, the incidence of lone-parent families at risk of poverty is on the rise. In 1998, the number of low-income, lone-parent families increased by 10.5 per cent to almost 60 000 (covering almost 167 000 people). Finally, the gradual integration of women in the labour market has also modified attitudes towards family support.

2. The important role of NGOs

Korea possesses one of the most vibrant networks of “social” NGOs among OECD countries. These NGOs are estimated to run about 1 400 welfare centres (of
which about half receive public funding). These welfare centres deal with a wide range of social, medical and re-integration services. They typically provide home-help for the elderly and the disabled and general counselling services. But, depending on their specific focus and financial capacity, welfare centres can also provide shelter for the homeless, medical benefits, rehabilitation services, schooling and training, child-care facilities, and sometimes income support. About 100 of them also function as advocacy groups and they can play a pivotal role in advancing the plight of the most vulnerable in the policy-making process. A detailed discussion of how these NGOs operate in the field of social assistance and how they interact with public policies is provided below.

3. The low coverage of the social insurance system

Social insurance programmes are increasingly considered as a system rather than an agglomeration of separate policies. However, despite these efforts, a relatively small share of the population is eligible for social insurance benefits:

- The Employment Insurance System fails to cover a significant number of workers and, as a result, only a fraction of the unemployed receives benefits (see Chapter 3).

- With the extension in April 1999 of national pension insurance to the self-employed in urban areas, about 62 per cent of the population aged 18 to 60 now pay public pension contributions. Full pension insurance benefits will not be paid out until 2008, and hence, most individuals of pension age receive only a small public pension (on average about 260 000 Won per month) and, in many cases, no public pension at all (Annex B). In addition, the pension system seems to suffer from inadequate funding, raising the issue of financial sustainability. Pension contributions amount to 9 per cent of the standard monthly earnings and are equally shared among employers and employees. Locally insured workers (e.g. the self-employed) pay 3 per cent of (self-reported) income levels, while this contribution rate is planned to increase gradually to 9 per cent in July 2005. Unless pension policies are further modified, the fund will go into deficit by 2022, to be depleted by 2031. Hence, pension reform is under debate, and future measures which involve a combination of benefit cuts, increased contribution rates and retirement ages. For those with a 40 year contributory record, replacement rates have already been cut from 70 to 60 per cent in December 1998, while retirement ages are scheduled to increase gradually from 60 years at present to 65 in 2033. The funds of the public occupational pension programmes for civil servants, the military and teachers are already exhausted, and liabilities are largely financed out of the government account (KOILAF, 1999, p. 15).

- To a large extent, the enterprise remains an important provider of social benefits. At present, the most important benefit for job leavers and
retirees is the mandatory severance payment. However, most temporary and daily workers do not receive separation allowances. Other legally stipulated employer-provided social benefits are paid maternity leave (two months) and the monthly menstrual leave – the latter is unique among OECD countries, where relevant provisions are normally covered by sickness benefits. Enterprises can also provide child allowances and other types of benefits which, in other OECD countries would be an integral part of the welfare state. However, coverage of such payments is limited to regular workers only.

- Health care provisions either through the health insurance system or the medical aid programme cover the whole population since 1989. Management of the system is broadly divided in two parts: employees in the private sector are served by 139 private health insurance societies across the country, while the National Health Insurance Corporation with regional offices serves public employees, teachers, the self-employed, and daily and temporary workers. In 1999, government plans to integrate both systems – now scheduled for July 2000, incurred the wrath of many private sector employees, who protested against increased contribution levels caused in their view by underreporting of self-employment income which keeps contributions paid by the self-employed artificially low (Korea Herald, 1999b).

Reflecting the late development of the social insurance system, government social expenditures are significantly lower than in the other OECD countries, except Mexico and Turkey (Table 4.2). Even when mandatory non-government social programmes are taken into account, Korea tends to spend little on social protection compared with other OECD countries (OECD, 1999d, and 2000c, forthcoming). Almost half of publicly controlled (government and mandatory non-government) social expenditure is devoted to severance payments, other old-age cash benefits and survivor benefits, while 36 per cent is devoted to health. By contrast, spending on public assistance, unemployment compensation and ALMPs is small. However, in response to the crisis public spending on ALMPs increased from 0.2 per cent of GDP in 1997 to 2.4 per cent in 1999.

Social insurance programmes are largely financed by employer and employee contributions. The government (also acting as an employer) pays only about 20 per cent of the contributions to pension and health insurance systems; and does not contribute to the accident or unemployment insurance programmes. In this regard there seems considerable scope for increasing public social effort.

Given the limitations of the social insurance system and the weakening of family support, there is a need for a comprehensive system of last-resort benefits that provides adequate support to the approximately 3.6 million Koreans whose earnings fall short of the poverty line.
Table 4.2. **Public social expenditure**\(^a\) in OECD countries, 1980-1997  
Percentage of GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>11.7</td>
<td>14.0</td>
<td>14.5</td>
<td>15.7</td>
<td>15.9</td>
</tr>
<tr>
<td>Austria</td>
<td>22.6</td>
<td>24.4</td>
<td>24.2</td>
<td>26.2</td>
<td>25.2</td>
</tr>
<tr>
<td>Belgium</td>
<td>24.6</td>
<td>27.5</td>
<td>25.6</td>
<td>27.1</td>
<td>25.9</td>
</tr>
<tr>
<td>Canada</td>
<td>13.2</td>
<td>16.3</td>
<td>17.6</td>
<td>18.2</td>
<td>17.2</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>..</td>
<td>..</td>
<td>16.0</td>
<td>19.2</td>
<td>19.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>27.5</td>
<td>26.4</td>
<td>28.1</td>
<td>32.1</td>
<td>30.5</td>
</tr>
<tr>
<td>Finland</td>
<td>18.9</td>
<td>23.4</td>
<td>25.2</td>
<td>32.0</td>
<td>28.7</td>
</tr>
<tr>
<td>France</td>
<td>23.5</td>
<td>27.0</td>
<td>26.7</td>
<td>30.1</td>
<td>29.8</td>
</tr>
<tr>
<td>Germany</td>
<td>23.4</td>
<td>24.3</td>
<td>22.8</td>
<td>27.2</td>
<td>28.1</td>
</tr>
<tr>
<td>Greece</td>
<td>10.8</td>
<td>16.2</td>
<td>17.1</td>
<td>22.7</td>
<td>22.8</td>
</tr>
<tr>
<td>Iceland</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>18.6</td>
<td>18.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>19.9</td>
<td>22.9</td>
<td>19.2</td>
<td>19.4</td>
<td>17.3</td>
</tr>
<tr>
<td>Italy</td>
<td>18.4</td>
<td>21.6</td>
<td>23.1</td>
<td>23.7</td>
<td>24.3</td>
</tr>
<tr>
<td>Japan</td>
<td>9.9</td>
<td>11.3</td>
<td>11.2</td>
<td>13.8</td>
<td>14.7</td>
</tr>
<tr>
<td><strong>Korea</strong></td>
<td>..</td>
<td>..</td>
<td>3.1</td>
<td>4.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>24.5</td>
<td>24.0</td>
<td>23.4</td>
<td>24.9</td>
<td>24.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>..</td>
<td>2.1</td>
<td>2.8</td>
<td>3.7</td>
<td>7.8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>27.7</td>
<td>28.1</td>
<td>28.8</td>
<td>26.9</td>
<td>26.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>16.5</td>
<td>17.6</td>
<td>22.2</td>
<td>18.8</td>
<td>20.7</td>
</tr>
<tr>
<td>Norway</td>
<td>18.5</td>
<td>19.7</td>
<td>26.5</td>
<td>27.6</td>
<td>26.4</td>
</tr>
<tr>
<td>Poland</td>
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<td>..</td>
<td>26.3</td>
<td>25.7</td>
</tr>
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<td>Portugal</td>
<td>11.3</td>
<td>11.6</td>
<td>14.4</td>
<td>18.3</td>
<td>18.1</td>
</tr>
<tr>
<td>Spain</td>
<td>16.3</td>
<td>18.5</td>
<td>19.6</td>
<td>21.5</td>
<td>21.4</td>
</tr>
<tr>
<td>Sweden</td>
<td>29.8</td>
<td>31.1</td>
<td>32.2</td>
<td>34.2</td>
<td>33.2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>14.0</td>
<td>15.2</td>
<td>16.3</td>
<td>21.0</td>
<td>22.0</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.9</td>
<td>3.8</td>
<td>5.9</td>
<td>6.8</td>
<td>10.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18.3</td>
<td>21.1</td>
<td>19.5</td>
<td>22.5</td>
<td>22.2</td>
</tr>
<tr>
<td>United States</td>
<td>13.4</td>
<td>13.0</td>
<td>13.5</td>
<td>15.8</td>
<td>15.7</td>
</tr>
<tr>
<td><strong>EU</strong></td>
<td><strong>21.1</strong></td>
<td><strong>23.3</strong></td>
<td><strong>23.4</strong></td>
<td><strong>26.0</strong></td>
<td><strong>25.3</strong></td>
</tr>
<tr>
<td><strong>OECD</strong>(^b)</td>
<td><strong>18.1</strong></td>
<td><strong>20.1</strong></td>
<td><strong>20.9</strong></td>
<td><strong>23.1</strong></td>
<td><strong>23.1</strong></td>
</tr>
</tbody>
</table>

..: Data not available.
\(\dagger\): Indicates a break in series.
\(a\): Includes the following spending categories: old-age cash benefits, disability cash benefits, occupational injury and diseases, sickness benefits, services to the elderly and disabled, survivors, family cash benefits, family services, unemployment compensation, active labour market programmes, public expenditure on health, housing benefits and other contingencies (including non-categorical social assistance benefits).
\(b\): Unweighted average for all countries, except the Czech Republic, Iceland, Korea, Mexico and Poland.

C. The present social assistance system

The provision of social assistance, or last-resort, benefits in Korea is embedded in the Constitution, which states that citizens unable to earn a livelihood due to physical disability, old age or other reasons shall be protected by the state. The most important of the social assistance benefits is the livelihood protection programme (LPP) which purports to guarantee a minimum standard of living for the needy. In addition, the government responded to the 1997 crisis by introducing a new programme, namely temporary livelihood protection (TLP). In principle, TLP is targeted on unemployed individuals of working age, while LPP has a broader scope.95

The number of beneficiaries to both LPP and TLP programmes is close to 2 million in 2000, or about 4.4 per cent of the population (Chart 4.1).96 Nevertheless, coverage of livelihood protection support is limited to about 55 per cent of the poverty population in 1999 – the remaining 45 per cent are not covered. The trends in the number of beneficiaries are mirrored in the budgetary allocations of the Ministry of Health and Welfare. As can be seen from Table 4.3, these allocations have almost doubled since 1997. Even so, welfare-related expenditures, at about 2.8 per cent of the total government budget, remain small.


<table>
<thead>
<tr>
<th>Year</th>
<th>Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1,000</td>
</tr>
<tr>
<td>1981</td>
<td>1,500</td>
</tr>
<tr>
<td>1982</td>
<td>2,000</td>
</tr>
<tr>
<td>1983</td>
<td>2,500</td>
</tr>
<tr>
<td>1984</td>
<td>3,000</td>
</tr>
<tr>
<td>1985</td>
<td>3,500</td>
</tr>
<tr>
<td>1986</td>
<td>4,000</td>
</tr>
<tr>
<td>1987</td>
<td>4,500</td>
</tr>
<tr>
<td>1988</td>
<td>5,000</td>
</tr>
<tr>
<td>1989</td>
<td>5,500</td>
</tr>
<tr>
<td>1990</td>
<td>6,000</td>
</tr>
<tr>
<td>1991</td>
<td>6,500</td>
</tr>
<tr>
<td>1992</td>
<td>7,000</td>
</tr>
<tr>
<td>1993</td>
<td>7,500</td>
</tr>
<tr>
<td>1994</td>
<td>8,000</td>
</tr>
<tr>
<td>1995</td>
<td>8,500</td>
</tr>
<tr>
<td>1996</td>
<td>9,000</td>
</tr>
<tr>
<td>1997</td>
<td>9,500</td>
</tr>
<tr>
<td>1998</td>
<td>10,000</td>
</tr>
<tr>
<td>1999</td>
<td>10,500</td>
</tr>
</tbody>
</table>

Source: Ministry of Health and Welfare.

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To some extent, the relatively low coverage rates and low levels of spending can be explained by the fact that some would-be beneficiaries do not apply for benefits because either they are not aware of their existence or receiving benefits entails a certain stigma. However, other factors have also played a role, notably the relatively strict eligibility criteria, the low level of benefits and benefit administration problems.

1. The application of strict eligibility criteria

Different types of benefits can be provided under the LPP and TLP programmes. These include general income support as well as earmarked benefits for households with children, income support towards the cost of living (food, clothing, etc.), maternity aid, funeral grants, and social welfare services, including employment support programmes. Moreover, all livelihood protection clients have free access to medical benefits under the medical aid programme. Both livelihood protection programmes distinguish between two broad types of support. First, there is livelihood aid, in the case of households where no person is able to work due to, inter alia, disability, old age (i.e. over age 65) and pregnancy. Recipients of livelihood aid are categorised as either clients whose situation necessitates institutional care, or clients requiring home care support. Second, in the other cases, there exists self-support care. In theory, recipients of self-support care should have a greater ability to work than livelihood aid ones. However, the actual level of benefits depends on the type of programme (LPP and TLP have different eligibility criteria) and the ability of the recipient to find a job, as perceived by the welfare officers who administer the programme.

In 1999, 70 per cent of social assistance recipients were covered by the LPP and the remaining 30 per cent by TLP (Table 4.4). In addition, more than 60 per cent of all recipients were entitled to the self-support care benefit – which in theory is granted to individuals who can look for a job.

Table 4.3. Budgetary allocations for welfare spending, 1997-2000

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget of the Ministry of Health and Welfare (MHW) (billion of Won)</td>
<td>2,851</td>
<td>3,113</td>
<td>4,161</td>
<td>4,498</td>
</tr>
<tr>
<td>As a percentage of the general government budget</td>
<td>4.2</td>
<td>4.1</td>
<td>5.2</td>
<td>4.9</td>
</tr>
<tr>
<td>Welfare-related spending as a proportion of the MHW budget</td>
<td>49.1</td>
<td>52.0</td>
<td>60.3</td>
<td>57.2</td>
</tr>
</tbody>
</table>

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 |

Memorandum item

- General government budget, as a percentage of GDP | 15.9 | 18.9 | 18.5 | 17.9 |

Source: Ministry of Health and Welfare.
Benefits under both programmes are subject to means test based on (a) family income, (b) individuals’ income, and (c) assets (Table 4.5): 

- Family support is traditionally an important plank of the Korean social system, and this feature has led public authorities to include family support conditions in the means test for welfare programmes. In the LPP, the means test is based on the capacity (to earn) of extended-family members. Among OECD countries, this is an unusually strict interpretation of family support criteria. The usual practice is that actual income is taken into account – as for example in Switzerland (OECD, 1999c).

- Eligibility for TLP benefits is not based on the earnings’ capacity of extended-family members. The benefit unit for the TLP means test is the household defined as persons registered at the same address. Furthermore, asset disregards are about 50 per cent higher than is the case with the LPP.

2. The low level of benefits

The level of social assistance payments depends on the type of programme, but also on family and income criteria. At maximum, social assistance payments are equivalent to 60 per cent of the official poverty line (Table 4.6).

Income support to recipients who are supposed to be unable to work (i.e. the recipients of home-care and institutional care support) is more generous than payments to able-bodied recipients (self-support care recipients – see grey-shaded area in Table 4.6). In addition, income support to home-care beneficiaries under the

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The LPP-regime is provided throughout the year and varies with household size and earnings of all household members, whereas self-support care clients receive benefits during six months only (October to March), and only to the extent that monthly household income is less than 600,000 Won (Table 4.5). Benefits provided to able-bodied recipients amount to about one quarter of social assistance payments in Switzerland, and half of what a Czech family in a similar situation would receive (OECD, 1998d and 1999c). Finally, it should be stressed that both the self-support care and TLP clients receive cash and other elements of livelihood protection support to the extent that earnings do not exceed the set eligibility criteria.

Table 4.6 shows that the elasticity of benefit income for self-support care and TLP payments with respect to household size is relatively high compared with what might be termed the international consensus. In particular, equivalence elasticities for the first additional adult are high, but this has to be interpreted in the light of relatively low benefit rates for single people.

Given the low level of benefits, the current public assistance system provides ample financial incentives to work, especially for self-support clients and recipients of temporary livelihood benefits (Table 4.7). Net replacement rates are among the lowest in the OECD area (OECD, 1999e and 2000d). Work pays in Korea under the existing rules.

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Table 4.6. Monthly benefit levels per household, under the livelihood protection programme in 2000

Percentage of the monthly minimum cost of living

<table>
<thead>
<tr>
<th>Household size</th>
<th>1 person</th>
<th>2 persons</th>
<th>3 persons</th>
<th>4 persons</th>
<th>5 persons</th>
<th>6 persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit level for a household qualifying for home-care support, by level of household income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household income, in Won</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>240 000 to Minimum cost of living (MCL)</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>200 000 to 240 000</td>
<td>25</td>
<td>29</td>
<td>29</td>
<td>28</td>
<td>28</td>
<td>..</td>
</tr>
<tr>
<td>160 000 to 200 000</td>
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<td>33</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>..</td>
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<tr>
<td>120 000 to 160 000</td>
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<td>34</td>
<td>34</td>
<td>34</td>
<td>35</td>
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<tr>
<td>80 000 to 120 000</td>
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<td>38</td>
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<tr>
<td>40 000 to 80 000</td>
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<tr>
<td>0 to 40 000</td>
<td>60</td>
<td>51</td>
<td>51</td>
<td>51</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Benefit levels for a household qualifying for self-support care and temporary livelihood protection, by level of household income</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Household income, in Won</td>
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<tr>
<td>240 000 to MCL</td>
<td>9</td>
<td>9</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>0 to 240 000</td>
<td>25</td>
<td>29</td>
<td>29</td>
<td>28</td>
<td>28</td>
<td>27</td>
</tr>
</tbody>
</table>

Memorandum items

| MCL, in Won | 324 011 | 536 614 | 738 076 | 928 398 | 1 055 588 | 1 191 134 |
| MCL, in US $ | 270 | 447 | 615 | 774 | 880 | 993 |
| Implicit equivalence elasticities | | | | | | |
| Home-care support | .. | 0.42 | 0.53 | 0.51 | 0.34 | 0.36 |
| Self-support care and temporary livelihood protection | .. | 0.94 | 0.70 | 0.59 | 0.48 | 0.38 |
| MCL | .. | 0.66 | 0.62 | 0.59 | 0.39 | 0.42 |

- No benefits are paid.
- Payments to home-care clients vary with household size, not with the age of household members.
- The equivalence elasticities are defined as the increase in benefits for each additional household member, as a ratio of the monthly benefit corresponding to a single-person household. Some additional benefits are available for families with children, but the calculated equivalence elasticities will not be significantly different in view of the low benefit levels.

Source: Ministry of Health and Welfare.
Home-care support recipients, despite the limited employability of many of them, are encouraged to work through a complex system of earnings’ disregards. In other words, recipients who accept a job may keep their benefits to the extent earnings are below a certain threshold. The purpose of this system is to avoid situations where benefit recipients who are employable reject a job offer on the grounds that it is not financially rewarding vis-à-vis benefits. Thus, as Chart 4.2 shows, an unemployed recipient who accepts a job paid less than the minimum cost of living can keep part of the benefits, thereby making work pay. However, once the recipient is working, he might not have much incentive to increase his/her earnings, for example by working longer hours. For instance, a recipient who is working and earns 70 000 Won, has no interest in earning 10 000 additional Won, as a substantial portion of the benefits would be lost, to the point that total income would be lower. In the case of large households, the incentive structure is even more perverse – this is illustrated by the fact that the curve shown in Chart 4.2 has a downward slope, i.e. the higher the earnings, the lower total income (this is due to the very large kinks at 200 000 Won – 244 000 Won for four and six person households).

The Ministry of Health and Welfare (MHW) also operates 42 000 places in special public works programmes (on top of the 400 000 places in the general public works programme). As placement in these programmes pays less than the general public works programmes (17 000 Won as opposed to 24 000 Won; Kim, D.H., 1999), self-support care clients have an obvious preference for participating in a general public works programme. Hence, special public works placements mainly cover the elderly and disabled who would not qualify for the general public works programme.

3. The impact of restricted public budgets on the adequacy of welfare provisions

As benefits are not awarded as of right, the public welfare budget can theoretically be restricted to the point that clients may receive less than what they
Chart 4.2. **Financial incentives to work for social assistance clients, 2000**

**Thousands of Won**

- **One-person household (home-care recipients)**

- **Four-person household (home-care recipients)**

- **One-person household** (self-support care recipients)

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**Legend**

- **A**: Minimum cost of living for a one-person household is 324 011 Won; the minimum wage as from September 1999 is 361 600 Won; the average wage in 1999 is 1 599 000 Won.
- **b)** For more explanations on this chart, see Section D4 of the text.

**Source:** Secretariat estimates.

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might have been legally entitled to and, in certain cases, they will receive no benefits at all. In order to understand how this can happen, it is important to consider the budgetary process. Each year local governments apply to the MHW for funding for the forthcoming year. Subsequently, the MHW submits a proposal containing a prioritisation among expenditure items to the Ministry of Budget and Planning. This Ministry then decides upon the overall budget while taking the financial status of provincial and district levels of government into account. As the budgetary allocations awarded by the Ministry of Planning and Budget are generally considered short of what is needed to serve all the poor, there is inevitably some rationing in benefit awards. Local governments have to work within a set budget, but do not have the discretion to vary benefit rates for *livelihood aid* and *self-support care*, so as to spread available resources amongst all eligible applicants. Hence, inevitably there is some variation in benefit award across the country: otherwise similar clients may not be categorised in the same manner across the country. Moreover, budgetary restrictions limit the number of *self-support clients* who receive cash support. It is also possible that otherwise eligible applicants will not receive any benefits as budgets are already exhausted. Even though supplementary budgets have been made available twice during 1998 and 1999 in view of the crisis, some municipal welfare officers have considered allocated budgets well short of what was needed.

4. The heavy workload of welfare officers

Since the crisis, the number of applications for livelihood benefits increased, partly reflecting the introduction of the TLP programme in April 1998. Hence, the administrative burden of welfare officers, who are in charge of administering these benefits, has increased (Annex B). Across the country there are about 3,000 local government social welfare officers working on 850,000 cases (or 1.9 million persons). That is about one social worker per 280 cases, with variation across the country. Caseload-to-staff ratios in Korea are very high compared with most OECD countries. In Belgium and Norway these vary from 60 to 100, while the caseload-to-staff ration range from 80 to 120 in the Netherlands and Switzerland (in some Canadian provinces the relevant ratios sometimes exceed 150). In view of the relatively administrative nature of the work involved, these high caseload-to-staff ratios observed in Korea may not pose immediate problems. But this may change once the proportion of employable clients increases, and social workers are obliged to take a more active role in re-integration of clients in the labour market.

5. Social services and employment support programmes: the extensive role of NGOs

There is a close relationship between the public authorities and NGOs in social policy delivery. Most of the social service facilities are operated by NGOs, and of the about 1,400 NGOs in Korea, about half receive financial support from either the MHW and/or local government. At the local level, welfare officers refer both successful and unsuccessful livelihood protection applicants to the welfare centres run by NGOs. Employment support to low-income families and livelihood
protection clients is often organised through welfare centres operated by NGOs. These centres also provide job-search assistance and more direct employment interventions (see Box 4.1).

6. **Degree of employability of benefit recipients**

As mentioned above, over two-thirds of the beneficiaries are entitled to *self-support care* benefits, which in contrast to *livelihood aid* is targeted at able-bodied individuals. However, this should not be taken as evidence that the majority of social assistance recipients are employable:

- the distinction between *livelihood aid* and *self-support care* clients does not fully coincide with the client’s ability to work: 44 per cent of the *self-support care* clients under the LPP-regime are either elderly or disabled people (MHW, 1999b). The majority of LPP recipients are of non-working age (see tables to Annex B);
- the level of educational attainment of beneficiaries is low. Only about 18 per cent of them have a high-school diploma or university degree, compared with 58 per cent for the population at large, and 64 per cent have either elementary education or no education at all, compared with 27 per cent on average in Korea (NSO, 1999);
- in 1999, about one-third of *self-support care* beneficiaries had a job and a approximately similar proportion was inactive or unemployed (Table 4.8). Only a small number of *livelihood aid* clients had a job in 1999; and
- about half of all clients are estimated to remain on LPP *ad infinitum*. Only one third of *home-care* clients are estimated to leave the programme for a job (Table 4.9).

D. **Introducing the concept of “productive welfare” into social assistance programmes**

The Korean authorities are aware of the weaknesses of existing social assistance programmes and this has prompted them to enact the National Basic Livelihood Security Law (NBLS) in August 1999. The concept underlying the new social assistance law is that of “Productive Welfare” which is hailed as the new “Korean Welfare Paradigm” (Office of the President, 2000). The purpose is to enhance the economic sustainability of the welfare system. It contains the following elements:

- Basic income support and social protection for the elderly and low-income households.
- A more coherent delivery of existing public policies.
- A stronger partnership with private NGOs.
- Reciprocity in benefit receipt for those who are able to work.
- Promoting clients’ employability through ALMPs.

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Box 4.1. Provision of self-support aid: the close relationship between public authorities and NGOs

With the introduction of the "Basic Law for Social Security" in December of 1995, social welfare authorities took a first step towards rationalisation of re-integration measures for livelihood protection clients and other low-income workers (e.g. low-income, lone-parent families) with the establishment of self-reliance aid centres. In 1998, there were 17 such centres which provide information to clients about available jobs, job-counselling services, and community-based employment programmes. The self-reliance aid centres are run by local groups but partly or wholly financed by the public budget. Community representatives, civil servants and social welfare officers often staff the management support committee which aims to maintain close relations with local authorities, assign projects to other welfare centres, support the administration of new projects, and advise on "self-reliance" loans to low-income families (Park and Kim, 1998).

Self-reliance loans are available to both livelihood protection clients and low-income, lone-parent families. The credit limit for such loans is 12 million Won (about US$ 10 000) or 25 million Won for LPP-clients who can take up a mortgage. Obtaining the loan is conditional on an approved "business plan". The loan has to be paid back within a ten-year period, with a five-year grace period. The programmes are small and cover about 3 000 livelihood protection clients and approximately about 400 low-income, lone-parent families.

Many NGOs operate so-called "Incubator centres" and the most innovative aspect of these centres is their approach towards initiating community-based employment projects for clients who are often considered to have limited labour market opportunities. A recurrent form of support concerns business start-ups by unemployed persons, with gradually declining support from the centre's professional staff: from intensive day-to-day management in the initial stage; to merely checking the financial accounts at the end of the project. After about three years, firms are to be completely independent. Some of these projects have drawn criticism from local entrepreneurs as establishing unfair competition.

The extensive use of NGOs is advantageous in that their knowledge of community needs allows them to react quickly to emerging demands; it also facilitates experimentation so that best practices can be copied in other regions. However, the effectiveness of such a network depends on the financial capacity of charitable organisations. Inevitably, this means that NGOs without good contacts in either the MHW or local government will not procure much public financial support. This is exacerbated by the regional disparity of centres where the financial capacity of rural governments to support community-based centres is limited. Hence, there is distributional unevenness in service delivery. Moreover, a recent report by the Bureau of Audit and Inspection reveals that exerting control over spending by NGOs and their accounting procedures is not without difficulties. Some directors of welfare centres seem to have diverted funds to finance private expenditures, while some centres appear to have used funds to finance programmes for which they were not intended (Korea Herald, 1999d).
The productive welfare concept comes close to recent social welfare reforms in Canada and the United States (OECD, 1999b and 1999c). In these two countries, “Work for welfare” aims at keeping welfare clients closely attached to the labour market by improving their skills and enhancing the financial incentives to work. The new Korean social assistance programme will take effect as from 1 October 2000, and at present, the NBLS should be considered as a “framework” act, since the exact nature of benefit rules of the new social assistance programme

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is still under discussion. Nevertheless, the following sections discuss the main elements of the new law and consider how the law can be formulated in a way that takes into account equity and efficiency considerations.

1. Improving adequacy of benefits

In view of the avowed policy objectives, it seems desirable to extend coverage of social assistance provisions so as to guarantee support to all those with incomes below the official poverty line. The new system takes some steps in this direction. Indeed, under the NBLS, income support will be provided to all clients (including all self-support care clients) throughout the year. Furthermore, the official poverty line, which serves as a basis for the calculation of benefits, has been increased by almost 28 per cent compared to 1999 (for a single person), even though benefits are increased by less than the adjustment made to the poverty line. Nevertheless, despite the good intentions, the NBLS will not cover the entire population living in poverty and projected social assistance expenditures for 2000 are actually lower than the budget for 1999 (Table 4.3). In 1999, almost 2 million persons were receiving some sort of livelihood protection support, and it is projected that the NBLS will cover approximately the same number of people in 2001, i.e. about two-thirds of the population living in poverty, up from about 55 per cent in 1999.107

The main reason for the projected stability in the overall number of clients is that eligibility criteria will not change dramatically compared with the current LPP system. In particular, the income capacity, and not actual income, of the extended family will continue to be taken into account when assessing entitlement to NBLS.108

2. Enhancing policy coherence

In contrast to current assistance programmes, the NBLS is to award benefits as of right which underlines the need for careful monitoring of programmes as well as overall policy coherence.109 Social assistance recipients are required to fulfil certain conditions in order to be eligible for benefits and local welfare officers must determine whether clients actually satisfy these conditions. But these administrators may not have an incentive to apply the rules strictly, particularly when decisions are marginal and difficult and when they do not perceive any clear budget constraints. Additionally, time spent checking whether applicants satisfy conditions for benefit receipt may reduce the resources available to other activities. Therefore, introducing a rights-based benefit system on the basis of a fully-fledged cost-sharing mechanism might induce a rapid increase in caseloads and spending (see Box 4.2).110 For this reason it seems preferable to maintain the current budgetary “tied-grant” based system for the time being, and not give the certainty to local governments that their financial demands will always be satisfied. To cover for unforeseen circumstances, the creation of a reserve fund could be considered. The reserve fund may also be used to cover local shocks, such as the closedown of a particular industry on which one area is heavily reliant, and which may induce a rapid increase of claims.
Box 4.2. **Coherent implementation of welfare policies**

In Korea, as in most OECD countries, one of the main reasons for using local governments is the belief that this induces a better reflection of local preferences and conditions in social assistance policy. Furthermore, local governments are best placed to apply knowledge about clients and thus decide who of the potential clients in their area might be in the greatest need, to pursue fraudulent behaviour and assess individuals’ labour market prospects (OECD, 1998c, 1998d and 1999c). However, for the gains of local government involvement to materialise, a coherent policy structure is needed.

In the current system, there would seem to be three important impediments to policy coherence. **First**, social assistance benefits are mainly funded by central government, while their administration is carried out by local government. Indeed, central government bears about 80 per cent (subject to variation across the country), and the remainder is shared among district and provincial governments (who have no other obvious role in social assistance policy). As a result, district governments may have little financial incentive to control eligibility criteria, pursue fraud or effective re-integration strategies for welfare recipients. Possible financial savings for local government of better control in one year may lead to lower central government transfers the following year, so that local governments may actually have an incentive not to reduce caseloads. **Second**, central government financial transfers do not take sufficiently into account the social-economic situation of different municipalities. This may lead to unevenness in benefits across the country (Section C.3). **Third**, local governments may be induced to pursue policies which might be contrary to overall social policy objectives. In the Korean case, the scope for district government to off-load clients to other social programmes is limited. Nevertheless, if district governments manage to place clients in public works programmes in the private sector for a period exceeding six months, these persons re-qualify for unemployment insurance. If public works programmes are fully financed by central government, the incentives to district government to off-load clients are obvious. Although the financial gains accruing to district government from rent-seeking behaviour are currently small, these are likely to increase with the expansion of the NBLS.

In the face of similar problems, certain countries such as Canada (OECD, 1999c) have introduced a so-called “block-fund system”, whose size varies with local socio-economic conditions. This system gives local governments more discretion in dealing with clients as well as sufficient financial resources to do so. In such a setting, local governments have relatively wide responsibilities for implementing social assistance policy; they can also adjust policies to local needs, while having strong financial incentives to pursue entry-conditions, police fraud and help clients off welfare rolls. In Korea, a country with a centralised administrative tradition, it may be too early to envisage the introduction of a “block-fund system”. However, under the new productive welfare paradigm, the gains to be made out of a more coherent policy implementation will increase. Hence, it seems appropriate to gradually decentralise some of the responsibilities in the area of social assistance policy, together with the corresponding financial resources.
3. Introducing work testing of clients and fostering their employability

Making productive welfare a reality requires administrative officers to screen clients on their work ability and provide effective employment-oriented counselling services. In turn, this requires a shift in administrative culture, additional resources and co-operation between social assistance and employment agencies. The concept of productive welfare simultaneously introduces reciprocity in benefit receipt and thus, the policing of job-search activities as well as the possibility of providing mandatory training and work placements for those who are able to work. Under the new NBLS programme, clients who are able to work and who refuse to comply with the benefit rules, *e.g.* by not accepting a training placement as offered by the authorities, will lose their entitlement to receiving income support. Based on the experience of other OECD countries with the re-integration of social assistance clients, it is possible to trace out several policy avenues towards an effective pursuit of re-integration strategies of social assistance clients.

*First*, the NBLS should assign a high priority to the establishment of individual plans on the basis of client characteristics. Such an approach requires intensive involvement of the case manager. At present, however, there are about 250 clients to each welfare officer, so that staff simply do not have the time to screen and adjudicate clients on their work-ability or provide intensive job-counselling services. The authorities have undertaken to hire additional social workers (and to provide relevant training) so that caseload-to-staff ratios decline to about one per 175 households (4,800 officers working on about 850,000 cases). But this would still be well above the OECD norm of about one officer to 80 to 120 clients.

*Second*, identifying client needs is most effective when case-managers have adequate funds to procure the delivery of training, work placements or intensive job-counselling services. If the NBLS were to serve all the unemployed, except those served by the EIS, this would suggest integrating the delivery of all employment support services in the NBLS framework, whilst making case-managers responsible and providing them with the necessary funds to perform re-integration strategies and avoid unnecessary duplication. Re-allocation of budgetary resources and administrative responsibilities would therefore be required. For example, a certain share of the general training budget could be re-allocated to the NBLS authorities, who could then “buy” training services on behalf of their clients. This would also provide case-managers with the leverage to exert influence on the design of training programmes and to make them more relevant to the learning abilities of their clients and the needs of local employers. Likewise, it can be argued that certain public works programmes could be integrated in the NBLS framework (Park, 2000). In the current set-up employment security centres are financed out of the employment insurance fund, and therefore, have no financial incentives to place NBLS clients. As in other OECD countries (OECD, 1998a, 1998d and 1999d), the PES tends to focus on the placement of unemployment benefit recipients who are relatively well-qualified, whereas social assistance claimants are likely to be predominantly those who are the most difficult to place. In order to
enhance the quality of employment services and improve the financial incentive structure, the Dutch public employment service was recently reformed, so that municipalities responsible for the re-integration of social assistance clients can now “buy” employment support services as training and work placements from both public and private providers (OECD, 1998d; NYFER, 1999). Therefore, complementarities with private employment agencies could be enhanced (Chapter 3). Private agencies are very experienced in placing low-skilled workers in Korea. However, the authorities seem reluctant to use them, which seems rooted in the bad reputation of private agencies. Nevertheless, private agencies have a considerable market share (Chapter 3), and the authorities could consider the implementation of some pilot projects, allowing private agencies to tender for the provision of employment services to NBLS clients. The fee to agencies for handling these clients, to be paid out of the NBLS budget, could be made partly or wholly dependent on their success of providing jobs to clients and these jobs could be subject to a minimum duration in order to reduce the risk of fraud. If these pilot projects prove to be successful, the scope of complementarity between public and private employment services for the placement of social assistance clients could beneficially be expanded.

Third, as well as being tools in the worktesting strategy, ALMPs can also enhance participants' skills and employability. Except for a relatively small group of readily employable NBLS clients, the characteristics of current welfare recipients suggest that ALMPs often have to serve older and disabled workers with low levels of educational attainment. To use limited available resources most effectively, careful consideration should be given to the design of programmes and the selection of its participants.

4. Enhancing financial incentives to work

All rights-based cash-support systems lead to “benefit traps” as clients (and their families) may prefer to rely on assistance rather than seeking to improve their position through work or taking steps to improve their employability. This risk is limited in the current assistance programme: self-support care clients only receive cash support at low rates for at most six months, if at all, and replacement rates are therefore low. In addition, social pressures to work in Korea are strong. But the new social assistance law may entail a greater risk of benefit traps. With benefits awarded as of right and income support to employable clients extended throughout the year, there is a theoretical possibility that reliance on benefit as the main source of household income will increase if benefit payments increase substantially from current levels.

As long as payments to employable clients do not even match the poverty line, it is to be expected that families will have to rely on casual, part-time or temporary earnings to raise their incomes. Strictly speaking, such work is not
compatible with continued receipt of benefit, and the scope for fraud seems considerable, particularly in view of the opportunities to combine benefit receipt and daily work in the large informal sector. There are strong arguments in favour of structuring the NBLS so as to permit households in difficult circumstances to improve their situation by combining benefit receipt and work. Such work may provide a route back into the regular labour market (OECD, 1997d). To achieve this, a system of “earnings disregards” is required. However, such as system should be rather different than the current earnings disregards for social assistance clients (Chart 4.2). Indeed the present system is such that social assistance clients do not always have an incentive to work more hours – at points B and C of Chart 4.2, a small rise in earnings leads to disproportionate reduction in benefits, translating into lower total income. In order to avoid this, benefits should be withdrawn only gradually – for example, Chart 4.2 (diagonally-dashed line) illustrates the case of benefits being withdrawn by one Won for each two additional Wons of earnings. More fundamentally, in thinking about earnings disregards, it is necessary to find the appropriate balance between providing incentives to a) engage in part-time work; and b) becoming fully self-reliant. If the rate of withdrawal of benefit is too rapid, the incentive to work part-time is restricted; if it is too slow, the option of combining part-time work with benefit receipt becomes too attractive relative to working full-time and exiting the benefit system altogether. There is no international consensus on what the appropriate claw-back rates for different earnings ranges should be, or on the level of earnings from where the claw-back rates should apply. Finally, as payments to self-support care clients are well below the minimum subsistence level, adequacy considerations imply that clients should at least be allowed to keep all their earnings below the poverty line.

To enhance the financial incentives to work, the authorities could also reconsider the contributions to medical insurance. Livelihood protection clients are covered by medical aid for which they pay no contribution. A casual or daily worker with low earnings has to pay his contributions to the National Health Insurance Corporation. The fact that being in work implies losing free medical coverage has been found to be a significant barrier to work for low-income families in many OECD countries (OECD, 1998d and 1999c). Possibilities of reducing the disincentive to work include reducing the contribution rate of such families to the health insurance programme, or otherwise ensuring the provision of health care at a low cost for low-income families (as for example in Canada).

The absence of child-care facilities also can deter married women, or lone-parents from labour market participation. At present, child-care facilities are not fully adequate, but the Korean authorities are rapidly increasing capacity (Annex B). This benefit may thus help low-income lone-parent families to be in employment. However, as this benefit is to be provided to all families with children on social assistance, and not all low-income families with children, it simultaneously acts as a deterrent to work for couples with children as they lose free child-care services once they move off social assistance. Therefore, priority could be given to making this benefit available to all low-income families.
5. Final policy considerations

Korean social policy is undergoing profound changes. Having initially reacted to the crisis with the rapid introduction of temporary measures, the Korean government is now in the process of adopting a comprehensive rights-based social assistance system. The challenges it is facing in this process are considerable.

First, social assistance will have to cover all those in need and the level of benefits would have to be raised to the minimum level of subsistence. This policy aim might not be immediately achievable in view of the financial implications, but it should remain a key medium-term policy goal. It might imply that social expenditure grows more rapidly than other government outlays, but the relatively low level of social spending in Korea suggests there is scope to fund such an expansion.

Second, as experience in OECD countries shows, the creation of a comprehensive social safety-net can be very costly in the presence of programme inefficiencies and when financial incentives for a cost-effective administration of the system are weak. Efficiency gains can be made by the integration of existing welfare policies and administrative procedures. The elimination of the temporary livelihood programmes while covering most of its clients in the NBLS is a first step. It could also be considered to integrate the benefits that are provided under the Infant Care Act in the NBLS. Strictly separating programmes for low-income households seems wasteful, especially if different welfare officers with different reporting procedures manage these programmes. The case for involving local government in assistance provision can clearly be made, but the involvement of provincial government seems difficult to justify.

Third, it may be wise to re-allocate budgets and responsibilities, so that case-managers can effectively procure the delivery of training, work placements or intensive job-counselling services for their clients. This would also provide case-managers with sufficient leverage to modify the programmes to their clients' needs where necessary, while it would strengthen the financial incentive structure for providers of employment supports.

Fourth, the implementation of an effective labour market re-integration strategy that includes work testing will require a significant change in administrative culture. Dealing with employable clients requires a different attitude than the present more administrative role of public welfare officers. More time will be needed to scrutinise applications, pursue fraud, and most importantly get clients off welfare rolls through intensive job counselling. Current caseload-to-staff ratios are high and it seems that further investment in hiring and training quality social workers will be needed to strengthen the labour market re-integration function.

Finally, the drive to improve adequacy of social assistance benefits should be balanced with labour market considerations. The conjunction of income support payments, earnings disregards and medical and educational support benefits should be so designed that the new comprehensive social safety-net system will continue to guarantee strong financial incentives to work for clients, so that work continues to pay in Korea.
Annex A
Key Players in the Korean Labour Market:
The Institutional Set-up

A. Introduction

After the financial crisis of 1997, the Korean government created new institutions and rapidly expanded labour market and social safety-net programmes. Korea’s historically centralised administrative system and a speedy process of decision-making and implementation are considered to have played an important role in the rapid policy response.

This annex presents the main features of the institutional framework relating to labour market policies and social safety-net programmes. Section B provides information on the administrative structure and decision-making process, including budgeting procedures. Section C describes the institutional set-up for implementing labour market and social safety-net policies. The Annex concludes by addressing issues of monitoring and evaluation.

B. Administrative structure and decision-making process

1. The administrative system

Under the Korean constitution, the President, as head of state, appoints the Prime Minister with the consent of the National Assembly. The President has a five-year term of office and cannot be re-elected. Major government policies are decided through Cabinet meetings composed of the President, the Prime Minister and Executive ministers. The Board of Audit and Inspection operates under direct authority of the President to examine the financial situation and job performance of executive agencies.
While each ministry designs and implements policies under its own authority, policy co-ordination between ministries is ensured by the Office of Government Policy Co-ordination, operating under the Prime Minister. The head of this office is at the ministerial level and presides over regular meetings of deputy ministers to discuss important issues which are scheduled to be submitted to the Cabinet.

2. Key players in labour market and social policies

A certain number of institutions were established after the onset of the economic crisis in order to deal with labour market and social policy issues, including measures against rapidly rising unemployment. Major new bodies were the Presidential Tripartite Commission and a special Committee set up under the Prime Minister to cope with the emerging mass unemployment. Almost all government ministries were involved in developing employment programmes, although the Ministries of Labour, of Health & Welfare, and Government Administration & Home Affairs played the most important roles. Chart A.I provides an overview of the institutional framework for labour market and social safety-net policies.

The Tripartite Commission

To develop measures for overcoming the economic crisis and to reinforce social consensus, the Tripartite Commission was established in January 1998 by the newly-elected President Kim Dae-Jung. The Commission rapidly agreed on a “Social compromise to overcome the economic crisis”, whose major items were subsequently adopted by the National Assembly (see Chapter 2 for more details on the agreement). To boost its function and legal status, the Commission was made a statutory body through the 1999 Tripartite Commission Act, which gave it the right to review and comment on all social and labour market policies.

The Committee for Unemployment Measures

Early on in the economic crisis, the Korean government established the Unemployment Measures Committee to facilitate co-ordination in policy-making and create synergies between the various labour market programmes. It began operating in April 1998 and was confirmed by a Presidential decree in January 1999. The Committee is composed of competent cabinet ministers and chaired by the Prime Minister. It also includes the President’s Senior Secretary for welfare and labour, so that important labour market and social policies can be co-ordinated between ministries and the presidential office.

The Unemployment Measures Committee has a working group composed of relevant Vice-Ministers including the Labour Secretary of the Presidential office. Most policies to cope with unemployment have been discussed and co-ordinated by this working group. The Committee also supervises the Office of Planning and Evaluation for Unemployment Measures, which is composed of public officials dispatched from relevant ministries. The basic functions of this office are a) to ensure co-ordination among the government’s measures to combat unemployment; and b) to monitor and evaluate their results.
Chart A.1. **Institutional framework for labour market and social safety net policies**

Monitoring and evaluation

- Tripartite Commission
- Office of Planning and Evaluation for Unemployment Measures
- Monitoring Center of the Korea Labor Institute (KLI)

Policy-making and implementation

- Presidential Office
- Prime Minister's Office
- Unemployment Measures Committee
- Ministry of Labour (MOL)
- Ministry of Health and Welfare (MHW)
- Ministry of Government Administration and Home Affairs
- Other Ministries

Regional offices

- Manpower Banks
- Employment Security Centers
- Social welfare centers

Public Corporations

- KOMA, KLWC, etc.

Local Governments

- Social welfare centers
- Job information centers

Related agencies

- SMBA, NCA, etc.

KOMA: Korea Manpower Agency; KLWC: Korea Labor Welfare Corporation; SMBA: Small and Medium Size Business Administration; NCA: National Computerisation Agency.
**Major Cabinet Ministries**

The principal Ministry in charge of labour market policies, including labour-management relations, which has played a leading role in addressing labour market problems during the economic crisis, is the Ministry of Labour (MOL). The Ministry supervises 46 regional labour administration offices (which in turn control the local employment offices, *i.e.* the Employment Security Centres and Manpower Banks), a Central Employment Information Office, as well as the Labour Relations Commission with its national and regional offices.  

There are currently about 400 staff working at Ministry headquarters. The Assistant Minister for Employment Policy, as head of the Office of Employment Policy, is in charge of labour market policy programmes. The three main departments of this office are the Employment Policy Bureau (in charge of the PES and of general employment policy co-ordination); the Employment Insurance Bureau (in charge of unemployment benefits); and the Bureau of Human Resources Development (responsible for vocational training policies and their evaluation).

The Ministry of Health and Welfare develops and implements social assistance programmes such as the Livelihood Protection Programme and the Temporary Livelihood Protection Programme. In addition, the Ministry of Government Administration & Home Affairs has played a major role in combating unemployment by implementing public works programmes with the help of local government (see below).

**The public employment service**

In contrast to most OECD countries, the public employment service operates under the direct authority of the Ministry of Labour and not as a separate and autonomous agency. Its activities are regulated through several major pieces of legislation. The *Basic Employment Policies Act* authorises the government to establish and operate public employment offices in each region of the country and requires these offices to provide the relevant information on vacancies to jobseekers and to support employers in securing manpower.

The *Employment Security Act* provides further detail on these obligations, in particular as regards job placement, career guidance and the matching of supply and demand in the labour market. The *Employment Insurance Act* regulates, *inter alia*, the use and management of the Employment Insurance Fund, the provision of unemployment benefits, the administration of job and training subsidies, “suitable work” rules and benefit sanctions.

**Private sector participation**

Non-governmental organisations (NGOs) and other private interest groups play an important role in labour market policy by participating in and monitoring government-led programs. NGOs are particularly involved in implementing training and back-to-work schemes for social assistance recipients. Private-sector views are also reflected, *inter alia*, through advisory committees in government ministries.
With regard to labour market policy, the Ministry of Labour has 15 advisory bodies, all of which involve representatives from employers and trade unions. Among these advisory bodies, a multi-partite Employment Policy Deliberation Committee has been set up to review and co-ordinate basic employment policies such as vocational training, unemployment insurance and employment subsidies. The committee has 30 members and is chaired by the Minister of Labour. Members include three representatives each from labour and management, eight academics and other representatives of public interests, and 15 high-level public officials. This Committee also controls spending under the Employment Insurance Fund. Other advisory committees to the Labour Ministry deal with special topics, such as minimum wages, industrial accidents or employment of the handicapped.

3. Financing and budgeting

In preparation of the national budget, individual ministries submit their budget proposal to the Ministry of Planning and Budget (MPB) annually by the end of May. Negotiations between the MPB and each separate ministry follow, in which the ruling party(ies) may also participate. The draft budget is finalised by the President and submitted to the National Assembly ninety days before the beginning of the new calendar year. The budgeting authority of the National Assembly seems to be somewhat restricted, when it comes to modifying the total sum of major budget items as submitted by the government.

Budgeting for labour market policy and social welfare programmes follows the regular procedure in so far as the expenditure is under the regular national budget. However, as in most OECD countries, Korea finances its labour market policies partly by general public revenues, and partly by earmarked social security contributions. Over the last few years, the bulk of MOL expenditure came from the social security funds administered by the Ministry (85 per cent of the total in 1998). These funds follow different budgeting procedures. In the case of the Employment Insurance Fund, contribution rates are first agreed at the Employment Policy Deliberation Committee, which is followed by consultations with the MPB. The result of the consultation is reported to the cabinet meeting for a decision; however, the final authority lies with the Presidential Office. Local governments also participate in the financing of certain labour market and social policies, such as social assistance and public works.

C. Policy implementation

1. Overview

Responsibility for implementation of the various labour market programmes falls on different Ministries and agencies depending on the nature of the programmes. The most important ministries involved are again the Ministries
of Labour (MOL), Health & Welfare and Government Administration & Home Affairs. Unemployment benefits and most active labour market programmes are handled by subsidiary organisations or affiliated agencies of the MOL such as regional labour offices, or the Korea Labour Welfare Corporation (KLWC).

Social assistance programmes are implemented entirely through local government, while public works programmes may be run either by local or central government depending on the specific programme. Some employment promotion programmes are implemented by autonomous agencies; for example, support for SMEs and venture capital is mainly implemented through the Small and Medium-sized Business Administration.

In a number of policy areas, results of central government programmes may vary depending upon the responsiveness of municipalities and other local governments. Therefore, it has been one of the major concerns for central government to ensure the active participation and effective programme implementation at local level. To this end, representatives of Ministries and other government agencies such as the Board of Audit and Inspection, have held numerous meetings with local decision-makers during the economic crisis. Importantly, the co-ordination of policies between local and central levels is facilitated by the fact that in each local authority, one out of two deputy governors, or deputy mayors, is appointed by the Ministry for Government Administration & Home Affairs.

2. Regional labour offices and subsidiary organisations under the Ministry of Labour

Regional labour offices

The MOL runs 46 regional administrative offices, which handle, *inter alia*, labour inspection, occupational health and safety, and employee complaints relating to wage arrears or other issues. Labour inspectors have the authority to investigate violations of the *Labour Standards Act*, but may not issue fines or other penalties.114 The regional offices also supervise the local employment offices and are involved in the implementation of active labour market programmes.

Major subsidiary organisations

The MOL has delegated the organisation of certain labour market programmes to subsidiary organisations. In particular,

- The Korea Manpower Agency, established in 1982, is in charge of vocational training and maintaining the national qualification system.
- The Korea Labour Welfare Corporation, established in 1995, and its regional offices provide loans to the unemployed; administer the Wage Claim Guarantee Fund; collect social security contributions for Employment Insurance and Industrial Accident Compensation; and pay out benefits in case of occupational accidents and diseases.
• The Korea Occupational Safety and Health Administration, established in 1987, inspects worksites and provides training and technical assistance to both companies and workers.

• The Korea Employment Promotion Agency for the Disabled, established in 1990, provides vocational training, rehabilitation services and financial support to promote the employment of disabled persons.

3. The Public Employment Service (PES)

Employment Security Centres and Manpower Banks

The regional labour offices supervise the Ministry’s chain of PES offices, in particular the Employment Security Centres and Manpower Banks. The former provide an integrated “one-stop” service which combines job placement, employment insurance, administration of job subsidies and referral to vocational training programmes. The latter are only involved in information and placement. As a rule, the office and staff infrastructure is financed by the general budget.

The Ministry’s Central Employment Information Office is in charge of developing the PES’ computerised information systems. The central information system for matching labour supply and demand is the Worknet. The Office has also developed a database on the recipients of labour market programmes which includes separate data on job seekers, vocational trainees, unemployment benefits, loans to the unemployed, participants in public works and recipients of livelihood protection programmes. The system is expected to help detect benefit fraud and will also be of use for the forthcoming “profiling” programme.

Job Information Centres of local government

Local governments also provide public employment services through their Job Information Centres, Job Counselling Desks and Daily Work Information Centres. Job Information Centres are established at the intermediate level of local government (Shi, Gun, Gu), totalling over 250 offices. Additional smaller Job Counselling Desks are found at lower administrative units (Eup, Myun, Dong). 28 Daily Work Information Centres, run by some local governments, focus on support for daily workers by providing information on daily and other short-term jobs and introducing clients to public works programmes.

The budget for local employment services comes from municipalities and other local governments, with some extra funds from central government.

Contacts between the MOL and local governments

The MOL and local governments maintain contact in the areas of job information and vocational training. They share the computerised job information system (Worknet), so that clients of national and local government offices have access to the same information on vacancies and job seekers. Also, local govern-
ments implement vocational training for persons such as social assistance recipients who are not covered by the Employment Insurance System. The MOL, in turn, provides financial support and administrative, as well as substantive, guidelines for the implementation of vocational training.

4. Public works programmes

Implementation

Public works programmes may be implemented by different ministries within Central Government (e.g. the Forestry Department) and District governments who frequently delegate projects to municipalities. All public works programmes are subject to guidelines set by the Ministry of Government Administration and Home Affairs, which are reviewed by the Unemployment Measures Committee (see the list of criteria in Chapter 3). Central and local governments each manage about half of all public work posts.

Varying procedures for screening and selecting participants are in force. For projects run by local governments, the Public Works Committee of each district or municipality selects participants based on the overall Ministry guidelines, but adjusted to local needs. For projects run by central government, each individual ministry or organisation in charge of a particular project directly selects the participants.

The extensive Korean network of NGOs also plays a key role in public works. In the last quarter of 1999, local governments were recommended to direct up to 10 per cent of their budget to NGO-operated centres. These are usually supported either through direct subsidies or by dispatching public works participants to them. The importance of NGOs in the delivery of social welfare benefits is discussed in Chapter 4.

Financial arrangements

The overall public works budget is set by central government on the basis of expected labour market needs. Thus, the government projects the number of required placements in public works on the basis of its overall unemployment target (set at around 1 million unemployed for the year 2000), regional unemployment rates and general economic prospects. This, in turn, leads to an estimate of the budget for public works.

This so-called “regular” public works budget consists of two main parts. First, many public works programmes are financed entirely by central government (700 billion Won in 1999). Second, other programmes are co-financed by three different levels of government: central government, provincial government, and district government. The financing mechanism in this case is a tied-grant. Usually, the central government covers half of the budget and local governments share the remainder between them (typically on equal terms). In principle, the contribution of central government is conditional on the participation of other tiers of government.
If the initial “regular” budget turns out to be insufficient, supplementary budgets can be introduced during the year to create additional places in public works projects. These supplementary budgets are entirely financed by central government. On the whole, of all public works placements, about 16 per cent were financed by provincial and district governments in 1999.

D. Monitoring and evaluation

Formal organisations to monitor and evaluate labour market programmes were established quite recently, as a response to the economic crisis and the rise in unemployment. Before the crisis, monitoring and evaluation were handled mainly by the Bureau of Inspection in each individual ministry and by the Board of Audit and Inspection underneath the President.

Two special organisations were set up to enhance the efficiency of labour market programmes. First, the Monitoring Centre under the Korean Labour Institute (KLI) was established in the fall of 1998. Next, the Office of Planning and Evaluation for Unemployment Measures (OPEUM) was set up under the Prime Minister’s Office in January 1999. This office is composed of 16 public officials dispatched from relevant ministries. Its particular aim is to enhance the efficiency of programmes. To detect implementation problems, the office carries out on-site monitoring, visits to worksites and training institutes, and interviews with public officials and programme participants.

The OPEUM’s evaluation report for the first half of 1999 includes, *inter alia*, a positive assessment of the expansion of the employment insurance system, and notes the improvement of service delivery through the expansion of PES infrastructure, the use of information technologies, and the improved policy co-ordination through the Unemployment Measures Committee. In its view, however, more efforts need to be devoted to the increasing rates of youth and long-term unemployment, and to facilitating participation of the private sector in the fight against unemployment.

The KLI monitoring centre is also assessing programme performance through interviews and surveys. Most of its 40 staff are working in regional centres in the areas where programmes are implemented.

Most evaluation reports by OPEUM are submitted to the Unemployment Measures Committee and subsequently distributed to the relevant ministries. The ministries and other agencies are requested to review the evaluation reports and encouraged to take appropriate action. For example, in the case of public works, evaluations have resulted in revisions of the guidelines for public works projects. The results of the KLI monitoring centre are also distributed to the relevant ministries for policy reference. Nevertheless, it is generally agreed that the quality of evaluation needs further improvement. For example, more sophisticated models of “net” employment effects of employment programmes, taking into account, for example, displacement and substitution effects, need to be developed.
Annex B
Selected Features of Social Policies

The main features of the largest social assistance programmes, namely the LPP and TLP, are discussed in Chapter 4. The purpose of this Annex is to provide a brief overview of other social programmes and to discuss specific features of social assistance delivery.

A. Selected schemes targeted at low-income households

Individuals not covered by the health insurance programme have access to the medical aid programme. In principle, medical aid is somewhat more generous than health insurance in that it also covers some non-medical items, e.g. meals in hospitals. Those who qualify for LPP and TLP are automatically entitled to medical aid, which is also provided to other clients such as veterans, traditional artists and craftsmen, refugees from North Korea, and disaster victims. The programme distinguishes two categories of beneficiaries: a) Class I beneficiaries, i.e. all medical aid clients except self-support care beneficiaries. Class I beneficiaries have free access to medical services; and b) Class II beneficiaries, mainly self-support care beneficiaries. Class II recipients are charged a 20 per cent co-payment for in-patient services. If a self-support care client visits a standard clinic, a lump-sum charge of 1,500 Won per visit is imposed. Loans are available for clients to cover the co-payments, but outstanding amounts are often not collected, as clients simply cannot pay. Upon treatment of a beneficiary of medical aid, the relevant bill is examined by the National Federation of Medical Insurers, which subsequently instructs the local government to pay the provider of the medical service. However, the payment procedure usually takes three to six months. Consequently, there is some reluctance among service providers to treat patients covered by the medical aid programme.

Educational aid is the most important source of support for all employable clients of the LPP. Benefits cover administration and tuition fees up to and including high-school, and provisions are being gradually extended to cover also...
school meals and books. For most self-support care clients with children, educational and medical aid are the most important sources of public support.\textsuperscript{118}

In 1999, an allowance for the elderly with low incomes was introduced. The allowance is of 20 000 Won per month, under certain conditions. In the case of LPP beneficiaries aged 65 to 80, the allowance is 40 000 Won per month, while for those over age 80 it is 50 000 Won. In 2000, it is estimated that some 720 000 elderly with low incomes will receive this small non-contributory pension benefit.

Housing support to vulnerable groups in Korea covers about 200 000 households (PSPD/UNDP, 2000, forthcoming). Support varies from the provision of special facilities for the disabled and shelter for low-income, lone parent families, to housing loans and the provision of apartments at a reduced rate or for free. Livelihood protection clients have priority in the allocation of public housing and in 1998 about 20 per cent of the clients lived in free, publicly provided accommodation.\textsuperscript{119}

There are no universal benefits provided to all low-income families regardless of their employment status. The lone parent support programme is targeted at low-income, lone parent families which are not eligible for LPP or TLP. Income thresholds for lone fathers are about 25 per cent of those applicable to lone mothers, as fathers are supposed to have a larger earning capacity. The benefits are modest (a mere 525 Won per day).

Under the Infant Care Act, the authorities provide free child-care to young children of low-income, lone parent families and livelihood protection clients. The programme is projected to have national coverage by 2002.

Finally, the Ministry of Health and Welfare subsidises residential facilities and day-care centres for the disabled and elderly. It also finances the national association of senior citizens, which operates about 70 elderly employment service centres. Furthermore, the government supports child-welfare facilities (274 centres covering 17 000 children in 1997), 110 welfare counselling centres for women, and ten temporary shelter facilities for women in abusive situations or with a history of prostitution (MHW, 1999a).

B. Concise overview of institutions involved in social assistance policy

The operation and financing of social assistance involves a variety of institutional actors. The budget of the MHW, as ultimately set by the Ministry of Budget and Planning, reflects government priorities vis-à-vis social assistance. Through a system of tied-grants, the two tiers of intermediate levels of government (provincial and district governments) co-finance social assistance benefits. The central and intermediate levels of government can also provide subsidies to NGOs for the delivery of social services to low-income households, including those on social assistance. The social assistance system itself is administered at municipal level for which the elected district government is ultimately responsible. In their
implementation of the programme, welfare officers and elected district government officials have to adhere to the tight guidelines set by the MHW.

The role of welfare officers in the current system is predominantly administrative in nature. Applicants for LPP/TLP register their application at a municipal office in their area. Welfare officers assess applications in view of the relevant eligibility rules such as income and asset criteria, health status and the overall household situation. The assessment procedure always includes a home visit to consider the capacity of other household members to support the applicant. Benefits are awarded for a one-year period. As a result, welfare officers normally consider old and new benefit applications during a reduced period of time, once per year.120

Table B.1. **Beneficiaries of livelihood protection benefits (LPP) by age and gender, 1998**

<table>
<thead>
<tr>
<th>Age group</th>
<th>All ages</th>
<th>0-2</th>
<th>3-17</th>
<th>18-19</th>
<th>20-24</th>
<th>25-29</th>
<th>30-39</th>
<th>40-49</th>
<th>50-59</th>
<th>60-69</th>
<th>Over 70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiaries</td>
<td>907 869 (100.0%)</td>
<td>0.5</td>
<td>22.1</td>
<td>5.8</td>
<td>7.4</td>
<td>7.9</td>
<td>12.3</td>
<td>10.4</td>
<td>7.0</td>
<td>8.5</td>
<td>18.2</td>
</tr>
<tr>
<td>Men</td>
<td>41.5</td>
<td>0.2</td>
<td>10.8</td>
<td>2.8</td>
<td>4.0</td>
<td>3.4</td>
<td>5.8</td>
<td>4.8</td>
<td>2.6</td>
<td>2.5</td>
<td>4.7</td>
</tr>
<tr>
<td>Women</td>
<td>58.5</td>
<td>0.2</td>
<td>11.3</td>
<td>3.0</td>
<td>3.4</td>
<td>4.5</td>
<td>6.6</td>
<td>5.6</td>
<td>4.4</td>
<td>6.0</td>
<td>13.5</td>
</tr>
</tbody>
</table>

Source: Ministry of Health and Welfare.

Table B.2. **Recipients of livelihood protection benefits (LPP) by household size, 1998**

<table>
<thead>
<tr>
<th>Household size (in persons)</th>
<th>Total</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6 or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipients</td>
<td>435 226 (100.0%)</td>
<td>48.7</td>
<td>20.0</td>
<td>14.4</td>
<td>9.9</td>
<td>4.5</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: Ministry of Health and Welfare.

Table B.3. **Beneficiaries of livelihood protection benefits (LPP) by educational attainment, 1998**

<table>
<thead>
<tr>
<th>Educational attainment</th>
<th>Total</th>
<th>No Education</th>
<th>Elementary school</th>
<th>Middle school</th>
<th>High school</th>
<th>Two years college certificate</th>
<th>University</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiaries</td>
<td>909 868 (100.0%)</td>
<td>40.1</td>
<td>27.0</td>
<td>16.9</td>
<td>14.4</td>
<td>0.7</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: Ministry of Health and Welfare.
The assessment process is to be completed within 14 days, but this period can be extended to 30 days. There are no “waiting benefits” while claims are being assessed. During the assessment period, the welfare officer is also required to verify tax records (though it is unlikely that clients file income tax in view of their income position), and records held by the National Pension Fund. But these checks cannot be rigorous in view of the limited time available and the restricted access to information held by other administrative bodies. Welfare officers do not have the right to verify bank accounts held by applicants. Welfare officers submit award proposals to the district government for final approval. In theory, there is some discretion in award. Clients who satisfy all eligibility criteria may not receive full support as the budget may have been exhausted already. On the other hand, if the budget allocation is large enough, local authorities may award benefits if applicants do not satisfy all eligibility criteria. However, variation of benefit award within the area of local government competence is limited, as a “Review committee” of professional officials regularly considers the overall procedures to maintain common standards.
Notes

1. The chaebols are multi-company business groups operating in a wide range of markets under common entrepreneurial and financial control. As of 1999, the largest chaebols were Huyndai, Samsung, LG (Lucky-Goldstar), SK (Sunkyong), Hanjin, Lotte and Daewoo.

2. Output fell in 1980, for the first time since the start of the development process, but economic growth resumed quickly.

3. The same pattern of rapidly increasing wages and GDP holds also in the case of other “Asian tigers”, such as Taiwan and Hong Kong (Fields, 1994).

4. Although the measurement of unemployment in Korea does not follow entirely OECD guidelines, this is unlikely to have had a large impact on these statistics (see Box 1.1 for a discussion).

5. Another factor explaining the long annual working hours is that holiday entitlements are partly coupled with an employee's sick leave record, and that, as in Japan, Korean workers do not tend to take up their full entitlement.

6. Furthermore, the Equal Opportunity Act was extended in January 1999 to include a Sexual Harassment Act, which seeks to establish a work environment favourable to women workers and respectful of gender differences. According to a study carried out in 1988, many Korean women were victims of sexual harassment at least once in their lives (Korean Institute of Criminology, in KWDI, 1998, p. 411). Though it is likely that the situation has improved since the enactment of legislation on equal opportunity and sexual harassment, more recent studies are not available.

7. The number of illegal immigrants is estimated by matching entries and exits of foreign workers in the registers of the Foreign Office, which is possible because anyone entering or leaving Korea is obliged to fill in a clearance form.

8. The amount of the subsidy was set equal to 500 000 Won per employee for a period of six months.

9. It has been estimated that, by September 1999, less than 17 per cent of the targeted replacements of foreign workers had taken place (Park, Y.B., 2000).

10. It is important to stress the conceptual difference that exists between multi-factor productivity and labour productivity. Multi-factor productivity growth reflects pure efficiency gains arising from “doing things better”. Labour productivity can increase not only because of efficiency gains (i.e. multi-factor productivity growth), but also as a result of a process of capital-labour substitution, e.g. purchases of machinery and equipment.

11. While multi-factor productivity has stagnated, labour productivity has grown rapidly, reflecting the investment effort occurred during the 1990s and rising capital-labour ratios. This suggests that Korean workers have become more productive mainly because more machines have been made available to them, and not because work practices have become more efficient.

12. For example, in an effort to increase foreign investment, a special act on the restriction of labour disputes in 1970 guaranteed foreign companies a strike-free environment.
13. The chaebols have been a driving force behind Korea's export-led growth and rapid industrialisation. The industrial relations system which they helped to design has been characterised as "corporatism within paternalistic enterprise structures" (Reddies, 1997).

14. For example, the Samsung conglomerate offers, in exchange for a union-free environment, salaries and fringe benefits above market levels.

15. To cite one example, now that rival federations at sectoral level are no longer prohibited, workers in the metal working sector can choose to be represented by either the KMWF (KCTU-affiliated, with 190 enterprise unions and over 190 000 members in 1998), or the FKMW (FKTU-affiliated, with around 500 enterprise unions and over 140 000 members).

16. There is little analysis on the effectiveness of works councils in Korea vis-à-vis their purported aims of ensuring labour peace and preventing industrial conflict, or other items such as fostering productivity or job satisfaction. As works councils are mandated for all medium-sized and large firms, and there is a high compliance rate, there is little possibility to test for the impact of the presence, or lack of presence, of the institution. One study, using a data set compiled by the Korea Labour Institute, found significant associations between the existence of works councils judged as "effective" by both labour and management representatives, and measures of job satisfaction and labour productivity. However, there was no association with compensation, in contrast to the data showing significant wage premia in firms with trade union presence (Kleiner and Lee, 1997).


18. According to the NLRC, there were 105 cases of arbitration in 1998, of which 41 were solved with an arbitration award. The current NLRC leadership tends to avoid arbitration awards, encouraging instead voluntary agreements to avoid strikes in the public sector.

19. The slight upturn in 1998 is due to the contraction in employment, which apparently affected union members to a lesser extent than non-unionised workers. If the union density rate were calculated differently, by excluding public service employees (who cannot join unions) from the definition of "employee employment" in the denominator, it would be only a percentage point (i.e. not significantly) higher.

20. In contrast to Korea, in many OECD countries decline in trade union membership in the private sector since the late 1970s has been slowed or offset by union growth in the public sector.

21. The large majority of union-shop arrangements are concluded by FKTU affiliates. To protect individual workers, the law permits an employer to retain an employee who has been expelled by the union. By contrast, there are no pre-entry closed shops, with the exception of the dock workers union which functions as a union "hiring hall".

22. The KCTU, for example, has stated in its charter the resolve to "construct an industrial trade union system and unify all of the trade union movement".

23. Japan is usually considered to have the highest degree of co-ordination in firm-level bargaining among the countries listed. In the majority of OECD countries, while there is evidence to the effect that bargaining levels are shifting downwards (for example concerning flexible work practices and working time arrangements), the sectoral level has remained the principal arena for wage determination (see Katz, 1993; OECD, 1994; Clarke, Bamber and Lansbury, 1998).

24. As Wilkinson (1994) notes, citing Korean observers, in 1987 to 1989 the mood of the labour movement was one of "strike first, negociate later"; many of the strikes took place before the expiration of existing collective agreements and were illegal in one way or another. An analysis of the reasons for worker unrest in 1987, under the heading of "why were workers so angry", can be found in Vogel and Lindauer (1997).

25. For example, it has become difficult to determine on which wage components to calculate income tax and social security contributions (Lee, 1999a).
26. An international comparison in OECD (1998a) shows, however, that the age-earnings profile of
Korean blue-collar workers is still steeper (and the age premium higher) than in many other OECD
countries, including Japan where average earnings peak much later.
27. All Korean wage data need to be analysed under the caveat that they usually do not cover firms
with less than ten employees.
28. OECD minimum wage database, data referring to 1997.
29. A revision of the LSA in 1997 allowed the receipt of interim severance payments during the course
of employment.
30. While the provision was introduced into the law in March 1997, its implementation had initially
been suspended for two years.
31. As of December 1999, over 17,000 workers at 460 establishments had been awarded payments
from the fund. These were mostly prime-age males from the manufacturing and construction
industries (data specially submitted by Ministry of Labour).
32. For example, even at the peak of unemployment in the spring of 1999, only a minority of total
unemployment was due to redundancy dismissals.
33. Notably, up to the crisis, the use of precarious contracts seems to have been much less
pronounced in larger firms with established union representation.
34. The recent developments have led the ILO's Committee on Freedom of Association to conclude
that a number of measures adopted by the Korean government constitute notable progress
toward the recognition of freedom-of-association principles (ILO, 2000).
35. The KCTU could only establish itself as bargaining agent in previously non-unionised firms, or
when previous FKTU affiliates decided to switch allegiance.
36. Other OECD countries that have not ratified these key conventions are New Zealand and the
United States (both Conventions), and Canada, Mexico and Switzerland (C. 98). Korea has, by
contrast, ratified three other conventions defined as fundamental by the International Labour
Organisation: Conventions 100 and 111 on the prohibition of discrimination; and C. 138 on child
labour. It has ratified nine of 182 conventions overall.
37. Biagi (1998) gives a detailed account of the various models of union recognition for bargaining
purposes prevalent in OECD economies.
38. Accordingly, the Korean Teachers and Educational Workers Union (Chunkyojo), affiliated to the
KCTU, which had been considered an illegal organisation, can now operate without restrictions,
while an FKTU-affiliated teachers union, the Korean Union of Teaching and Education Workers,
has also been established.
39. To take an example among OECD countries, in Germany even higher-level officials in public
service can join the Beamtenbund (civil servants federation), a type of trade union not endowed with
the right to strike, but which nevertheless negotiates with Interior Ministries at federal and Land
level about wages and other employment conditions. Since officially wage rates remain
determined by parliament, this type of negotiation has been termed "quasi-bargaining" where, in
effect, wage increases move along with rates bargained in the private sector, or for public sector
employees not endowed with Beamten status.
40. See the distinction between services considered as essential and not essential in ILO (1996, p. 112).
41. These include even officials working in national or sectoral union headquarters who usually
maintain a formal employment relationship with their previous enterprise and continue to be on
its payroll. The Ministry of Labour has published a figure of 6,600 full-time union officials, equal to
a ratio of one official per 212 union members. The ratio of union representatives to all staff in
unionised enterprises is closer to 1:300 and, considering the low trade union density in Korea, the
ratio to total dependent employment would be about 1:2,000. There are no surveys or studies which would allow to compare these ratios with those in other OECD countries. Apart from the situation in France outlined in the text, a limited comparison may be provided by the German Works Constitution Act which requires the full release of one works council member per 300 to 900 staff, depending on firm size.

42. Current legislation already allows employers to give labour representatives time off for collective bargaining purposes or consultations within the Labour/Management Council. However, bargaining rounds only occur once a year and the law only allows for time off during that period. Similarly, works council members only get time off for attending, and preparing, works council meetings (usually four in a year). By contrast, in many enterprises grievances and new problem areas tend to arise continually during the course of a collective agreement, which would require the attention of worker representatives. For this reason, most OECD countries have institutionalised ways for the employees' voice to be heard on these issues.

43. Most OECD countries, including those characterised by enterprise-level bargaining, have at times experienced, or are still experiencing, high and often persistent unemployment, without using this as a justification for restricting the union membership of unemployed persons, even of the long-term unemployed.

44. The OECD's Employment, Labour and Social Affairs Committee has repeatedly expressed the view that the definition of "unlawful activities" in Korea is unusually broad and encompasses union activities that would be regarded as lawful in most OECD countries.

45. As the Korean government has noted, the Commission should “lead the nation-wide effort to resolve current economic hardships. [It] will continue to provide a forum for labour, management and government to work in co-operation for economic recovery and protection of workers' rights” (MOFE, 1999, p. 134).

46. For a discussion of this issue, see OECD (1993, Chapter 2) and Calmfors (1994).

47. For a recent international study on this issue, see Martin (2000).

48. According to Article 1 of the Employment Insurance Act, the purpose of the EIS is "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 stabilise 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".

49. Employers should notify the relevant Employment Security Centre of any changes regarding both acquisition and loss of insurance status of their employees. In the case of separation of a worker, the employer should submit to the Employment Security Centre a document that lays down the reasons for the separation. This is important, since a job loser is eligible to receive unemployment benefits only if separation is involuntary.

50. The total wage includes not just the basic wage but also all other elements of the remuneration such as bonuses, special allowances and overtime payments.

51. Though in principle both social contributions and benefits should be calculated on the basis of the basic daily wage, i.e. the total remuneration package, it is sometimes claimed that certain enterprises tend to pay contributions on the basis of the standard wage only. This could aggravate the funding problems of the EIS.

52. Until 1 April 2000, the law provided that, to claim benefits, the unemployed had to be insured for at least 12 months over the 18 months preceding the date of unemployment. However, in the aftermath of the financial crisis, the requirement was relaxed significantly.

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53. The reasons for the separation must be specified in the document provided by the employer to the Employment Security Centre within a fortnight upon separation of the claimant. Apparently, the non-payment of wages for a certain period also provides a justifiable reason for leaving the enterprise and claiming unemployment benefits.

54. Among the other OECD countries, in 1995 the ratio of benefit recipients to survey-based unemployed ranged from 27 per cent in Greece, 36 per cent in the United States and 39 per cent in Japan to 71 per cent in Switzerland, 94 per cent in Norway and to almost 150 per cent in Ireland (see Table 1.7 in OECD, 1998b). Reflecting methodological differences, these ratios are not strictly comparable across countries. However, they provide a useful indication of broad orders of magnitude and they highlight the internationally low beneficiaries/unemployment ratio of Korea.

55. This is a “flow” figure, which is therefore different from the number of unemployed at a point in time (stock concept). The reason for discussing in this paragraph “flows” instead of “stocks” is that the former can be disaggregated into different components, which is not possible in the latter case.

56. According to wage data published by the Ministry of Labour, the average wage was 1599 000 Won per month in 1999, or about 61 500 Won per working day (assuming 26 working days per month).

57. On the basis of the minimum wage in force between September 1999 and August 2000, i.e. 361 600 Won per month or 1 600 Won per hour (see Table 2.3).

58. For example, recipients aged 30 to 50 at the time of job loss receive benefits during three months if the insured period is between six months and one year, four months if the insured period is one to three years, five months if the insured period is three to five years, six months if the insured period is five to ten years and seven months in the case the insured period exceeds ten years.

59. Authorities have decided not to provide special extended benefits in 2000.

60. This includes the two-month special extended benefit, which was awarded in 1999.

61. The establishment of well-functioning institutions such as public employment services, with the aim of improving the matching between labour demand and supply, can also be regarded as an integral part of ALMPs. As in other labour market reviews, however, public employment services are reviewed separately in another section (see below).

62. For a more complete discussion see Martin (2000), and Betcherman et al. (1999).

63. Available studies suggest some success during the first years of implementation of the levy system, when there was a need for basic training (Jung, 1997; Kang, 1999; and Lee, 1999b). However, these studies also show that, during the 1980s and the 1990s, with the introduction of new technologies and the increasing complexity of the Korean economy, the levy system became inefficient. Reflecting ongoing technological change, the costs of conducting in-plant training grew rapidly, to the point that these costs exceeded the level of the levy by an estimated 30 to 40 per cent, thereby reducing the enterprises’ incentive to train their workers (Jung, 1997). Most small firms opted for paying the levy rather than providing training. Overall, the levy system could not prevent under-provision of training while at the same time leading to waste of financial resources, as the system acted as a support mechanism in favour of firms that would have provided training in the absence of the levy.

64. The new, EIS-based system first applied to firms with 70 to 1 000 workers; in January 1999 it was extended to all firms and the levy was abolished.

65. In the first half of 1999 1 400 workers were granted paid leave for training and tuition loans were given to almost 8 000 workers, predominantly males (66.9 per cent) and white-collar workers (85.5 per cent).

66. In addition, in 1998 there was training to return to agriculture, but this programme was abolished in 1999.
67. As explained in the previous section, recipients of unemployment benefits can be entitled to re-employment training that may last from one month to two years, until they find a job.

68. Re-employment rates are defined here as the proportion of the trainees that found employment after completion of (or during) the course (Kang, 1999). There is no clear indication of the length of time over which trainees are followed after completion of the course to determine whether they have found new employment. In some cases, either the institution that provided the course or the PES offices call up the trainees from time to time to check whether they have found a job. In other cases, trainees are supposed to inform the training providers or the PES offices about their employment situation.

69. Training vouchers have been tested in a recent pilot experiment in Taejon, where trainees could use training vouchers to pay for training courses. 58 training institutes and over 4 000 trainees had participated in the programme by the end of 1999. The budget allocated to the programme in 1999 averaged 300 million Won. A preliminary evaluation of the experiment indicates that the training voucher has met certain objectives, namely:

- to give the trainees more freedom to choose which training courses to attend and at which training institutes,
- to simplify the administration of training, and
- to collect electronic information on trainees and the courses they attended.

70. The KOMA, established in 1982, carries out a wide range of functions in the area of vocational training: planning and management of vocational training for the unemployed; testing and registration of national technical qualifications; employment promotion; international co-operation and support to vocational training activities of developing countries.

71. In particular, in 1998, private institutions ran almost all of the training for the unemployed not covered by the EIS, paid training leave and training for 3-D jobs; the KOMA ran all courses for craftsmen. Re-employment training for the unemployed covered by EIS was run mostly (68 per cent) by private institutions followed by the polytechnics, KOMA and the Chamber of Commerce. The Chamber of Commerce ran 66 per cent of training for business start-ups, followed by the polytechnics, KOMA and private institutions.

72. This is usually assessed in terms of increases in the level of inventories, a reduction in production, or measures taken towards restructuring and re-organisation of the firm (Ministry of Labour, 1999b).

73. In the experience of other OECD countries, such as Australia, Belgium, Ireland and the Netherlands, such programmes carry with them very high dead-weight losses and substitution effects, which have been estimated to amount to some 90 per cent (Martin, 2000). It has been suggested that more targeting and monitoring of employer behaviour may raise the net employment effect of such programmes to 20-30 per cent, but at the price of stigmatising targeted workers.

74. It is sometimes argued that programmes targeted at SMEs undertake the function of countering market failures not in the labour market but in the capital or land markets (Betcherman et al., 1999, p. 14). In light of this, it is common to treat policies targeted at SMEs under competition and regulatory policies rather than under ALMPs, an exception being subsidies to the unemployed to start up their own business. The reader is referred to OECD (2000a) for a more detailed analysis of programmes for SMEs.

75. They last six months and the intern receives a grant of 500 000 Won a month (400 000 in large companies) for a period of up to six months. Employers are supposed to pay interns some extra money in addition to this grant. Two phases of internships have been so far implemented, the first from December 1998 to August 1999 and the second from June 1999 to March 2000. Between December 1998 and December 1999, there were about 4 000 participants, for a total expenditure of 121.5 billion Won.
Apart from the local government offices listed in the table, many lower administrative units provide part-time “job counselling desks” which, however, cannot be regarded as full employment service offices.

As of 31 December 1999, the figure of 3 200 staff estimated to work for the public employment service under the Ministry of Labour includes about 2 550 staff working in local offices, additional personnel working on unemployment insurance in the Korea Welfare Corporation, as well as policy-making and supervisory staff in the Ministry of Labour and the Ministry’s regional labour offices. This combined figure was estimated at 1 000 in 1995, with 850 staff working in local offices.

Three main data sets are important for a quantitative assessment of the job-brokering function: the number of unemployed or other job seekers registered with employment offices, the number of vacancies notified to them, and the number of persons placed into jobs, i.e. the equivalent of vacancies filled. These data can be used to derive indicators of office performance and market share, such as notified vacancies as a proportion of registered unemployed, and PES-initiated placements as a proportion of registered vacancies or of total hirings in the economy. Various limitations of these administrative statistics need to be kept in mind, in particular when they are used for international comparison. It is well known that methods of collecting and classifying job vacancies differ from one country to another and that the extent to which unemployed persons register with labour offices depends on features of national legislation, particularly the rules on benefit payment. PES placements are also difficult to quantify. Countries differ as to what extent employment offices need to be involved for a placement to be recorded as “PES-induced”. In addition, when an employment service tends to use fully-open vacancy displays, not all job hires that occur with PES help can be recorded as placements. Finally, a country's vacancy and placement data may be biased by over-representation of jobs with short duration. For these and other reasons, trends in performance indicators need to be interpreted with caution.

It is unusual that vacancy flows would increase at a time of recession. Available evidence suggests that the number of hirings in 1998 fell by almost half, compared to previous years. If vacancy inflows at PES offices, nevertheless, rose, this is probably due to the rapid increase of the number of PES offices and staff and to the publicity this entailed, to special efforts at vacancy acquisition and, to a limited extent, to the diversion of job offers which would previously have gone to private agencies. The availability of public works slots is likely to be another factor.

Chart 3.2 also illustrates the lack of incentives for unemployed persons to report to public offices before the start-up of the (un)employment insurance system, due to the lack of assistance expected and available from them in the past. Between 1989 and 1996, when the average stock of unemployed (as measured by surveys) was about 400 000, i.e. between 2 and 3 per cent of the labour force, only between 60 000 and 90 000 in any given year ever registered as job seekers with the Ministry of Labour offices. Up to and including 1996, annual vacancy inflows at both Ministry and municipal offices were therefore superior to new job-seeker registrations, a situation quite unusual for OECD countries. This situation has now radically changed, as offices provide increased job-search assistance, unemployment benefits and a whole range of active labour market programmes. While the stock of unemployed (as measured by labour force surveys) has tripled after 1996 up to an annual average of over 6 per cent in 1999, the inflow of job-seeker registrations in PES offices has risen over twenty times during that period, to 9 per cent of the labour force in Ministry offices, and 6 per cent in local government offices. Many job seekers probably register in both Labour Ministry and municipal offices, but there seems less overlap between registrations at private and public offices.

Only 10 per cent partially or totally agreed when asked whether “job-openings suggested were adequate”, and only 21 per cent agreed that the offices “provided services quickly”. By contrast, almost three out of four respondents agreed that “staff were kind and friendly” (Keum, 1999).

In Sweden, the payment of unemployment benefit is not integrated in the PES.
83. However, German PES offices usually have several decentralised “auxiliary offices” which assume part of the workload.

84. Varying proportions of PES staff work in local (as compared to regional and national) offices, and varying proportions are involved in chores not related to placement or job matching activities.

85. Office staff is usually divided into separate divisions for placement, benefit and vocational training (“job ability development”). Counters for customer service also tend to be separated by function, although in some centres the same counsellor may handle registration for job search and for unemployment benefit. In the recently established Kangnam Employment Security Centre, for example, 36 staff are working in three divisions: 12 staff in the employment assistance team dealing with counselling, placement and job subsidies (five civil servants, seven salaried job counsellors); 16 staff in the employment insurance team (six civil servants and ten salaried counsellors); and eight staff in the job ability development team which deals with training referrals and counselling (six civil servants, two salaried counsellors). If this distribution of staff is indicative of the PES overall, the insurance department would take up the largest share (close to half) of personnel resources. While the numerical predominance of benefit staff is also characteristic of a few other OECD countries, many countries are making efforts to keep the share of their placement and counselling staff at a comparatively higher level. Previous OECD reviews found, for example, that in Austria 54 per cent of staff was working in “service” departments, providing job-broking and vocational guidance, while 29 per cent were in benefit departments and 17 per cent in other administration. In Sweden, when staff working in the so-called “unemployment insurance funds” are taken as part of the PES, they constitute less than 25 per cent of all PES employees. By contrast, in Belgium employees working on benefit payment are about half of total staff (OECD, 1996c; 1997c).

86. The legal possibility for charging fees to job applicants seems to run counter to the ILO Convention 181 of 1997 (not signed by Korea) which specifies that “private employment agencies shall not charge directly or indirectly, in whole or in part, any fees or costs to workers.”

87. Different studies on the extent of poverty, while based on the same Family Expenditure and Income Survey, use different estimates on the minimum cost of living as the poverty threshold. These discrepancies are induced by, inter alia, different standards for calculating the absolute poverty thresholds (e.g. rents). Hence, estimates on the poverty ratio in 1998 vary significantly, ranging from 14 to 25 per cent (PSPD/UNDP, forthcoming).

88. The poverty line is based on the so-called Minimum Cost of Living (MCL), which varies with household size. Importantly, it is used as a benchmark for the calculation of social assistance benefits. In 1999, the MCL for a single-person household was 234 000 Won per month, or US$ 350 PPP. This is comparable to poverty lines of other OECD countries at similar levels of economic development — e.g. in the Czech Republic the poverty line is US$ 320 PPP (OECD, 2000b). The MCL is published every year since 1973 and, since 1989, the Korean Institute of Health and Social Affairs Korea (KIHASA) calculates the MCL every five years on the basis of a survey reflecting Rowntree’s basic needs’ approach (Park and Kim, 1998). In between survey years, the MCL is adjusted each year in line with price inflation.

89. The number of homeless persons in Seoul peaked at about 4 700 in February 1999 and decreased to almost 3 600 persons by July 1999. About 90 per cent were in city-run shelter facilities and 40 per cent were in employment – mainly in public works programmes (Korea Herald, 1999a).

90. Family support is almost six times larger than public transfers (KIHASA/KLI, 1999). The KIHASA/KLI survey, undertaken in September 1998, reveals that earnings of other household members, relatives and friends, as well as savings, borrowed funds, and severance payments are the main sources of income support for unemployed persons.

91. This feature is actually supported through tax-deductions for care of dependants and parents.
Advocacy groups have their roots in the democratic movement of the 1980s. The then student leaders are often among their ranks. These groups see it as their duty to strengthen democracy in Korea through the enhancement of social justice and the active participation of civil society (e.g. PSPD, 1999).

Contributions vary from 2 to 8 per cent of the standard wage and are equally shared among employers and employees (whose dependants are also covered). The government subsidises the contributions of the self-employed, so that approximately 39 per cent of all funds for the self-employment scheme are paid by central government. Co-payment rates vary with the type of medical care provided (KOILAF, 1999c).

The discrepancy in public social effort between Korea and other OECD countries is slightly smaller than that is suggested in Table 4.2. Unlike Korea where most social benefits, except severance payments, are not taxed, some other OECD countries, e.g. the Netherlands, and the Nordic countries, tax benefits rather heavily. Hence in those countries, gross (before-tax) public social expenditure is about five percentage points of GDP higher than net (after-tax) public social spending (Adema, 1999). Average net public social spending in the OECD area is around 20 per cent of GDP.

The government also supports a network of social service providers, and through the medical aid programme grants free access to health benefits to most of the poor. There is also a small non-contributory pension benefit for elderly persons with low-incomes. Other provisions for low-income households include support programmes for families with children that cover both livelihood protection clients and other low-income lone-parent families (Annex B). Although the Ministry of Health and Welfare operates these programmes, they are based on different laws and are administered by different municipal social welfare officers based on specific reporting procedures.

Throughout, beneficiaries refer to both heads of household and members of the household, recipients or cases refer to the number of households or heads of households.

Thus, under the LPP rules, an elderly couple living in Seoul with a married daughter in, say, Pusan is not entitled to income support, even if actual household income of the daughter in question is barely above subsistence level.

The asset test considers cars and even business tools, but mainly focuses on property (houses). Applicants have to declare the balance of their bank account(s), but this information cannot be verified in view of the prevailing privacy laws.

Payments to institutional care beneficiaries are slightly different from payment rates to home-care beneficiaries.

About 30 per cent of self-support care clients receive these benefits. The remaining 70 per cent can receive education benefits, medical aid and funeral grants.

Self-support care clients participating in a public works programme do not receive income support, but remain entitled to education benefits, medical aid, and funeral grants (MHW, 1999a).

For details on the basket of goods considered in the survey, see Park and Kim (1998).

Equivalence elasticities concerning one additional adult in Belgium, Canada, the Netherlands, Norway and Switzerland were 0.33, 0.75, 0.41, 0.50, and 0.53, respectively (OECD, 1996d and 1999a).

There is no international consensus on how much extra income must be given to households in order to preserve the same living standard once an additional member is added to a household. However, OECD (1996d) concluded that most estimates fell within a relatively narrow range around a median estimate of the amount given to a single person, multiplied by the square root of household size. In other words, in order to provide the same standard of living as experienced by a single person with an income of 100, a two-person household would need 141; a three-person

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Accordingly, the relevant equivalence elasticities are: 0.41 for a two-person household; 0.32 for a three-person household; and 0.27, 0.24 and 0.21 for four-, five- and six-person households, respectively.

105. In general, about 25 per cent of all tax revenues is raised by local government (OECD, 1999f), but central government sets tight rules on local tax rates and other sources of local income, so that variation is extremely limited in this respect. Overall, the financial situation of intermediate levels of government is weak, but subject to considerable variation. In 1998, Seoul – the richest Metropolitan province – funded 95 per cent of its budget out of local revenue, while in the province of Chonnam local revenue only accounted for 40 per cent of expenditure (NSO, 1999). Through a system of tied grants central government induces some equalisation of resources among local governments: poorer local authorities often get more funds than relatively well-off local governments for the financing of otherwise similar projects.

106. According to the Korea Herald (1999c), the Board of Audit and Inspection found that MHW-funds were administered inefficiently across regions. For example, the North Kyongki region with 68,000 unemployed persons received support of 4.3 billion Won while Taegu with 88,000 unemployed persons only received 2.6 billion Won.

107. In the summer of 2000, the MHW will undertake an extensive survey of the low-income population. This survey will provide an estimate on the number of households with income levels below the MCL and on potential benefit spending under the new NBLS.

108. Compared to existing benefit rules, eligibility criteria under the NBLS will change in that the separate asset and income criteria are projected to change into one income threshold (including an imputed income stream from existing assets). But the effect of this change on overall client coverage is likely to be small.

109. As from October 2000 social assistance clients will be able to appeal against award decisions. In the first instance, the local livelihood security commission will deal with appeals, but ultimately clients could seek recourse in the courts with unknown budgetary implications. It is reasonable to assume that the move towards a more transparent set of entitlement criteria will increase the number of successful claims.

110. A fully-fledged cost-sharing mechanism gives local authorities the certainty that for every 20 Won they spend on social assistance, they receive 80 Won from central government. This may induce caseloads to increase rapidly over the years, as local governments have weak financial incentives to administer tight entrance criteria, pursue fraud, or help clients of welfare rolls into work.

111. Delivery of employment services to current social assistance clients is limited. There is little co-operation between staff of employment security centres and manpower banks with municipal welfare officers. Sometimes, welfare officers have never even visited these centres, let alone established a working relationship with relevant staff. The relationship between welfare officers and job-information centres run by local government is much tighter, as welfare officers know their colleagues at local government level, while local governments also have financial incentives to help welfare clients making use of their centre.

112. In the mid-1990s, the Dutch PES budget was split in two parts: a "basic budget" for job-brokerage and an "output budget" earmarked for the re-integration of benefit recipients (OECD, 1998d). During the second part of the 1990s this output budget was re-allocated from the PES to public institutions responsible for the operation of social insurance and the municipalities who are responsible for social assistance delivery in the Netherlands. Until 1 January 2000 these municipalities and social insurance bodies were obliged to "buy" re-integration services with the PES, but since the beginning of this year municipalities and social insurance bodies are entirely free in choosing the provider of re-integration services for their clients.
113. While classified as under the authority of the MOL, the National Labour Relations Commission enjoys a large measure of operational autonomy (see Labour Relations Commission Act, art. 4). Commission members are designated by the President.

114. The adjudication of unfair dismissals and the mediation and arbitration of labour disputes belong to the authority of the (regional or national) Labour Relations Commission.

115. The Korean administration is organised by four levels: Central Government, Provincial Government (there are 16 Provinces, including seven large cities), Districts and (urban or rural) municipalities. The latter three levels are classified as “local governments”.

116. This financing mechanism is often referred to in Korea as a “matching fund system”. Funds allocated by central government that are not spent by local government have to be returned.

117. However, within provinces the financial shares of the different levels of local government can differ. For example, in the province of Kyunggi-Do, provincial government finances 30 per cent and district government 20 per cent.

118. The two remaining elements of livelihood aid concern relatively small programmes: maternity support provides women with 100,000 Won per birth, while the LPP programme also covers the cost of funeral services for livelihood aid recipients.

119. The most common way of paying for accommodation in Korea is through the “Chonse” system, according to which tenants do not pay monthly rents to their landlord but deposit about half of the dwelling’s value when they move in. The landlord reimburses the deposit when tenants move out, thus capturing generated capital income over the deposit. Only 10 per cent of the livelihood protection clients have such rental arrangements.

120. Welfare officers often perform other functions, and not just the administration of social assistance programmes. In 1999, there were about 20,000 qualified welfare officers in employment (about 3,000 worked in local government and another 17,000 in NGOs).
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Glossary

ALMP  Active Labour Market Policies
EIS   Employment Insurance System
FKI   Federation of Korean Industry
FKTU  Federation of Korean Trade Unions
ILO   International Labour Organisation
KCTU  Korean Confederation of Trade Unions
KEF   Korean Employers Federation
KLI   Korea Labour Institute
KOMA  Korean Manpower Agency
LPP   Livelihood Protection Programme
LSA   Labour Standards Act
MCL   Minimum Cost of Living
MHW   Ministry of Health and Welfare
MOL   Ministry of Labour
NBLS  National Basic Livelihood Security Law
NLRC  National Labour Relations Commission
PES   Public Employment Service
TLP   Temporary Livelihood Protection
TULRAA Trade Union and Labour Relations Adjustment Act
3-D Jobs “Dirty, Dangerous and Difficult” jobs