ECONSTOR
Make Your Publications Visible.

A Service of
ZBW
Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Yun, Heesuk

Research Report

The Impact of Korea's Economic Structural Changes since the 1990s on the Poverty Structure and Policy Implicati ons

KDI Focus, No. 14

Provided in Cooperation with:
Korea Development Institute (KDI), Sejong

Suggested Citation: Yun, Heesuk (2012) : The Impact of Korea's Economic Structural Changes since the 1990s on the Poverty Structure and Policy Implicati ons, KDI Focus, No. 14, Korea Development Institute (KDI), Seoul,
https://doi.org/10.22740/kdi.focus.e.2012.14

This Version is available at:
https://hdl.handle.net/10419/200836

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

WWW.ECONSTOR.EU

Mitglied der Leibniz-Gemeinschaft

KDI FOCUS

KDI FOCUS
July 23, 2012 (No. 14, eng.)

For Inqury:
KDI Communications Unit
47 Hoegiro, Dongdaemun-gu, Seoul 130-740, Korea
Tel: 82-2-958-4030 **Fax:** 82-2-960-0652

Author | Heesuk Yun, Fellow (82-2-958-4689)

KDI FOCUS | Analysis on critical pending issues of the Korean economy to enhance public understanding of the economy and provide useful policy alternatives

Korea's Leading Think Tank **www.kdi.re.kr**

The Impact of Korea's Economic Structural Changes since the 1990s on the Poverty Structure and Policy Implications

Heesuk Yun, Fellow at Korea Development Institute

"Influenced by structural changes in the economy since the 1990s, a massive number of jobs were lost and inactivity rates increased, creating groups of people suffering from long-term poverty. Households suffering from long-term or experiencing repeated poverty accounted for 27.4% of the total. These groups are mostly out of work and at the same time, they make no effort to seek out work, which indicates that they are more than likely to remain in the poverty trap. The labor force participation rate of low-educated males declined by 8.7%p, which is 14.5 times as the OECD average since 1995."

"In order to overcome long-term poverty, which is the biggest challenge since Korea's economic development, it is necessary to formulate economic policies that emphasize employment generation through heightened productivity, and make structural transformation to encourage more participation in the labor market by providing compensation while strengthening social safety net and enhancing policy effectiveness through accurate targeting."

Ⅰ. Introduction

Recently, the issue of non-regular workers is emerging as a main topic of anti-poverty policy based on the diagnosis that an increase in the number of non-regular worker is the main contributor to the rise in poverty. However, it would be wrong to consider all non-regular workers as the poor. Among non-regular workers, there exists a considerable gap and only a portion of this group is in need of anti-poverty consideration. Those in dire need of policy

* This is the translated version of *KDI FOCUS* released on January 5, 2012.

consideration are mostly the unemployed poor, self-employed poor, regular/non-regular workers employed in small businesses and involuntary short-term workers.

For this reason, the treatment of non-regular workers should be dealt from the perspective of fairness or long-term labor market policy and not as the main agenda for anti-poverty policy. To accurately target the subjects and enhance the effectiveness of social safety net, a more comprehensive angle of approach is needed to understand who are the most vulnerable and why and how do they fall into this category. Without such understanding, implementing policies targeting only some categories of wage workers could cause problems such as targeting public resources to a group that is comparatively better off than those in dire situations.

The structural trend of poverty should be examined thoroughly. Contrary to the argument that poverty has deepened due to the increase in the number of temporary and daily workers after the foreign exchange crisis, signs of aggravating income inequality and poverty have been witnessed already in the early 1990s. This implicates that underneath the problems of poverty there exist the economic structural factors. The manufacturing industry contracted and the service industry expanded, but productivity has been stagnant in the service industry, which absorbed majority of the workers. Hence, it can be said that the Korean economy lost its capacity to create enough jobs and incomes to protect the majority of its citizens from poverty. The labor force participation rate of less-educated workers fell sharply after the mid-1990s, and the jobless accounts for the largest proportion of the long-term poor.

The bottleneck phenomenon of productivity curtailed economic growth as well as alienated poverty-stricken people further from the benefits of economic growth.

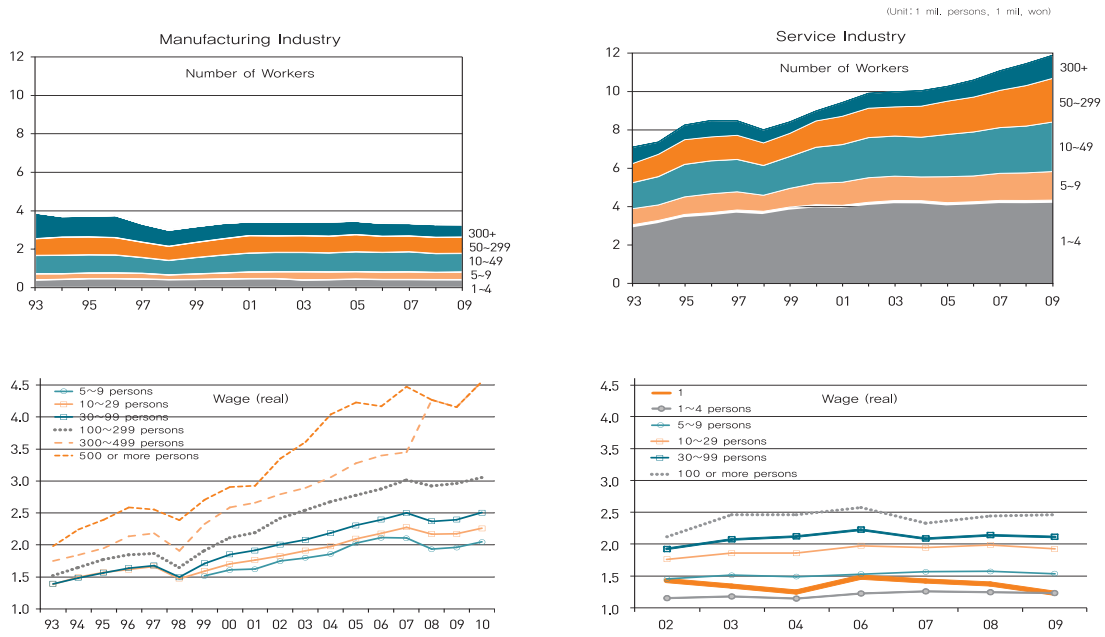
The formation of such groups who are disconnected from the labor market for long term and thereby, are completely alienated from benefits of economic growth is an unprecedented phenomenon since the beginning of Korea's economic growth. This can be interpreted to mean that we have come to an end of the era where frictional unemployment was the only reason behind poverty and that economic growth alone could produce enough jobs and incomes, and benefits from growth can enrich the quality of life without any structural policy intervention.

In other words, the poverty issue is subject not only to the problem of how to divide the pie of output but also to a more fundamental problem that is, the productivity of a whole economy is too low to generate enough jobs to help the poor overcome poverty. Hence an individual with low capability would just give up working. This means that both agendas of strengthening social safety net and economic policy would require not just a simple remedy to relieve symptoms but more active and long-sustaining structural responses.

Ⅱ. Changes in Economic Structures since the 1990s: Servitization and Poor Productivity in Service Industry

The Korean economy after the 1990s saw growth in the proportion of the service sector and small businesses (Figure 1). And, the low wage level of small businesses—the majority of which is concentrated in the service industry—implies that there is a possibility that the expansion of

[Figure 1] Number of Workers and Wage Level by Firm Size of Manufacturing/Service Industries



Note: 1) The number of workers and average wage in the manufacturing industry are from data released by KOSIS.
2) The average wage of manufacturing firm with 5~9 employees is based on the data from 1999, and the category of firms with 500 or more employees is integrated into that of firms with 300 or more employees in 2009.
3) The average wage of the service industry is based on the average compensation per person, and operating profit is used for self-employed without employees from KOSTAT, the Service Industry Survey (excluding businesses in finance · insurance and transportation and a few-year data on professional · scientific · technical activities)
Source: KOSIS, Service Industry Survey (KOSTAT MDSS).

low-productivity sectors within the economy serves to worsen poverty problems. While in the manufacturing industry the number of employed recorded a substantial fall from 3,880,000 in 1993 to 3,270,000 in 2009, the number of employed in the service industry rose significantly from 7,080,000 to 11,880,000, and 36.5% (4,340,000) belong to small businesses with less than 4 employees according to Census on Establishments.

Wages of employees in the service industry, particularly small businesses, are very low. Between 2002 and 2009, the real wage of employees in the small-sized manufacturing business (workplace with 5~9 employees) recorded a 12.2% growth rate, whereas that in service businesses saw no significant changes, and furthermore the operating income of self-employed with no employees decreased by 13.9%.[1] The average wage of small-sized businesses with 4 or less employees is only 1.24 million won as of 2009 (the real wage based on 2010).

The real wages of the service sector, where it employs 3.6 times as the manufacturing sector, has remained stagnant between 2002 and 2009, and the real income of self-employed without employees decreased by 13.9%.

Moreover, Korea's official statistics identify approximately 3,200,000 businesses under operation as of 2009, which are assumed to account for only 68% of the actual number of businesses, and also 77% of the total number of employed (Jaehyung Lee, 2012). This indicates that a considerable number of small-sized businesses is not included in official statistics, and

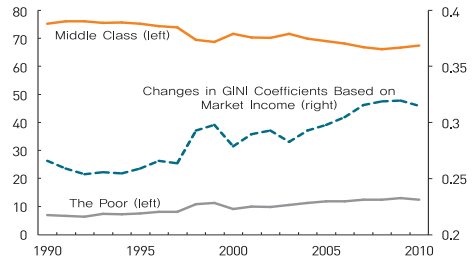
1) This is consistent with the analysis by Kyungsoo Choi (2010) stating that during this period, while the income gap among wage earners was on the rise with income of the lower tier slightly increasing, but incomes of self-employed with no employees showed a declining or stagnant trend.

<Table 1> Participation in Employment Insurance by Firm Size

Number of Employees (persons)	1~4	5~9	10~29	30~99	100~299	300~	Total
Regular Worker	36.2	64.4	83.4	91.3	95.8	96.8	76.7
Non-regular Worker	18.5	35.7	63.7	79.9	84.2	81.3	52.0
Total	29.3	54.6	77.0	88.0	93.4	94.3	69.1

Source: Supplementary Survey to Labor Force Survey by Occupation Type (March 2010).

[Figure 2] Middle Class/the Poor Ratios and Changes in GINI Coefficients



Source: KOSTAT (KOSIS).

also it is highly likely that incomes of self-employed and employees in these informal sectors are lower than that of the small-sized business identified in official statistics.

The gap due to the size of businesses is greater than the gap due to the status of employment such as regular or non-regular employee as can be clearly seen in the participation rate of employment insurance. As for regular employees of small-sized business with 1~4 employees, only 36.2% are insured under the employment insurance, whereas for businesses with more than 30 employees, almost 80% of non-regular workers are insured meaning there is a clear difference depending on the size of business (Table 1). Such result shows that the issue of regular or non-regular employment cannot be considered as the main cause of economic vulnerability.

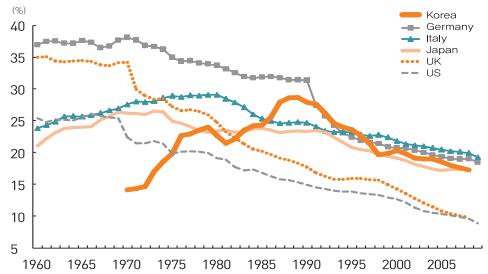
The participation rate to employment insurance shows a larger gap between firms of different sizes than between regular and non-regular workers

Underneath the problem of the expansion of low-productivity sectors leading to greater income gap and poverty lay changes in economic structure. [Figure 2] shows that unlike In-Hoe Ku (2004) and Young Lan Kim (2005), which claim that since the foreign exchange crisis, the increase in the number of non-regular workers led to deeper poverty, it is since the early 1990s that GINI coefficients have deteriorated and the signs of increasing number of poor and decreasing number of middle class were witnessed.

One of the significant causes behind the deterioration of distribution is the underdevelopment of the service industry and the contraction of the manufacturing industry. As the deindustrialization sped up during this period, the employment in the service sector rose at a fast pace. In general, the industrialization process accompanies improvement of distribution as labor forces migrate from the agricultural industry with low productivity to the manufacturing industry with high productivity. But, in the deindustrialization process, labor forces migrate from the manufacturing industry to the service industry, accompanied by changing distribution trends according to relative productivity of manufacturing and service industries. For Korea, the gap of productivity between manufacturing and service industries was large so that the deindustrialization process resulted in structural deterioration of distribution.

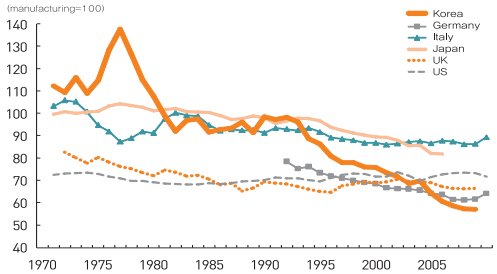
The reason behind such phenomenon is that the pattern of Korea's deindustrialization is considerably different from that of advanced economies, where a fully matured industrialization naturally led to the economy expanding towards the service industry. On the other hand, the Korean-version of deindustrialization was a process where SMEs with still weak capacity, in

[Figure 3] Changes in Manufacturing Employment in Major Countries



Note: Germany's data between 1960~90 are from West Germany, and West Germany's data and other nations' data between 1960~70 are from ISDB.
Source: OECD STAN database: ISDB (International Sectoral Data Base).

[Figure 4] Labor Compensation in Service Industry against Manufacturing Industry



Source: OECD STAN Database.

the face of fierce competition in the world market with China and other low–wage countries went through a sudden collapse of particularly labor-intensive sectors (Joohoon Kim, 2009). Therefore, given that the absorption of workers being forced out in this process into low-wage jobs is the nature of servitization, the Korean economy has not been given enough time for the industrialization to upgrade the standard of living high enough to stimulate the service demand, and thereby increase the wage level in the service sector. [Figure 3] shows that at the peak of industrialization, the proportion of the manufacturing industry was relatively low in Korea. Also, unlike advanced economies where there were some time between the peak of industrialization and gradual entrance to the process of deindustrialization, the time span taken for both industrialization and deindustrialization in Korea turned out extremely short.

One of the most significant reasons that productivity growth and employment generation are still at a state of bottleneck across the overall economy is that service sectors failed to break through productivity stagnation since the deindustrialization process has begun. Unlike advanced economies where the labor compensation in the service sector has remained not much lower than the manufacturing sector, the labor compensation of employees in the service sector of Korea has continued to fall compared to those in the manufacturing sector reaching only 57% as of 2008 (Figure 4). This indicates a vicious cycle in which the service sector remains as an employment reservoir, thereby widening income gap, limiting purchasing power and contracting employment generation of the entire economy, eventually leading to deepening poverty.[2)]

Stagnant service sector productivity is the main reason for the bottlenecks of income and employment generation as well as creating the vicious cycle of poverty.

2) A large part of this problem is driven by the characteristics of high-speed growth in the past, but also points to policy failures. For example, SME supporting policies with a heavy focus on subsidy alone lacking selection process or the regulations on the service sector entry and on business have been criticized for worsening weak competitiveness and stagnant productivity of the service sector, which are the major factors behind the current productivity bottleneck (Cheonsik Woo *et al.,* 2005; Joohoon Kim · MoonJoong Tcha, 2008).

<Table 2> Employment Ratio by Poor Group

	Not Employed	Regular Worker	Temporary / Daily		Employer & Self-employed
			1~35 Hrs	36 or More Hrs	
Always poor	80.2 (4.3)	1.1 (0.1)	4.4 (0.2)	2.2 (0.1)	11.7 (0.6)
Poor for 3 times or more	55.9 (15.3)	12.2 (3.3)	4.7 (1.3)	6.5 (1.8)	19.9 (5.5)
Poor for 1, 2 times	23.4 (5.7)	31.5 (7.6)	3 (0.7)	10.1 (2.4)	31.1 (7.5)

Note: 1) Figures in ( ) are the ratio of households that responded more than 5 times.
2) 'Poor for 3 times or more' includes the ratio of 'Always poor.'
Source: Korean Labor & Income Panel Study.

Ⅲ. Current Status of Poverty

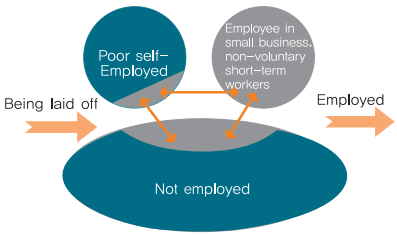
Due to changes in economic structure including trade and industrial structures during the 1990s, an estimated number of 2,460,000 jobs were lost for the past decade (Jong-Il Kim, 2006).[3] The impact by economic structural changes on poverty could be surmised considering the huge employment opportunity loss and stagnant productivity of the service sector, which failed to create employment and income. <Table 2> categorizes different poverty groups reflecting their continuance and repetition rate by the pattern of labor market participation.

Households that suffer from long-term and repeated poverty account for 27.4% of the total and 80.2% of household heads that remain in poverty during the survey period were out of work

According to the 3rd~11th Korean Labor & Income Panel Study,[4] among household heads who responded to the study more than five times, 80.2% of household heads who remained below the poverty line at all time of response are not employed, while 11.7% are employer/self-employed without employees. Household heads who are considered permanently poor or long-term/repeatedly (more than three times) poor account for 27.4% of the total,[5] among which 55.9% are not employed and 19.9% are self-employed without employees.

When analyzing the flow into/out of poverty (Table 3), the major route leading to poverty is the loss of job, and it is clear that wage workers are relatively less likely to fall into poverty. In addition, self-employed without employees are more likely to slip into poverty while still operating business. Among those who were not employed and poor at the time of the first response, 66.3% are likely to suffer permanent poverty or long-term/repeated poverty (more than three times), and most of them were not employed at the time of the last response. However, most of those who came out of poverty or experienced only short-term poverty are those who gained the status of employed. For non-wage workers (employer, self-employed without employees, unpaid family workers), 47.4% experienced permanent or long-term poverty and most of them remained in the same state. On the

[Figure 5] Composition of Long-term Poor Group



3) The magnitude of impact by economic structural changes in the 1990s could be guessed considering that the number of unemployed is only around 736,000 as of October 2011.
4) Considering the fact that the unemployment rate recorded highest (around 7%) in 1998, followed by 4.1% in 2000, and then maintained the 3% level until 2010, the Korean Labor & Income Panel Study was used from the 3rd in 2000 to 11th in 2008 and individuals below the 50% of median income were considered as poor.
5) This is the sum of figures (15.3, 3.3, 1.3, 1.8, and 5.5) in parentheses and the proportion of unpaid family workers in long-term poverty (0.2).

<Table 3> Analysis of Changes in Poverty and Employment Status

Status at initial survey		Poverty experience after initial survey and employment status at last survey											
Poverty status	Employment status	Always poor				Experienced poverty for more than 3 times				Experienced poverty for 2 times or less			
		Total	Not Employed	Continued	Changed	Total	Not Employed	Continued	Changed	Total	Not Employed	Continued	Changed
Poor	Not employed	21.6	(82.5)	–	(17.5)	44.7	(59.2)	–	(40.8)	33.7	(39.8)	–	(60.2)
	Non-wage worker	11.2	(47.1)	(52.9)	(0.0)	36.2	(20.0)	(61.8)	(18.2)	52.6	(8.8)	(68.8)	(22.5)
	Wage worker	9.5	(48.0)	(36.0)	(16.0)	26.6	(31.4)	(57.1)	(11.4)	63.9	(13.1)	(76.8)	(10.1)
		Never experienced poverty				Experienced poverty for more than 3 times				Experienced poverty for 2 times or less			
		Total	Not Employed	Continued	Changed	Total	Not Employed	Continued	Changed	Total	Not Employed	Continued	Changed
Not poor	Not employed	44.8	(48.5)	–	(51.5)	25.9	(63.9)	–	(36.1)	29.3	(50.4)	–	(49.6)
	Non-wage worker	56.5	(8.9)	(74.9)	(16.3)	14.3	(29.3)	(47.1)	(23.6)	29.2	(24.1)	(57.7)	(18.2)
	Wage worker	72.4	(8.4)	(76.1)	(15.5)	8.4	(42.2)	(49.4)	(8.4)	19.2	(17.0)	(65.7)	(17.3)

Note: 1) Subjects of this survey are households with household heads aged less than 65 yrs.
2) Figures in ( ) denote the ratios of 'not employed', 'continued (non) wage work' and 'changed status between wage work and non-wage work'.
3) 'Experienced poverty for more than 3 times' denotes the ratio of those who were not always poor but experienced poverty for more than three times.
4) 'Experienced poverty for 2 times or less' denote the ratio of those who never experienced poverty or did experience for 2 times or less, but excludes no experience with poverty in the lower section.
Source: Korean Labor & Income Panel Study.

other hand, only 9.5% of wage workers are likely to remain in the state of poverty and 63.9% are likely to experience no poverty or face only short-term poverty.

Loss of job leads to poverty, and finding a job leads to a way out of poverty.

[Figure 5] is a conceptual diagram representing such statistics. The jobless and self-employed without employees account for the majority of long-term/repeated poverty and show low mobility, and similar conditions are witnessed for small business employees and non-voluntary short-time workers. This suggests that the value-added generated by the low-productivity sector within the economy is far from improving the status of employees so not to fall into poverty, and the major determinant of escaping from poverty is whether having a job or not.

Ⅳ. Declining Labor Force Participation Rate and Changes in Poverty Structure

Despite the importance of employment status, the labor force participation rate of less-educated population has declined significantly since 1995, further increasing long-term poverty. Korea's total employment rate changed only slightly,[6] whereas the employment rate of less-educated workers recorded one of the largest falls among OECD nations (OECD, 2008). In particular, the decrement of the labor force participation rate of less-educated male workers registered 8.7%p, 14.5 times as OECD average and that of less-educated female workers decreased unlike other countries (Table 4), suggesting that the composition of employment has

6) The employment rate (aged between 15~64) was 62% in 1994 and 63.5% in 2010 (OECD, 2011).

The labor force participation rate of low-educated males sharply fell and 83.4% of those in constant poverty have never had job seeking experiences.

<Table 4> Changes in Labor Market Participation Rate by Education Level (1995~2009, 25~64 yrs): Comparison with OECD Nations

(Unit: %p)

Nation	Male			Female		
	Less than high school	High school graduate	More than high school	Less than high school	High school graduate	More than high school
Korea	-8.7	-5.2	-4.0	-2.2	10.4	7.9
Canada	-1.4	-2.6	-1.2	4.4	2.6	2.6
France	1.1	-3.7	-1.2	3.5	1.6	1.8
Germany	0.6	2.1	1.3	10.2	7.9	3.2
Italy	-1.8	-0.4	-3.4	3.9	2.6	-2.4
UK	2.0	-0.6	-1.0	-0.7	2.7	-0.7
US	1.7	-5.5	-3.3	1.8	-1.0	-2.2
OECD	-0.6	-0.7	-0.8	3.3	-0.4	0.1

Source: OECD, *OECD Employment Outlook*, 2011.

<Table 5> Proportion of Jobless Household Head with Job Search Experience by Poverty Group

	Age	Period	Total	Poverty experience 1, 2 times	Poverty experience 3+ times	Always in poverty
Proportion by poverty group	Total	Job search experience for each year	8.9	14.0	7.0	2.7
		No job search experience for whole period	71.6	63.9	74.8	83.4
	Younger than 65 yrs.	Job search experience for each year	12.7	16.9	11.8	5.9
		No job search experience for whole period	65.7	60.3	64.7	69.9

Note: "Job search experience" uses questions on whether a respondent has searched for a job to earn money during the past one month.
Source: Korean Labor & Income Panel Study.

changed in a negative direction for the low-income class, in particular, male workers.

<Table 5> shows people in poverty have extremely low experience in job seeking activities. Among the groups in permanent poverty during the survey period, almost 83.4% have never had job seeking experience. Finding surveys that are meaningful in explaining the reason behind such phenomenon is difficult, but according to the poor self-employed without employees who take up a major part of the poor group, 5.8% answered that they could not find a suitable job meeting their qualifications, whereas 71.2% were worried about being too old in getting a job.[7)]

Gathering facts such as the low unemployment rate, there are areas still in need of more manpower, and the results of the survey, low job seeking activities of the poor can be explained by; 1) lacking or having no access to recruitment information, 2) giving up job opportunity due to concerns over discrimination, and 3) deeming benefits of working at a small-sized workplace earning low-income are lower than the cost of job seeking activities.

Changes in total employment rate are minimal, but the employment rate of women with intermediate or higher education increased while that of men and women with low education decreased, suggesting a change in employment composition.

These reasons suggest a need for a complete overhaul of the overall policy through structural reform in order to fight poverty. First, despite the despair weighing down the poor, programs such as employment service are rarely recognized. Many have pointed to the weak infrastructure of employment service and its lack of service, so far (Young-chul Kim, 2011). While having a job is a key factor determining the status of being poor, the fact that the labor force participation rate of the poor has decreased considerably shows that current employment service in Korea failed to support those in desperate situations.

Second, it is necessary to increase benefits when employed through work-related income support policy. This could expectedly stimulate the poor who are unwilling to put in efforts to get a job and gradually become estranged from the labor market. Encouraging these people to

7) On the question on business conversion difficulties, 75.9% pointed out selling the business or retrieval of foregift, indicating that they face limitation in mobility (Jung Sook Yoon *et al.,* 2010). Despite this limitation, 15% of self-employed without employees answered that they would quit their own business when employed as a wage worker, and 47% of them answered that they will fold their business even when hired as a non-regular wage worker (Occupational Employment Statistics for 2007 by the Korea Employment Information Service).

voluntarily take part in the labor market to become economically independent and at the same time using these idle manpower to upgrade the conditions of workers and self-employed in the sectors with poor productivity will boost the whole economy.

V. Policy Suggestions

A. Recognizing the Structural Nature of Poverty

Generating employment through the enhancement of service sector productivity and strengthening inter-industry relationship is the key direction for policies on poverty.

This paper presents the changes in conditions of poverty due to the changes in Korea's economic structure. The observation made in this paper points to the fact that the era of economic development led by large enterprises producing sufficient amount of jobs, and frictional unemployment was the major reason behind poverty, has come to an end. The main cause of presently expanding and sustaining poverty is the fact that SMEs are incapable and weak, innovative productivity and growth of large enterprises have not shown expected ripple effect in employment and income of the entire economy, and productivity of the service industry where most employment takes place is lagging behind. Moreover, a growing number of people in permanent poverty yet remain jobless without hope of getting out of their poverty status indicates that there are groups of people that have long been alienated from the benefits of economic growth.

Such phenomenon is new arising from the economic development process of Korea, and if left alone it could become permanently fixed in the Korean society. Now that the poverty structure is currently under transition, a structural reform is desperately needed. Since it is impossible to remove fundamental problems of poverty without resolving the issues of weak SMEs and the bottleneck state of lagging service sector productivity, maximizing Korea's economic potential to the fullest would be also the policy on poverty.

B. Transforming Social Policy: Fostering a Structure that Compensates Labor Market Entry and Capability Enhancement

The main focus of this paper, which is social policy, needs to be turned away from simply providing cash towards the direction of self-support through providing jobs and income. The basic direction of anti-poverty policy should be readjusted towards helping poor individuals without jobs or working for small-sized businesses to actively participate in the labor market and enhancing possibility of horizontal and vertical job mobility, rather than allocating financial resources to businesses with poor productivity to stay afloat.

Immediate attention should be put forth to encourage those in long-term poverty—those who quit seeking jobs or are increasingly estranged from the labor market due to the cost of job seeking activities—to participate in the labor market so that they become self-reliant. To that end, there should be full-scale efforts to broaden their access to employment services and to

It is necessary to redirect social policy towards employment support and work-related income subsidy rather than providing cash support.

upgrade their capability by building a continuing relationship.

Expanding work-related income subsidy is also an effective policy instrument that could attract these alienated groups into economic activities while at the same time supporting employees of small-sized businesses, self-employed without employees and non-voluntary short-time workers who are on the verge of slipping into long-term poverty. Considering that underreporting of income has been one of the big obstacles to expanding income subsidy policy such as the Earned Income Tax Credit (EITC), it is necessary to strongly reinforce the role of the National Tax Service in the scope of income subsidy policy.

C. Strengthening Efforts on Targeting

Adding to the above, in order to improve the effectiveness of policy requires efforts on improving policy targeting, which pursues accordance between policy goal and measures based on the understanding of the current situation. Above all, the rationale for targeting should be explicit so that financial resources would not be wasted on sectors that do not require immediate attention for the reasons of stereotyped ideas or short-sighted political situation.

For example, the subsidies for social insurance premium, which is scheduled to take effect this year, is a representative case where expected outcomes are considered vague at best. As long as the Employment Insurance Act allows a worker to receive unemployment benefit although his/her workplace is not a subscriber to the employment insurance, it is hard to expect for insurance premium subsidized through tax to create additional benefits to people in poverty.[8] Also, such policy is highly unlikely to benefit those who are not registered in the official statistics (23% of the total employees), hence making it difficult to assume that this measure requires immediate attention in term of anti-poverty policy. Since the policy target is focused on workplace with less than 10 employees, it seems that the policy direction is to help small-sized businesses with solvency problems, but as long as they already have a channel to receive unemployment benefits, future discussions on such matter should take a cautious approach not to create friction with the goal of effective government funding.

A policy to improve treatment of non-regular workers is currently under discussion as an on-going part of the anti-poverty policy, which seems to have similar problems. As shown in this paper, even among non-regular workers, a considerable gap exists depending on the size of business they belong to, and those in severe poverty are mostly disconnected from the labor market or only have a weak link. Therefore, eliminating discrimination against non-regular workers cannot be considered as the high policy priority for poverty.

8) According to Article 13 of the Employment Insurance Act, an employee of a workplace without any history of paying employment insurance premiums is still qualified for the receipt of unemployment benefits. Efforts to promote this fact should come first before allowing government funding in order to improve the awareness of workers. Also, at the same time, it would be most appropriate to implement policies to impose a penalty on unregistered workplaces—identified during the process for workers to receive unemployment benefit—and also to encourage them to pay employment insurance premiums so that the employment insurance system will remain successful and sustainable for the long run.

References

- Choi, Kyungsoo, "Analysis of Causes of Low Income Growth of Low-income Households," *KDI Policy Forum*, Korea Development Institute, 2010. (in Korean)
- Kim, Jong-Il, "Structural Change and Employment Problem of Korea since the 1990s," *Journal of Korean Economic Analysis* 12.2, 2006. (in Korean)
- Kim, Joo-hoon, *Innovative Industrial Structure, Qualifications of Economic and Social Advancement of Korea(Ⅰ): New Paradigm for Development*, National Research Council for Economics, Humanities and Social Sciences, 2009. (in Korean)
- Kim, Joohoon and MoonJoong Tcha, "Policy Agenda for Improving the Service Sector," *KDI Policy Forum*, Korea Development Institute, 2008. (in Korean)
- Kim, Young Chul, "Estimate of Dependence on Social Networks for Job Search," *KDI Policy Forum*, Korea Development Institute, 2011. (in Korean)
- Kim, Young-Lan, "The Study on New Poverty and Change of Poverty Policy in Korea," *Korean Journal of Social Welfare* 57.2, 2005. (in Korean)
- Ku, In-Hoe, "Why Is Korea's Poverty Not Decreasing?" *Korean Journal of Social Welfare* 12.4, 2004. (in Korean)
- Lee, Jay-Hyung, *Recent Development on Small-sized Businesses in the Industrial Sector with Low Productivity*, Korea Development Institute, 2012. (in Korean)
- OECD, *Growing Unequal?: Income Distribution and Poverty in OECD Countries*, 2008.
- OECD, *OECD Employment Outlook*, 2011.
- Woo, Cheon Sik *et al., Economic Structure Change and Polarization*, Korea Development Institute, 2005. (in Korean)
- Yoon, Jeong Suk *et al., 2010 Micro-enterprise Research*, Small and Medium Business Administration, 2010. (in Korean)