

Kim, Sung Teak

**Working Paper**

## Korea's unemployment insurance in the 1998 Asian financial crisis and adjustments in the 2008 global financial crisis

ADB Working Paper, No. 214

**Provided in Cooperation with:**

Asian Development Bank Institute (ADBI), Tokyo

*Suggested Citation:* Kim, Sung Teak (2010) : Korea's unemployment insurance in the 1998 Asian financial crisis and adjustments in the 2008 global financial crisis, ADB Working Paper, No. 214, Asian Development Bank Institute (ADBI), Tokyo

This Version is available at:

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**ADB Working Paper Series**

**Korea's Unemployment Insurance  
in the 1998 Asian Financial Crisis  
and Adjustments in the 2008  
Global Financial Crisis**

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Sung Teak Kim

No. 214  
May 2010

**Asian Development Bank Institute**

Sung Teak Kim is the director general of the Human Capital Research Division at the Korea Labor Institute.

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Suggested citation:

Kim, S. T. 2010. Korea Unemployment Insurance in the 1998 Asian Financial Crisis and Adjustments in the 2008 Global Financial Crisis. ADBI Working Paper 214. Tokyo: Asian Development Bank Institute. Available: <http://www.adbi.org/working-paper/2010/05/10/3784.korea.unemployment.insurance.1998.2008.gfc/>

Please contact the author(s) for information about this paper.

Sung Teak Kim: [stkim@kli.re.kr](mailto:stkim@kli.re.kr)

Asian Development Bank Institute  
Kasumigaseki Building 8F  
3-2-5 Kasumigaseki, Chiyoda-ku  
Tokyo 100-6008, Japan

Tel: +81-3-3593-5500  
Fax: +81-3-3593-5571  
URL: [www.adbi.org](http://www.adbi.org)  
E-mail: [info@adbi.org](mailto:info@adbi.org)

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**Abstract**

This paper analyzes the impacts of the 1998 and 2008 financial crises on the Korean labor market. We study the historical background of the Korean Employment Insurance System and the change of labor policies from the 1998 Asian financial crisis to the current 2008 global financial crisis. While it is arguable to say that the expansion of the social welfare system in the Republic of Korea is main source of difference between the two crises, it is certain that the social welfare system is one of the influential factors that helped overcome the problems of the global financial crisis. From an analysis of the Korean experience on the two financial crises, we can deduce the following. First, financial stability at the national level is important to stabilize employment. Second, countries need to develop a social welfare system ahead of any economic crisis. Third, layoffs should be the last resort to lowering labor costs, even at a time of recession. Finally, cooperation and coordination among government departments are crucial to overcome the crisis in labor market.

**JEL Classification: I30, I38, J65, J68**

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## SUMMARY

The objective of this paper is to analyze the influences of the financial crises of 1998 and 2008 on the Korean labor market. This analysis highlights the Korean Employment Insurance System (EIS) as one of the major factors that caused the differences in the impact of the two financial crises. The analysis in this paper can help countries cope with the 2008 financial crisis, and prepare a social system that will deal with this situation for the long term.

### Employment Insurance System in the Republic of Korea

The objective of the Korean EIS is to prevent joblessness, promote employment and vocational competency, and provide financial support and employment assistance to the unemployed. The coverage of Korean EIS has expanded step by step and now includes all businesses with one or more employees since the EIS was introduced on 1 July 1995. In practice, the coverage rate of employment insurance for wage workers is 56.8% and about 80% for regular workers as of August 2008.

The EIS of the Republic of Korea (hereafter Korea) is categorized in three main programs—the Employment Stabilization Program, the Vocational Competency Development Program, and the Unemployment Benefit Program. In the process of overcoming the 1998 Asian financial crisis, the Government of Korea promoted many active labor market policies (ALMPs), because the EIS coverage was too small compared to the huge number of the unemployed, and the subprograms were not adequate to solve the problems of the Korean labor market. Eventually many ALMPs were converted into EIS subprograms. The three main programs had about 20 specific programs altogether at the time of introduction of the EIS, and now there are about 80–90 subprograms targeting specific goals.

### Korean Labor Market and the 1998 Financial Crisis

Before the 1998 financial crisis, the Korean labor market was near full employment status, with the unemployment rate at less than 3%. However, the Korean labor market faced record-high unemployment rates of 7% in 1998 and 6.3% in 1999 for the first time since 1960, and the number of unemployed skyrocketed from 568,000 in 1997 to 1,490,000 in 1998 and 1,374,000 in 1999. While the government introduced EIS in 1995, the social safety net of Korea was not well developed during this period. The government tried to remedy the situation by setting out temporary welfare programs and active labor market policies, including public works, for the unemployed. In 1999, 46.5% of wage-workers were covered by the EIS and only 15.5% of unemployed wage-workers were getting unemployment benefits. The ALMPs were more effective than the Unemployment Benefit Program in terms of coverage. Eventually, some of the programs were included in the EIS after the crisis.

### A Comparison of the Korean Labor Market during the 1998 and 2008 Crises

The 2008 global financial crisis drew as much concern as the 1998 Asian financial crisis. Because the 2008 crisis originated in advanced countries, this created repercussions on the business cycle of most of countries, fueling a recession. This forced the Government of Korea to quickly set out a strong policy mix covering both the financial and labor markets to prevent the ill effects of the crisis. More specific and target-oriented labor policies compared to the 1998–2000 major labor policies were developed.

As a result, the impact from the 2008 crisis is relatively smaller compared to the impact of the 1998 crisis. The unemployment rate in the first half of 2009 was 3.8% despite the negative gross domestic product growth rate (–2.2 to –4.2%), while the unemployment rate

in 1998 was 7% with the negative gross domestic product growth rate (−6.9%). The ALMP programs in the EIS form a larger proportion of the whole labor policies than in 1998–2000, and most of those policies are expansions of the existing programs in the EIS. This implies that the Korean labor market is acquiring the systematic tools to resolve the problems of the economic crisis, but needs to adjust the budget and the order among the policies according to the economic and labor market situation.

## **Reasons for the Difference in Impact on the Korean Labor Market**

There are many reasons behind the differences in the impact of the two financial crises on the Korean labor market. First, the macroeconomic situation between the two crises is completely different. In 1998, the Government of Korea lost control over macroeconomic policies such as interest and foreign exchange rates because the financial crisis drove the country into the edge of national bankruptcy. The International Monetary Fund eventually took over the control of those policies. The International Monetary Fund pushed a high interest rate policy to facilitate the restructuring process in industries, and firms laid off workers in an effort to lower labor costs, leading to mass unemployment. In contrast, in the 2008 crisis, the Government of Korea kept interest rates as low as possible to minimize possible bankruptcies. Financial stability of overall businesses was also better in 2008. The debt ratio of the 10 top companies in Korea is about 100% in 2009, but was over 300% in 1998.

In the current crisis, businesses avoided laying off workers unless absolutely needed. Instead, companies resorted to various means such as implementing flexible working hours, employing mandatory additional leave without pay, reducing overtime work, reducing regular working hours, implementing partial wages, lowering starting salaries, introducing peak-wage rate, adjusting wages, and so on. The government is helping the efforts by expanding the assistance level of shut-down compensation and providing various tax assistance, among others.

The 1998 Asian financial crisis precipitated the deterioration of income distribution significantly as the Gini coefficient in 1998 rose to 0.303 from 0.268 in 1997 and the relative poverty rate increased to 13.1% in 1999 from 9.3% in 1997. The Gini coefficient ranged from 0.256 to 0.272 and the relative poverty rate was about 7.6–9.3% steadily before 1998. This implies that the 1998 Asian financial crisis significantly widened the gap of income distribution in Korea. The Gini coefficient and the relative poverty rate slightly increased in 2008 compared to those in 2006 and 2007. However, it is difficult to conclude that the major cause of these increases is the current financial crisis because there has been an increasing trend of those indicators during 2001–2007. It is too early to analyze the effect of the current financial crisis on the income distribution in Korea. The effect would not be positive but it is hard to distinguish the effect from the trend of deteriorating income distribution over time. This is an issue for further study.

## **Conclusion and Political Implication**

The Korean experience from the two financial crises leads us to the following conclusions.

First, financial stability at the national level is important for employment stabilization. Governments should set rules and standards over financial institutions and large companies to keep the overall financial status sound. A country should have control over macroeconomic policies, including interest and foreign exchange rates, to avoid consequent mass unemployment due to industrial restructuring forced by high interest rates during recession.

Second, countries need to develop a social welfare system to cope with uncertain economic situations autonomously. If a country faces an economic crisis without a social welfare

system, quick and effective counter-policies are necessary to help those who lose their jobs and income. Establishing a social welfare system is costly compared to expanding existing systematic welfare programs. Policies also need time to be effective. Therefore, countries should construct their own social welfare systems during normal business cycles. Programs should depend on the country's own cultural and economic conditions and should be flexible enough to enable adjustments during times of crisis. Eventual expansion of the coverage of the programs and inclusion of more target-specific programs could assist disadvantaged people during crisis.

Third, layoffs should be the last resort to lowering labor costs even during recession. Flexible working hours and wages, and inside-labor-market could be used to overcome short-term labor cost problems.

Finally, cooperation and coordination across government departments are important. Policies involving the macroeconomy, labor market, social welfare system, and industry, including industrial relations, should be coordinated.

Even with serious efforts from both the Government of Korea and businesses to avoid mass unemployment during the current crisis, irregular workers, who work under bad conditions and are paid low wages, still risk losing their jobs. These workers, which are numerous, are not covered by the EIS and do not get any benefits. Income distribution will deteriorate and the number of families living below the poverty level will continually increase if this situation is not resolved. Thus it is necessary to reinforce the labor policies for irregular workers, and to include them into the social system.

## 1. INTRODUCTION

The Republic of Korea (hereafter Korea) is facing the tough challenge of overcoming the global financial crisis 10 years after the 1998 Asian financial crisis. When the 1998 Asian financial crisis hit the country, all sectors suffered and the labor market was one of those significantly damaged. The crisis resulted in mass unemployment, income polarization, deterioration of the structure of employment, and huge social costs. The Government of Korea reacted by introducing temporary welfare programs and active labor market policies (ALMPs) because the social safety net was not well-developed in 1998. After the crisis, Korea continuously tried to build a systematic social safety net. The Employment Insurance system (EIS) expanded the mandatory coverage and assimilated the temporary policies carried out during the Asian financial crisis into the EIS. The impact of the 2008 global financial crisis on the Korean labor market is not as large as that of the crisis in 1998 due to a variety of factors such as the macroeconomic conditions; the response of the government, businesses, and workers; and the well-constructed social safety net, including the EIS.

The objective of this paper is to analyze the reasons for the difference in the impact of the two financial crises on the Korean labor market. This analysis highlights the Korean EIS as one of the major factors that influenced the impact. The analysis in this paper can help countries cope with the current financial crisis, and prepare a social system to deal with this type of situation in the long run.

Chapter 2 briefly explains the history of EIS in Korea and the changes in the coverage and the contents of the system. Chapter 3 presents the impacts of the 1998 Asian financial crisis on the Korean labor market and the government's efforts to reduce the negative effects of the crisis. It analyzes the statistics of the labor market and the EIS to show the trends, and compares the 1998 and the 2008 financial crises to draw the differences between those two cases and to determine the proper measures to overcome the problems in Korean labor market. Chapter 4 suggests conclusions and policy implications.

## 2. EMPLOYMENT INSURANCE SYSTEM IN THE REPUBLIC OF KOREA

### 2.1 History

The EIS of Korea was introduced on 1 July 1995, after a debate that began at the end of the 1960s. Formal debate at the upper levels of government began in the early 1980s, but it was another 15 years before the system was introduced because of concerns about the increasing financial burden to businesses and the possibility of adverse selection. Nonetheless, the system was not considered to be a systematic social safety net but rather a short-term assistance program for the long-term unemployed at the beginning.

The objective of the EIS is to prevent joblessness, to promote employment and vocational competency, and to provide financial support and employment assistance to the unemployed. The EIS also serves as a source of comprehensive labor market policies and a social security system. To achieve its objectives, the Employment Insurance Act promotes the implementation of the Employment Stabilization Program, the Vocational Competency Development Program, and the Unemployment Benefit Program.

The coverage of the Korean EIS has expanded and now includes all businesses with one or more employees (Table 1). At the beginning of the EIS, the Employment Insurance Act applied to all businesses and establishments that hire 30 or more employees in the case of the Unemployment Benefit Program, and businesses with 70 or more employees for the Employment Stabilization and the Vocational Competency Development programs. At the

time of its introduction, different measures were applied for construction companies because of their limited administrative capabilities and for small and medium-sized businesses because of the impracticality of premium collection. However, the coverage of the Employment Insurance Act has expanded continuously. After 1 October 1998, businesses with one or more regular employees should have EIS for the all three programs, and after 1 January 2005, all licensed construction businesses were mandated to have EIS. Workers excluded from the coverage at the introduction of the system were (i) daily workers, (ii) workers 60 years old and above, and (iii) workers whose working hours were less than 60 hours per month or 15 hours per week. Since 1 January 2004, coverage was expanded to those categorized under (i) and (ii). On 1 January 2006, the Employment Stabilization and Vocational Competency Development programs expanded coverage to those 60 years old and above. Also, beginning 1 January 2006, self-employed workers can apply to the EIS, with income test.

The EIS theoretically now includes all businesses with one or more full-time employees. However, the coverage rate of employment insurance for wage workers reached about 56.8% in August 2008 due to the large number of irregular workers (National Statistical Office, *Active Labor Participation Population Extra Survey*, 2008). For regular workers, the coverage rate was about 80% in 2008.

**Table 1: Extended Coverage of Employment Insurance in the Republic of Korea**

| Type of the Employment Insurance Program                                       | Ordinary Businesses<br>(Number of Regular Employees) |                   |                   |                   |                    | Construction Business<br>(Total Construction Price in W Million) |                    |                    |   |
|--|--|-------------------|-------------------|-------------------|--------------------|--|--------------------|--------------------|---|
|  | 31 Dec 1997  | 1 Jan–28 Feb 1998 | 1 Mar–30 Jun 1998 | 1 Jul–30 Sep 1998 | 1 Oct 1998–Present | 30 Jun 1998  | 1 Jul–31 Dec. 2003 | 1 Jan–31 Dec. 2004 | 1 Jan 2005–Present                              |
| Unemployment Benefit   | 30 or more   | 10 or more        | 5 or more         | 5 or more         | 1 or more          | 3,400 or more  | 340 or more        | 20 or more         | All Workers Undertaken by Licensed Constructors |
| Employment Stabilization Program and Vocational Competency Development Program | 70 or more   | 50 or more        | 50 or more        |                   |                    |  |                    |                    |   |

Source: Korean Ministry of Labor Homepage. Available: [http://www.molab.go.kr/english/Employment/Employment\\_Insurance\\_Rate.jsp](http://www.molab.go.kr/english/Employment/Employment_Insurance_Rate.jsp)

## 2.2 Contents of the Main Programs in the Korean Employment Insurance System

The contents of Korea's EIS are categorized into three main programs: the Employment Stabilization Program, the Vocational Competency Development Program, and the Unemployment Benefit Program.<sup>1</sup> The number of specific programs in each main program supported by the EIS is growing and the composition of the programs is constantly changing.

At the beginning, the Employment Stabilization Program consisted of Employment Adjustment Assistance, Regional Employment Promotion Grant, Employment Promotion

<sup>1</sup> Some experts classify the Childcare Benefit Program separately, but in this report, the Childcare Benefit Program is classified under the Employment Stabilization Program as it promotes the employment or the continuous employment of pre- and post-natal women.

Grant for Elderly, Subsidy for Employment Promotion Facilities, and Provision of Labor Market Information, among others. The Vocational Competency Development Program consisted of In-house Vocational Training Subsidy, Employee Training Subsidy, Loan for Training Facilities, Vocational Training Subsidy, Loan for Tuition of Training, Aid for Re-employment Training of Displaced Workers, Vocational Training Promotion Aid, and etc. The Unemployment Benefit Program consisted of basic Job-seeking Benefit, Early Re-employment Allowance, Vocational Training Promotion Allowance, Nationwide Job-seeking Allowance, Moving Allowance, and etc.

In the process of overcoming the 1998 Asian financial crisis, the government promoted ALMPs besides the programs in the EIS because the EIS coverage was too small compared to the huge number of unemployed. Eventually, many ALMPs were integrated into the EIS subprograms after the crisis. The three main programs had about 20 specific programs altogether at the time EIS was introduced, and now there are about 80–90 subprograms targeting specific goals (Table 2).<sup>2</sup>

**Table 2: Contents of the Employment Insurance System in the Republic of Korea**

|  |  |
|--|--|
| <b>Employment Stabilization Program</b>          | <a href="#">Employment Adjustment Assistance, Regional Employment Promotion Grant, Employment Promotion Subsidy for Elderly, Employment Promotion Facilities Subsidy, Provision of Labor Market Information</a>  |
|  | Employment Promotion Subsidy, Shift-work Change Assistance, S & M Expertise Employment Subsidy, S & M Business Working Hour Reduction Assistance, S & M Working Condition Innovation Assistance, S & M New Industry Advancement Subsidy,   |
|  | Employment Maintaining Assistance, Outplacement Assistance Subsidy, Re-employment Subsidy, Construction Worker EI Maintenance Assistance, Construction Worker Installment of Retirement Deduction Assistance, Construction Worker Continuous Employment Assistance, Childcare Leaves Allowance, Post and Prenatal Vacation Allowance, Childcare Facility Assistance, Continuous Employment after Child-bearing and Child-birth Assistance, Peak-Wage Preservation Allowance, Job Exhibition Assistance, and other sub-programs |
| <b>Vocational Competency Development Program</b> | <a href="#">Vocational Competency Development Training (In-House Vocational Training Subsidy, Employee Training Subsidy, Loan for Training Facility, Aid for Re-employment Training of Displaced Workers), Assistance for Training Fee</a>   |
|  | Paid-leave Training, Outplacement Training, Vocational Competency Development Account System, Training Course Assistance, Vocational Competency Development Card System, Female Household-Head Training, Priority Job Training, and other subprograms  |
| <b>Unemployment Benefit Program</b>              | <a href="#">Job-seeking Benefit, Distant Area Job-Seeking Benefit, Moving Assistance, Early Re-employment Allowance</a>  |
|  | Injury and Disease Allowance, Job Capability Improvement Allowance, and other sub-programs   |

<sup>2</sup> For more information about the main programs, see Appendix A.

Note: The top rows in the right column for each subprogram show the original subprograms since the beginning of the Employment Insurance System.

Source: Ministry of Labor, *White Book of Employment Insurance System*, 2009.

### **3. KOREA'S EXPERIENCE WITH UNEMPLOYMENT INSURANCE SYSTEM IN THE 1998 ASIAN FINANCIAL CRISIS AND 2008 GLOBAL FINANCIAL CRISIS**

#### **3.1 Korean Labor Market and the 1998 Asian Financial Crisis**

Before the 1998 financial crisis, the Korean labor market was near full-employment status, with unemployment rate less than 3% (Table 3). When the Asian financial crisis struck in 1997, the financial market of Korea was totally paralyzed from the impact of the foreign exchange market and, consequently, the high interest rate policy driven by the International Monetary Fund (IMF) led to the closure of many businesses. The atmosphere encouraged vast industrial restructuring, including conglomerates. Massive layoffs followed to reduce labor costs. As a result, the Korean labor market faced a record-high unemployment rate of 7% in 1998 and 6.3% in 1999 for the first time since 1960s. The number of unemployed skyrocketed from 568,000 in 1997 to 1,490,000 in 1998 and 1,374,000 in 1999. The employment rate (employment/population) plummeted from 60.9% in 1997 to 56.4% in 1998 due to the decrease in participation rate in 1998 (Figure 1). Unfortunately, the social safety net of Korea was not well constructed at that time, even with the EIS introduced in 1995. The government attempted to overcome the situation by setting out temporary welfare programs and ALMPs, including public works for the unemployed.

Korea's EIS was in its infancy in 1998 and did not cover majority of workers, especially workers in small businesses. The Employment Stabilization Program and Vocational Competency Development Program under the EIS covered businesses with 70 or more employees, while the Unemployment Benefit Program covered businesses with 30 or more employees. In December 1999, EIS covered 46.5% of wage workers and only 15.5% of the unemployed who were wage earners. Thus, the Unemployment Benefit Program could not effectively provide a definite level of income for the majority of the unemployed, even with the temporary easing of qualifications and extension of benefit periods. On the other hand, some scholars argue that the Unemployment Benefit Program produced a somewhat positive impact on the labor market because it helped many unemployed people during desperate periods.

ALMPs such as temporary welfare programs and public works for the unemployed were more effective than the Unemployment Benefit Program in terms of coverage. Some of these programs were integrated in the EIS and can be classified as (i) assistance for employment stabilization, (ii) provision of temporary jobs such as public works, (iii) provision of job training and job placement, (iv) assistance for living costs such as loan programs for the unemployed, and (v) cash transfers for poor families. The government maintained reliable budget levels in those programs to overcome the problems in the labor market from 1998 to 2002.

As the global economy recovered in 2000, the Korean economy started to rebound rapidly from the recession. However, the V-shape economic recovery made it difficult to evaluate the influence of those programs on the labor market. Nevertheless, the steep reduction of unemployment rate (from 7.0% in 1998 to 3.8% in 2001) shows that the policy mix of the government helped to overcome mass unemployment. Moreover, the experience emphasized the importance of constructing a proper social welfare system in the long run to prepare for this type of economic crisis.

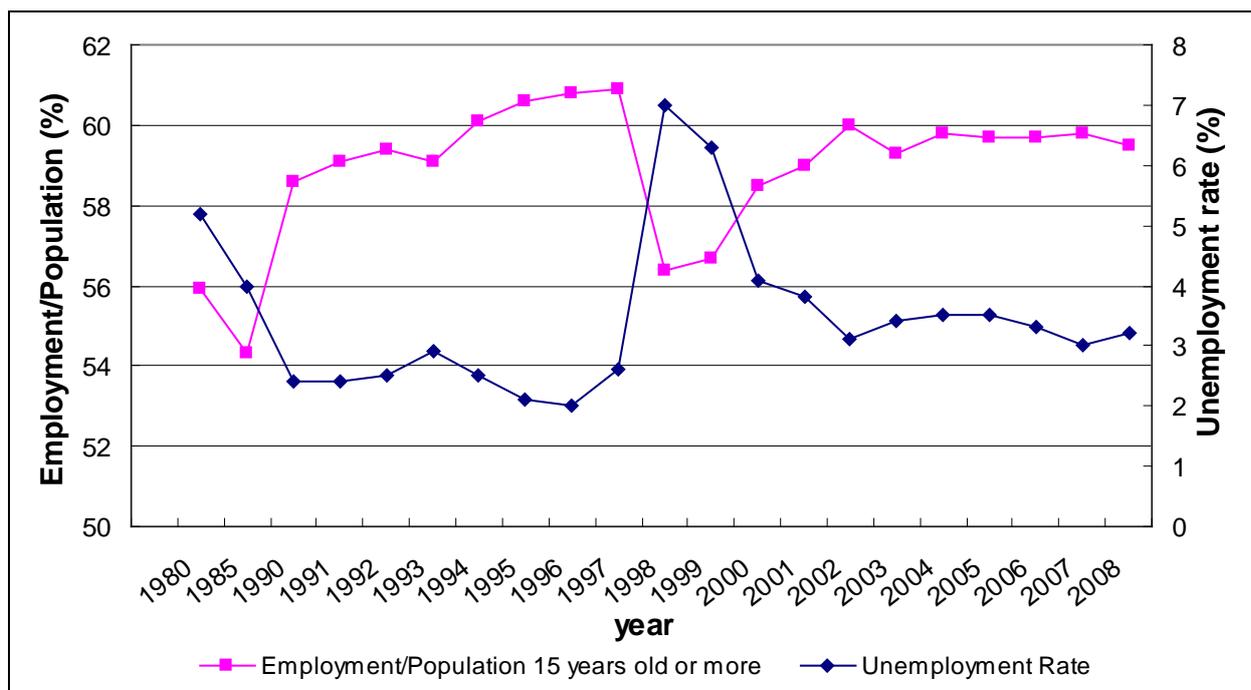
**Table 3: Annual Statistics of the Korean Labor Market**

('000 Persons; %)

| Year        | Employed Persons | Unemployed Persons | Participation Rate (%) | Employment/Population 15 yrs old or more (%) | Unemployment Rate (%) |
|-------------|------------------|--------------------|------------------------|--|-----------------------|
| 1980        | 13,683           | 748                | 59.0                   | 55.9   | 5.2                   |
| 1985        | 14,970           | 622                | 56.6                   | 54.3   | 4.0                   |
| 1990        | 18,085           | 454                | 60.0                   | 58.6   | 2.4                   |
| 1991        | 18,649           | 461                | 60.6                   | 59.1   | 2.4                   |
| 1992        | 19,009           | 490                | 60.9                   | 59.4   | 2.5                   |
| 1993        | 19,234           | 571                | 60.9                   | 59.1   | 2.9                   |
| 1994        | 19,848           | 504                | 61.6                   | 60.1   | 2.5                   |
| 1995        | 20,414           | 430                | 61.9                   | 60.6   | 2.1                   |
| 1996        | 20,853           | 435                | 62.1                   | 60.8   | 2.0                   |
| 1997        | 21,214           | 568                | 62.5                   | 60.9   | 2.6                   |
| <b>1998</b> | <b>19,938</b>    | <b>1,490</b>       | <b>60.6</b>            | <b>56.4</b>                                  | <b>7.0</b>            |
| 1999        | 20,291           | 1,374              | 60.6                   | 56.7   | 6.3                   |
| 2000        | 21,156           | 913                | 61.0                   | 58.5   | 4.1                   |
| 2001        | 21,572           | 845                | 61.3                   | 59.0   | 3.8                   |
| 2002        | 22,169           | 708                | 61.9                   | 60.0   | 3.1                   |
| 2003        | 22,139           | 777                | 61.4                   | 59.3   | 3.4                   |
| 2004        | 22,557           | 813                | 62.0                   | 59.8   | 3.5                   |
| 2005        | 22,856           | 833                | 61.9                   | 59.7   | 3.5                   |
| 2006        | 23,151           | 783                | 61.7                   | 59.7   | 3.3                   |
| 2007        | 23,433           | 733                | 61.7                   | 59.8   | 3.0                   |
| 2008        | 23,577           | 769                | 61.5                   | 59.5   | 3.2                   |

Source: National Statistics Office, *Economically Active Population Survey*, 2008.

**Figure 1: Trends of Employment Rate and Unemployment Rate in Korea**



Source: National Statistics Office, *Economically Active Population Survey*, 2008.

### 3.2 Changes in the Employment Insurance System

The size of establishments covered and persons insured has been increasing as the coverage of EIS expands. The number of establishments covered by EIS has increased 3.6 times for 11 years from 1998 to 2008 and the number of insured persons has increased 1.8 times for the same period (Table 4). The proportion of establishments covered by EIS out of the total number of establishments increased to 44.7% in 2008,<sup>3</sup> from 14.4% in 1998. The proportion of insured persons out of the total number of workers increased to 47.1% in 2008, from 26.4% in 1998. This means that the social safety net for insured workers is expanding. However, about 53% of workers, mostly irregular, are still not covered by EIS.

<sup>3</sup> However, the number of total establishments used here includes the number of self-employed business without employees, which is excluded from the EIS definition. The proportion of insured establishments out of only qualified businesses is about 78% in 2008 as calculated by the Korea Employment Information Service.

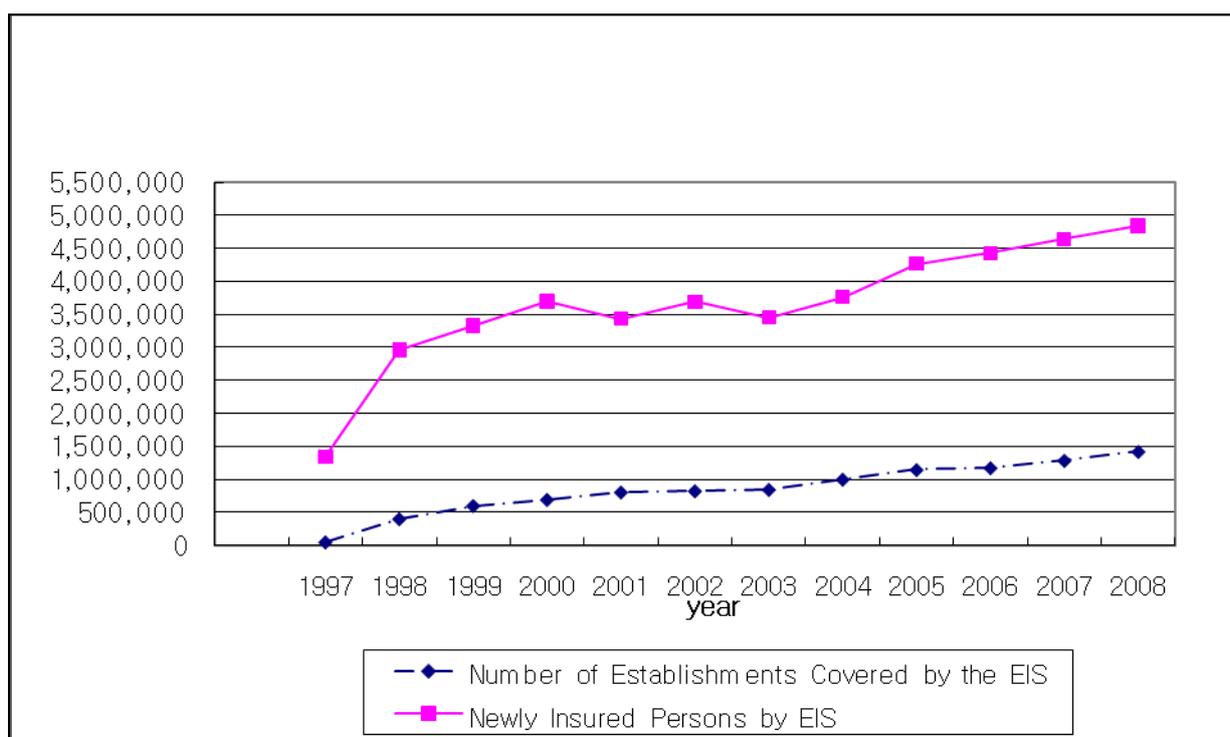
**Table 4: Number of Establishment and Persons Covered by the Employment Insurance System (Annual Data)**

| Year | Number of Establishments                    |                          |                       | Number of Insured Persons |                                  |                       |
|------|---|--------------------------|-----------------------|---------------------------|----------------------------------|-----------------------|
|      | Number of Establishments Covered by the EIS | Newly Covered by the EIS | Excluded from the EIS | Total                     | Newly Insured Persons by the EIS | Excluded from the EIS |
| 1997 | 47,427                                      | 8,927                    | 5,205                 | 4,280,430                 | 1,345,231                        | 1,392,542             |
| 1998 | 400,000                                     | 360,783                  | 8,864                 | 5,267,658                 | 2,963,828                        | 1,975,706             |
| 1999 | 601,394                                     | 240,596                  | 33,954                | 6,054,479                 | 3,330,353                        | 2,499,662             |
| 2000 | 693,414                                     | 186,031                  | 94,697                | 6,747,263                 | 3,695,723                        | 2,981,558             |
| 2001 | 806,962                                     | 226,642                  | 114,332               | 6,908,888                 | 3,435,154                        | 3,234,745             |
| 2002 | 825,531                                     | 193,216                  | 176,690               | 7,171,277                 | 3,692,771                        | 3,404,669             |
| 2003 | 845,910                                     | 191,248                  | 173,275               | 7,203,347                 | 3,449,449                        | 3,394,502             |
| 2004 | 1,002,638                                   | 472,190                  | 310,418               | 7,576,856                 | 3,764,995                        | 3,364,005             |
| 2005 | 1,148,474                                   | 607,766                  | 417,033               | 8,063,797                 | 4,264,292                        | 3,720,733             |
| 2006 | 1,176,462                                   | 689,734                  | 659,593               | 8,536,966                 | 4,429,144                        | 3,894,942             |
| 2007 | 1,288,138                                   | 778,967                  | 652,456               | 9,063,301                 | 4,642,261                        | 4,061,173             |
| 2008 | 1,424,330                                   | 160,744                  | 120,452               | 9,385,239                 | 4,838,866                        | 4,453,152             |

EIS = Employment Insurance System.

Source: Korea Employment Information Service, *Statistics of EIS in July 2009*, July 2009.

**Figure 2: Trends of the Employment Insurance System Coverage Expansion**



EIS = Employment Insurance System.

Source: Korea Employment Information Service, *Statistics of EIS in July 2009*, July 2009.

The size of recipients and amount of benefits for the Unemployment Benefit (UB) Program depends on the situation of the labor market. In general, the number of UB recipients and the amount of benefits is increasing as the coverage of EIS expands (Figure 2). The annual

growth rate (2007–2009) of UB is about 30% in terms of amount of expenditure and 25% in terms of recipients, while the growth rate for the new recipients is 84.4%. Thus, the expenditure of UB is growing faster than the unemployment rate in 2008. When the number of UB recipients is divided by the number of the unemployed, that ratio could be considered as an indicator implying the relative coverage of UB over the unemployed.<sup>4</sup> The calculated indicator was 0.29 in 1998, 0.24 in 1999, 0.29 in 2000, 0.94 in 2007, and 1.09 in 2008 (Table 5, Figure 3). This means that in 2008, UB played a role three times more than its role in 1998 as income support for the unemployed.

The overall trend of other programs (Employment Stabilization and Vocational Competency Development programs) is increasing in terms of amount of money (Tables 6 and 7). Recently launched new focused subprograms include the maternity protection and childcare-related programs in the Employment Stabilization Program, Vocational Competency Development Card System, and Vocational Competency Development Account System.

**Table 5: Number of Recipients and Amount of Benefits for Unemployment Benefit (Annual Data)**

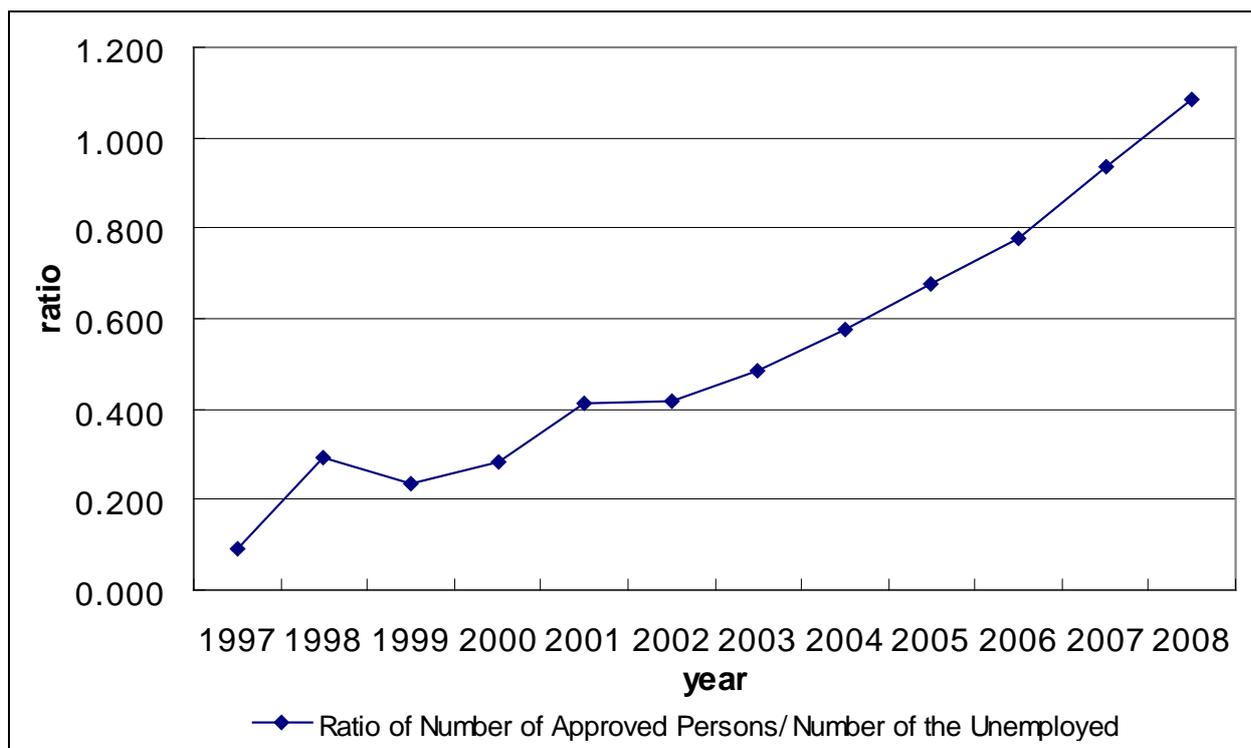
|      | Number of Applicants for UI |                            |  | Unemployment Benefit |                          |
|------|-----------------------------|----------------------------|--|----------------------|--------------------------|
|      | Number of Persons           | Number of Approved Persons | Ratio of Number of Approved Persons/Number of the Unemployed | Total                |                          |
|      |                             |                            |  | Number of Persons    | Amount of UI (W million) |
| 1997 | 50,991                      | 50,774                     | 0.089  | 49,117               | 78,737                   |
| 1998 | 438,465                     | 434,199                    | 0.291  | 411,686              | 799,416                  |
| 1999 | 327,929                     | 325,220                    | 0.237  | 484,772              | 936,163                  |
| 2000 | 260,407                     | 258,727                    | 0.283  | 332,692              | 470,793                  |
| 2001 | 349,245                     | 347,303                    | 0.411  | 428,156              | 845,116                  |
| 2002 | 299,215                     | 297,109                    | 0.420  | 416,041              | 839,315                  |
| 2003 | 379,600                     | 375,561                    | 0.483  | 502,211              | 1,030,304                |
| 2004 | 471,542                     | 467,730                    | 0.575  | 707,432              | 1,448,306                |
| 2005 | 565,753                     | 562,524                    | 0.675  | 812,768              | 1,751,974                |
| 2006 | 612,667                     | 609,691                    | 0.779  | 943,542              | 2,074,004                |
| 2007 | 687,765                     | 685,024                    | 0.935  | 1,009,180            | 2,434,032                |
| 2008 | 838,783                     | 835,140                    | 1.086  | 1,162,534            | 2,865,256                |

UI = unemployment insurance.

Source: Korea Employment Information Service, *Statistics of EIS in July 2009*, July 2009.

<sup>4</sup> This number is a relative indicator and is not a percentage proportion. Because the number of Unemployment Benefit recipients counts a worker who was unemployed twice or three times in a year as two persons and three persons each, it is not the actual number of the persons.

**Figure 3: Indicator of Relative Coverage of Unemployment Benefits**



Source : Korea Employment Information Service, *Statistics of EIS in July 2009*, July 2009.

**Table 6: Employment Stabilization Program (Annual Data)**  
(W million)

| Year | Total   | Employment Adjustment Assistance | Job Creation Assistance | Maternity Protection Allowance | Employment Promotion Assistance | Childcare Facility Assistance | Construction Workers Assistance |
|------|---------|----------------------------------|-------------------------|--------------------------------|---------------------------------|-------------------------------|---------------------------------|
| 2002 |         |                                  |                         | 25,688                         |                                 |                               |                                 |
| 2003 |         |                                  |                         | 44,098                         |                                 |                               |                                 |
| 2004 | 97,006  | 33,804                           | 1,657                   | 62,413                         | 55,978                          | 4,128                         | 1,438                           |
| 2005 | 202,080 | 33,180                           | 31,944                  | 74,283                         | 125,821                         | 5,952                         | 5,184                           |
| 2006 | 374,980 | 35,974                           | 95,781                  | 125,407                        | 219,522                         | 8,106                         | 15,597                          |
| 2007 | 448,645 | 35,794                           | 104,264                 | 193,401                        | 275,526                         | 10,429                        | 22,632                          |
| 2008 | 375,148 | 32,870                           | 88,562                  | 265,062                        | 214,935                         | 12,610                        | 26,172                          |

Source: Korea Employment Information Service, *Statistics of EIS in July 2009*, July 2009.

**Table 7: Vocational Competency Development Program (Annual Data)**  
(W million)

| Year | Total   | Vocational Competency Development Training | Paid-leave Training | Out-place-ment Training | Training Course Assistance | Vocational Competency Development Card System | Assistance for Training Fee and etc. | Priority Job Training | Female Household Head Training | Vocational Competency Development Account System |
|------|---------|--|---------------------|-------------------------|----------------------------|---|--------------------------------------|-----------------------|--------------------------------|--|
| 2005 | 520,390 | 236,442                                    | 7,887               | 135,637                 | 11,688                     |   | 717                                  | 50,071                | 1,151                          |  |
| 2006 | 653,486 | 296,859                                    | 10,419              | 126,640                 | 28,851                     |   | 4,634                                | 99,213                | 1,846                          |  |
| 2007 | 754,467 | 340,924                                    | 13,823              | 150,371                 | 52,782                     |   | 5,107                                | 110,849               | 2,233                          |  |
| 2008 | 712,092 | 382,581                                    | 15,071              | 158,067                 | 53,508                     | 7,373   |                                      | 4,907                 | 2,452                          | 379  |

Source: Korea Employment Information Service, *Statistics of EIS in July 2009*, July 2009.

### 3.3 Comparison of the Korean Labor Market in the 1998 and 2008 Financial Crises

While the recent global financial crisis began at the end of 2007, the impact on the Korean economy and labor market started to get worse after the second half of 2008. The unemployment rate at the end of 2007 was 3.1%. At the end of 2008 it was 3.3%, and by the second quarter of 2009 it reached at 3.9% (Table 8, Figure 4). The gross domestic product (GDP) growth rate on the second quarter of 2008 was 4.3% and 3.1% in the third quarter, but reached  $-3.4\%$  by the fourth quarter. In the first quarter of 2009, GDP growth rate reached  $-4.2\%$ , and by the second quarter of 2009, it was down to  $-2.2\%$ . However, the fourth quarter GDP growth rate of 2009 is expected to be positive. In contrast, the unemployment rate is not expected to improve as quickly, considering the time lag of the impact of goods on the labor market. The number of employed workers has been slightly increasing since December 2007, but at a slow pace due to negative growth in the goods market. The number of unemployed and the unemployment rate are steadily increasing for the same period, while the employment rate (employment/population 15 yrs. old and above) is decreasing, implying an increase in the economically inactive population. However, recent trends in the GDP growth rate and the unemployment rate seem to show some recuperation. Thus, the damage to the Korean labor market from the current financial crisis could be evaluated as less serious compared to the damage from the 1998 Asian financial crisis.

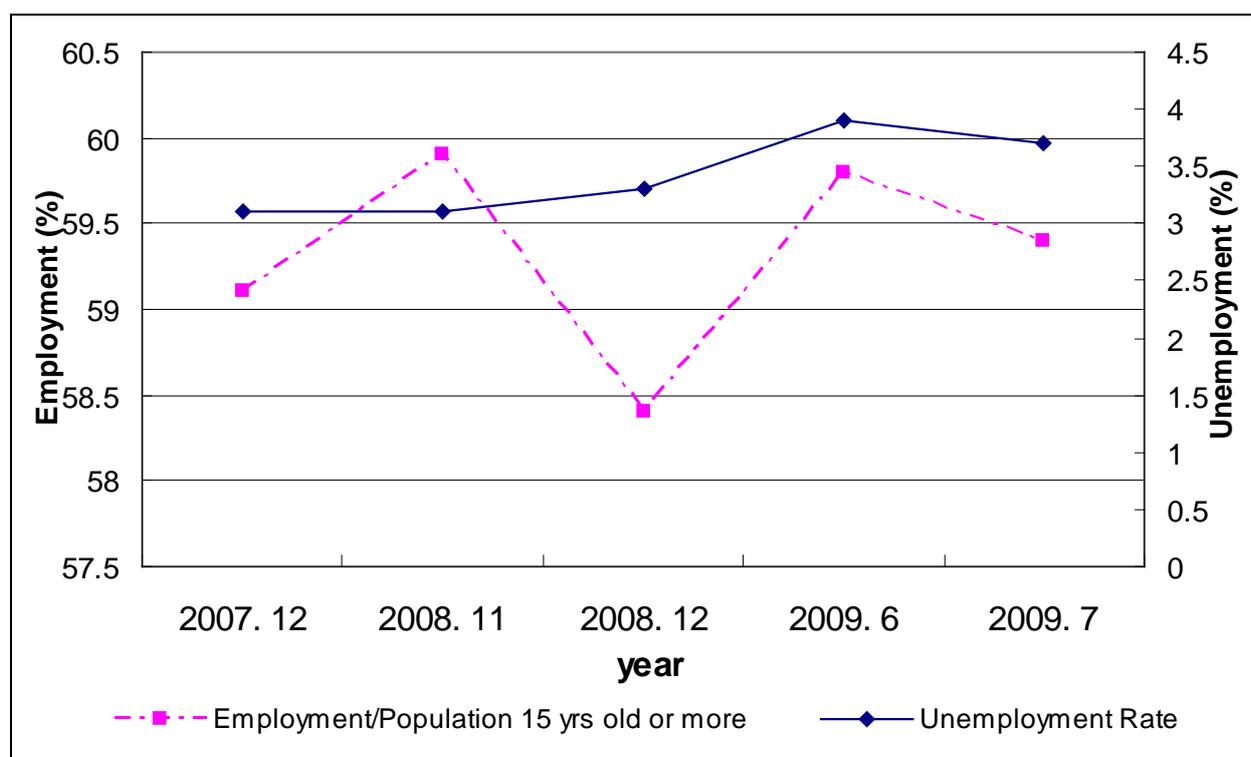
At the beginning of the 2008 global financial crisis, some economists warned of the possibility of more significant damage on the Korean economy and the labor market compared to that in the 1998 crisis. However, the impact from the 2008 crisis was in fact relatively smaller. The unemployment rate in the first half of 2009 was 3.8% despite the negative GDP growth rate ( $-2.2$  to  $-4.2\%$ ), while the unemployment rate in 1998 was 7% with the negative GDP growth rate of  $-6.9\%$ .

**Table 8: Recent Trends in the Korean Labor Market**  
('000 persons)

| Item   | Dec 2007 | Nov 2008 | Dec 2008 | Jun 2009 | Jul 2009 |
|--|----------|----------|----------|----------|----------|
| Employed Persons                             | 23,257   | 23,816   | 23,245   | 23,967   | 23,828   |
| Employment/Population 15 yrs old or more (%) | 59.1     | 59.9     | 58.4     | 59.8     | 59.4     |
| Unemployed Persons                           | 736      | 750      | 787      | 960      | 928      |
| Unemployment Rate (%)                        | 3.1      | 3.1      | 3.3      | 3.9      | 3.7      |

Source: National Statistics Office, *Monthly Labor Trends*, December 2008.

**Figure 4: Recent Trends in Employment and Unemployment Rates in Korea**



Source: National Statistics Office, *Monthly Labor Trends*, December 2008.

- The 2008 global financial crisis drew as much concern as the 1998 Asian financial crisis because the initiating countries were mostly advanced countries. This current crisis could lead the business cycle of most other countries—especially Korea, whose economic growth largely depends on foreign trade—into a long recession. Because of this, the Government of Korea was forced to quickly respond with a strong policy-mix to prevent the ill effects of the crisis.
- The policy-mix covered both the financial and labor markets. The policies concerning the labor market encompass direct job creation programs for the youth and the elderly, expansion of social services, expansion of employment maintenance assistance, assistance for workers on leave without pay, a Stay-in-School program, a New-Start program, expansion of unemployment benefits, and so on.
- Compared to the 1998–2000 major labor policies, the 2008–2009 labor policies are more specific and target-oriented (Table 9). The ALMP programs in the EIS form a larger proportion in the whole labor policies than those in 1998–2000, and most of those policies are expansions of existing programs in the EIS. This implies that the

Korean labor market is now acquiring the systematic tools to solve the problems from the economic crisis, but needs to adjust the budget and the order among the policies according to the economic and labor market situation.

Of course, the relative level of the GDP growth rate has been higher in 2009 than that in 1998, but the disparity in the unemployment rates between the two periods shows a significantly different performance in the Korean labor market (Table 10, Figure 5). There are many reasons for this difference. The macroeconomic situation between the two crises is completely different. The government lost control over macroeconomic policies such as interest and foreign exchange rates in 1998 because the financial crisis drove Korea to national bankruptcy. The IMF took over the control of those policies because of the national borrowing from the IMF, and pushed a high interest rate policy to facilitate the restructuring process in overall industries. Most companies could not be independent of the process due to their fragile financial status, and eventually many of them went out of business. The firms that survived laid off workers in an effort to lower labor costs—leading to mass unemployment. In contrast, in the 2008 crisis, the Bank of Korea kept the interest rate as low as possible to minimize bankruptcies. The financial status of the overall businesses in Korea was also better in 2008 than in 1998. The debt ratio of the 10 top companies in Korea was about 100% in 2009, while debt ratio in 1998 was over 300%.

**Table 9: Comparison of Major Labor Policies between the 1998 and 2008 Financial Crises**

| 1998–2000 Major Labor Policy  | 2008–2009 Major Labor Policy   |
|---|--|
| <b>Job Creation</b>   |  |
| Provision of Public Works, Employment Subsidy, Promotion of Employment Abroad, Assistance for New Venture Enterprise, Assistance for Returning Farmer, Assistance for New Small Businesses, | Expansion of Provision of Jobs for the Youth (Internship Assistance and etc.), Provision of Public Works ("Hope-Work" Project), Expansion of Social Service, Expansion of Self-Support Work Assistance, Expansion of Provision of Jobs for the Elderly |
| <b>Job Sharing and Maintaining</b>  |  |
| Avoidance of Lay-Off Effort Assistance, Job Maintaining and Re-employment Assistance,   | Expansion of Employment Maintaining Program* (Closed Business Assistance, On-Leave without Pay Assistance, Shift-system Change Assistance)   |
| <b>Providing Education and Training Programs</b>  |  |
| Expansion of Provision of Training Program  | Stay-in-School Program, "New Start" Program for the Youth, Vocational Training Program for the Daily Workers, Large-S & M Business Cooperative Training Program  |
| <b>Livelihood Support and Employment Promotion</b>  |  |
| Expansion of Unemployment Benefit,* Assistance of Livelihood Support for the Poor, Provision of Loan for the Unemployed   | Expansion of Unemployment Benefit,* Expansion of New Employment Assistance,* Provision of Vacant Job Allowance, Assistance of Regional Employment Promotion  |
| <b>Miscellaneous</b>  |  |
| Building Employment Service Network, Construction of Labor Market Information System  |  |

Note: \* These programs are partly or fully included in the Employment Insurance System.

Source: Ministry of Labor, *White Book for Unemployment Measures against 1997 Financial Crisis*, March 2002. Government Report, *Evaluation and Planning for Job Creation Policies*, March 2009.

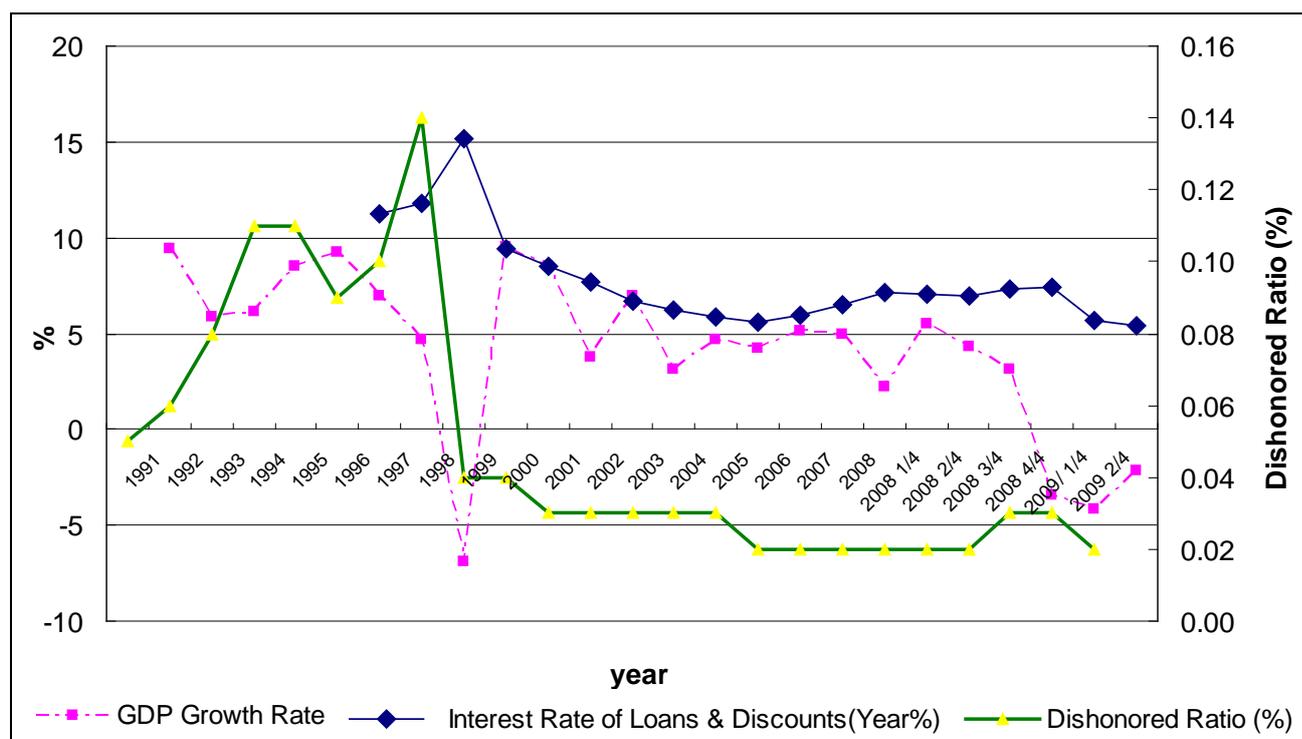
**Table 10: Trends of Macro Indicators (Annually until 2008 and Quarterly from 2008)**

| Year     | Gross Domestic Product Growth Rate | Producer Price Indexes (Basic Groups, 2005=100) | Interest Rate of Loans and Discounts (Year %) | Interest Rate of Loans To Corporations (Year %) | Check Clearing System   |                      |                                  |
|----------|------------------------------------|---|---|---|-------------------------|----------------------|----------------------------------|
|          |                                    |   |   |   | Dishonored ('000 bills) | Dishonored Ratio (%) | Dishonored (Number of Companies) |
| 1991     | 9.4                                | 67.89   |   |   | 461                     | 0.05                 | 6,159                            |
| 1992     | 5.9                                | 69.36   |   |   | 700                     | 0.06                 | 10,769                           |
| 1993     | 6.1                                | 70.41   |   |   | 639                     | 0.08                 | 9,502                            |
| 1994     | 8.5                                | 72.32   |   |   | 992                     | 0.11                 | 11,255                           |
| 1995     | 9.2                                | 75.7  |   |   | 1,138                   | 0.11                 | 13,992                           |
| 1996     | 7.0                                | 78.2  | 11.21   | 10.98   | 994                     | 0.09                 | 11,589                           |
| 1997     | 4.7                                | 81.2  | 11.83   | 11.75   | 1,250                   | 0.1                  | 17,168                           |
| 1998     | -6.9                               | 91.1  | 15.18   | 15.2  | 1,399                   | 0.14                 | 22,828                           |
| 1999     | 9.5                                | 89.2  | 9.4   | 8.91  | 396                     | 0.04                 | 6,718                            |
| 2000     | 8.5                                | 91  | 8.55  | 8.18  | 403                     | 0.04                 | 6,693                            |
| 2001     | 3.8                                | 90.6  | 7.7   | 7.49  | 345                     | 0.03                 | 5,277                            |
| 2002     | 7.0                                | 90.3  | 6.7   | 6.5   | 292                     | 0.03                 | 4,244                            |
| 2003     | 3.1                                | 92.3  | 6.24  | 6.17  | 331                     | 0.03                 | 5,308                            |
| 2004     | 4.7                                | 97.9  | 5.9   | 5.92  | 268                     | 0.03                 | 4,445                            |
| 2005     | 4.2                                | 100   | 5.59  | 5.65  | 226                     | 0.03                 | 3,416                            |
| 2006     | 5.1                                | 100.9   | 5.99  | 6.08  | 191                     | 0.02                 | 2,529                            |
| 2007     | 5.0                                | 102.3   | 6.55  | 6.6   | 166                     | 0.02                 | 2,294                            |
| 2008     | 2.2                                | 111.1   | 7.17  | 7.17  | 176                     | 0.02                 | 2,735                            |
| 2008 1/4 | 5.5                                | 105.8   | 7.02  | 7.04  | 40                      | 0.02                 | 555                              |
| 2008 2/4 | 4.3                                | 111.4   | 6.96  | 6.97  | 40                      | 0.02                 | 627                              |
| 2008 3/4 | 3.1                                | 115.2   | 7.29  | 7.29  | 40                      | 0.02                 | 590                              |
| 2008 4/4 | -3.4                               | 112   | 7.4   | 7.39  | 55                      | 0.03                 | 963                              |
| 2009 1/4 | -4.2                               | 110.2   | 5.66  | 5.66  | 49                      | 0.03                 | 715                              |
| 2009 2/4 | -2.2                               | 110.3   | 5.43  | 5.46  | 39                      | 0.02                 | 495                              |

Source: Bank of Korea Homepage, ECOS. Available: ecos.bok.or.kr

National Statistics Office Homepage, KOSIS. Available: kosis.kr/index.jsp

**Figure 5: Trends of Macro Indicators in the Republic of Korea**



GDP = gross domestic product.

Source: Bank of Korea Homepage, ECOS. Available: ecos.bok.or.kr

National Statistics Office Homepage, KOSIS. Available: kosis.kr/index.jsp

On the other hand, in the 2008 crisis, businesses lowered labor costs by various other means. The massive layoffs during the 1998 Asian financial crisis caused many workers to lose confidence in business, and as the economy improved, hiring qualified candidates became more difficult. Realizing this, many companies took advantage of flexible work hours and wage payment schemes instead of laying off workers. Other examples of these adjustments include mandatory use of additional leaves without pay, reduction of overtime work, reduction of regular working hours, return of partial wages, lowering of starting salaries, introduction of peak-wage rate for the elderly, and adjustment of wages. The government is helping by expanding the assistance level of establishment shut-down compensation and providing various tax assistance.

These alternatives to layoffs are recorded in recent trends in the EIS. The number of recipients of Closed Business Assistance in "Employment Maintaining Assistance" increased to 147.7% from the last year and the relevant benefits increased to 118.9%. In the case of Childcare Leaves Allowance, recipients increased to 551.4% and the relevant benefits increased to 608.1%. In the case of Peak-wage Preservation Allowance, recipients increased to 485.7%, relevant benefits to 437%, and for Shift-work Change Assistance, recipients increased to 380.1% and relevant benefits to 382% (Table 11). When one looks at the overall Employment Maintaining Assistance Program, establishments and workers that took advantage of the program hugely increased in 2008 compared to that in 2007 (Table 12).

**Table 11: Recent Growth Rates of Selected Programs in the Korean Employment Insurance System****(%)**

| Item                                      |                                   |  | Number of Recipients |                  | Amount of Benefits |                  |
|---|-----------------------------------|--|----------------------|------------------|--------------------|------------------|
|   |                                   |  | 2008/2007            | 2008.12 /2008.11 | 2008/2007          | 2008.12 /2008.11 |
| Employment Stabilization Program          |                                   | Total                                      | -2.0                 | -18.0            | -18.4              | -18.4            |
|   | Employment Maintaining Assistance | Closed Business Assistance                 | 147.7                | -16.7            | 118.9              | -16.7            |
|   |                                   | Training Assistance                        | -13.4                | -23.0            | 180.6              | 139.6            |
|   |                                   | On-Leave Assistance                        | -54.0                | 60.8             | -60.7              | 114.8            |
|   |                                   | Re-employment Subsidy                      | -31.1                | 29.1             | -11.4              | 30.3             |
|   |                                   | Outplacement Assistance Subsidy            | -100.0               | -100.0           | -99.2              | -83.3            |
|   |                                   | Elderly Employment Promotion Subsidy       | 82.2                 | -34.9            | 112.1              | -36.6            |
|   |                                   | Childcare Leaves Allowance                 | 551.4                | -46.9            | 608.1              | -43.2            |
|   |                                   | New Employment Promotion Subsidy           | -45.2                | 19.1             | -52.5              | 19.3             |
|   |                                   | Peak-Wage Preservation Allowance           | 485.7                | -56.4            | 437.0              | -70.0            |
|   | Shift-work Change Assistance      | 380.1                                      | 1,488.8              | 382.0            | 1,253.9            |                  |
| Vocational Competency Development Program |                                   | Total                                      | -13.5                | 12.6             | -26.9              | 18.6             |
|   |                                   | Vocational Competency Development Training | -21.9                | 4.6              | -20.5              | -3.9             |
|   |                                   | Paid-leave Training                        | -41                  | -30.8            | -48.9              | -22.6            |
|   |                                   | Outplacement Training                      | 67.1                 | 55.4             | 78.8               | 67.9             |
|   |                                   | Female Household Head Training             | 61.6                 | 39.4             | 78.2               | 76.8             |
| Unemployment Benefit Program              |                                   | Total                                      | 25.1<br>(84.4)       | 10.3<br>(40.5)   | 30.2               | 12               |
|   |                                   | Job-seeking Benefit                        | 25.2<br>(57.4)       | 10.9<br>(36.3)   | 29.3               | 14.1             |
|   |                                   | Early Reemployment Allowance               | 25.4                 | -0.8             | 35.8               | 1.3              |
|   |                                   | Injury and Disease Allowance               | 15.2                 | 7.1              | 15.6               | 8.3              |

Note: () = growth rate of new qualified applicants for unemployment benefits.

Source: Korea Employment Information Service, *Statistics of EIS in July 2009*, July 2009.

**Table 12: Record of Employment Maintaining Assistance Program**

| Item                   | 2007                     |                   |                                  | 2008                     |                   |                                  | Aug 2009                 |                   |                                  |
|------------------------|--------------------------|-------------------|----------------------------------|--------------------------|-------------------|----------------------------------|--------------------------|-------------------|----------------------------------|
|                        | Number of Establishments | Number of Workers | Amount of Assistance (W million) | Number of Establishments | Number of Workers | Amount of Assistance (W million) | Number of Establishments | Number of Workers | Amount of Assistance (W million) |
| Annual Total           | 4,425                    | 84,856            | 32,533                           | 4,274                    | 88,012            | 30,642                           | -                        | -                 | -                                |
| Monthly Average        | 416                      | 8,190             | 2,711                            | 339                      | 6,116             | 2,464                            | 4,750                    | 107,987           | 33,969                           |
| First Half of the Year | 2,497                    | 49,138            | 19,519                           | 2,036                    | 36,694            | 14,783                           | 28,498                   | 647,922           | 203,815                          |

Source: Ministry of Labor. Mimeo. 2009.

While the Korean labor market is successfully coping with the difficulties from the current financial crisis by using and expanding existing active labor market policies as well as the social safety net including the EIS, the extent of effect from the current crisis on income distribution is not clear because the income distribution has deteriorated consistently since the early 1990s (Table 13, Figure 6). The 1998 Asian financial crisis precipitated the deterioration as the Gini coefficient in terms of market income in 1998 rose to 0.303 from 0.268 in 1997 and dropped to 0.286 in 2000. The relative poverty rate increased to 13.1% in 1999 from 9.3% in 1997 and dropped to 10.8% in 2000. The Gini coefficient was in the range of 0.256–0.272, and the relative poverty rate was about 7.6–9.3% steadily before 1998. This implies that the 1998 Asian financial crisis significantly widened the gap of income distribution. Furthermore, several empirical papers argue that the 1998 Asian financial crisis was the main factor that caused poverty to spread faster in the Korean labor market through changes in the labor market structure as well as the mass unemployment (Rhue 2004; Shin 2007). The change in the labor market structure in 1998–1999 (Table 14, Figure 7) includes the increase in irregular workers (contract workers and daily wage earners) whose working conditions are worse in general than that of regular workers, the growth of self-employed persons who closed their businesses within 3 years of opening, and the long duration of job search (especially for the youth).

It is difficult to determine whether the current financial crisis is the major cause of increase in poverty by comparing the Gini coefficient and the relative poverty rate in 2008 to those of 2006 and 2007 alone because these same indicators have been showing an increase during 2001–2007. It is also too early to analyze the effect of the current financial crisis on income distribution in Korea. The effect would not be positive, but it is hard to distinguish the effect from the trend of deteriorating income distribution over time. This is an issue for further study.

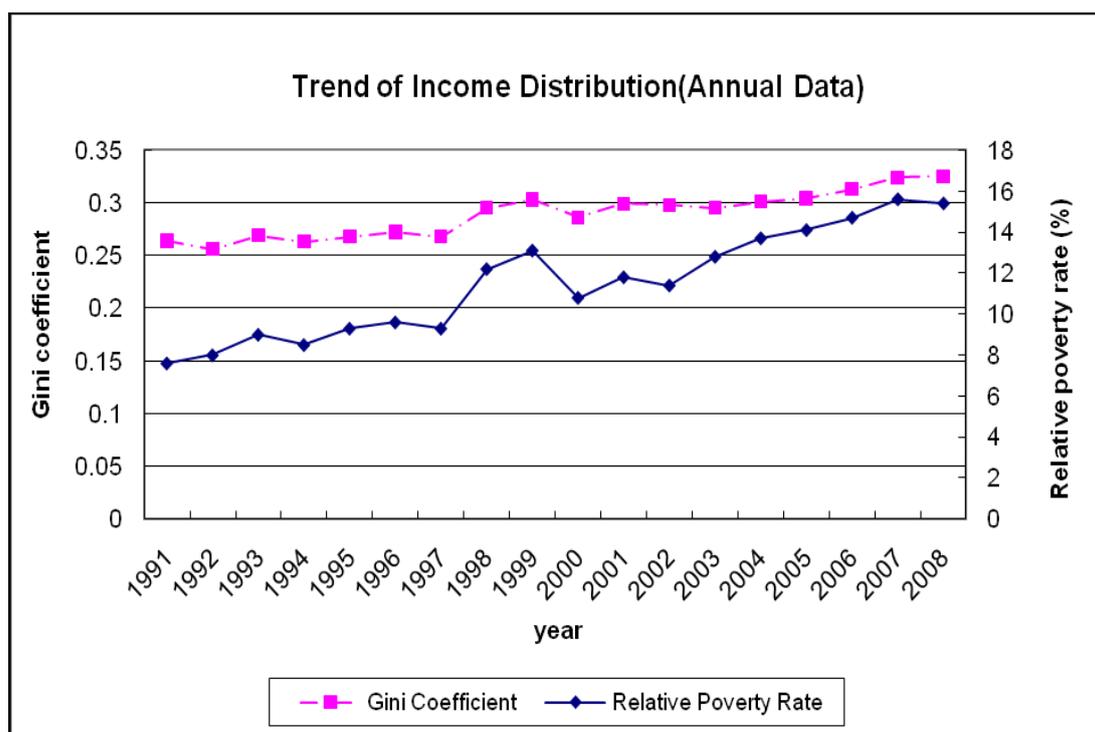
**Table 13: Trends of Income Distribution (Annual Data)**

| Year | Market Income    |                       | Disposable Income |                       |
|------|------------------|-----------------------|-------------------|-----------------------|
|      | Gini Coefficient | Relative Poverty Rate | Gini Coefficient  | Relative Poverty Rate |
| 1991 | 0.264            | 7.6                   | 0.256             | 7.2                   |
| 1992 | 0.256            | 8                     | 0.248             | 7.3                   |
| 1993 | 0.269            | 9                     | 0.263             | 8.4                   |
| 1994 | 0.263            | 8.5                   | 0.257             | 8.1                   |
| 1995 | 0.268            | 9.3                   | 0.262             | 8.9                   |
| 1996 | 0.272            | 9.6                   | 0.264             | 8.8                   |
| 1997 | 0.268            | 9.3                   | 0.262             | 8.9                   |
| 1998 | 0.295            | 12.2                  | 0.287             | 11.7                  |
| 1999 | 0.303            | 13.1                  | 0.294             | 12.4                  |
| 2000 | 0.286            | 10.8                  | 0.272             | 9.8                   |
| 2001 | 0.299            | 11.8                  | 0.286             | 10.6                  |
| 2002 | 0.298            | 11.4                  | 0.284             | 10.3                  |
| 2003 | 0.295            | 12.8                  | 0.282             | 11.3                  |
| 2004 | 0.301            | 13.7                  | 0.285             | 12                    |
| 2005 | 0.304            | 14.1                  | 0.286             | 12.3                  |
| 2006 | 0.313            | 14.7                  | 0.292             | 12.5                  |
| 2007 | 0.324            | 15.6                  | 0.3               | 13                    |
| 2008 | 0.325            | 15.4                  | 0.298             | 12.6                  |

Note: The indicators are calculated for urban households only (excluding one-person and farm households). The relative poverty rate is the proportion of households under the 50% level out of the medium income of total households.

Source: National Statistics Office, *KOSIS Homepage*. Available: [kosis.kr/index.jsp](http://kosis.kr/index.jsp)

**Figure 6: Trends of Income Distribution in the Republic of Korea**



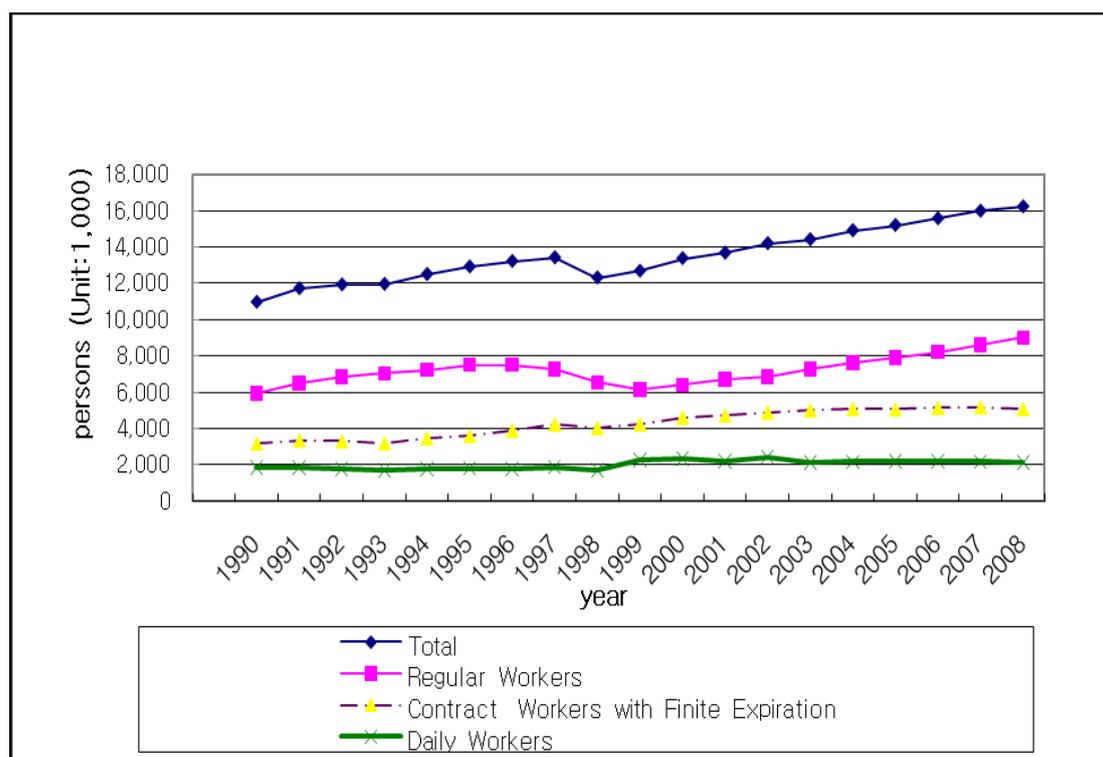
Source: National Statistics Office, KOSIS Homepage. Available: kosis.kr/index.jsp

**Table 14: Composition of Workers by Employment Type (Annual Data)**  
('000 Persons; %)

| Year        | Non-Wage Workers     |                               |                     | Wage-Workers          |   |                     |                     |
|-------------|----------------------|-------------------------------|---------------------|-----------------------|---|---------------------|---------------------|
|             | Self-Employed        | Family Workers without Salary |                     | Regular Workers       | Contract Workers with Finite Expiration | Daily Workers       |                     |
| 1990        | 7,135 (100.0)        | 5,068 (71.0)                  | 2,067 (29.0)        | 10,950 (100.0)        | 5,938 (54.2)                            | 3,171 (29.0)        | 1,840 (16.8)        |
| 1991        | 6,950 (100.0)        | 4,977 (71.6)                  | 1,974 (28.4)        | 11,699 (100.0)        | 6,497 (55.5)                            | 3,362 (28.7)        | 1,840 (15.7)        |
| 1992        | 7,099 (100.0)        | 5,171 (72.8)                  | 1,928 (27.2)        | 11,910 (100.0)        | 6,838 (57.4)                            | 3,300 (27.7)        | 1,772 (14.9)        |
| 1993        | 7,291 (100.0)        | 5,259 (72.1)                  | 2,032 (27.9)        | 11,944 (100.0)        | 7,033 (58.9)                            | 3,193 (26.7)        | 1,718 (14.4)        |
| 1994        | 7,370 (100.0)        | 5,376 (72.9)                  | 1,994 (27.1)        | 12,479 (100.0)        | 7,225 (57.9)                            | 3,475 (27.8)        | 1,779 (14.3)        |
| 1995        | 7,515 (100.0)        | 5,569 (74.1)                  | 1,946 (25.9)        | 12,899 (100.0)        | 7,499 (58.1)                            | 3,598 (27.9)        | 1,802 (14.0)        |
| 1996        | 7,653 (100.0)        | 5,710 (74.6)                  | 1,943 (25.4)        | 13,200 (100.0)        | 7,499 (56.8)                            | 3,907 (29.6)        | 1,794 (13.6)        |
| 1997        | 7,810 (100.0)        | 5,901 (75.6)                  | 1,908 (24.4)        | 13,404 (100.0)        | 7,282 (54.3)                            | 4,236 (31.6)        | 1,886 (14.1)        |
| <b>1998</b> | <b>7,641 (100.0)</b> | <b>5,616 (73.5)</b>           | <b>2,025 (26.5)</b> | <b>12,296 (100.0)</b> | <b>6,534 (53.1)</b>                     | <b>4,042 (32.9)</b> | <b>1,720 (14.0)</b> |
| 1999        | 7,628 (100.0)        | 5,703 (74.8)                  | 1,925 (25.2)        | 12,663 (100.0)        | 6,135 (48.4)                            | 4,255 (33.6)        | 2,274 (18.0)        |
| 2000        | 7,795 (100.0)        | 5,864 (75.2)                  | 1,931 (24.8)        | 13,360 (100.0)        | 6,395 (47.9)                            | 4,608 (34.5)        | 2,357 (17.6)        |
| 2001        | 7,913 (100.0)        | 6,051 (76.5)                  | 1,863 (23.5)        | 13,659 (100.0)        | 6,714 (49.2)                            | 4,726 (34.6)        | 2,218 (16.2)        |
| 2002        | 7,988 (100.0)        | 6,190 (77.5)                  | 1,797 (22.5)        | 14,181 (100.0)        | 6,862 (48.4)                            | 4,886 (34.5)        | 2,433 (17.2)        |
| 2003        | 7,736 (100.0)        | 6,043 (78.1)                  | 1,694 (21.9)        | 14,402 (100.0)        | 7,269 (50.5)                            | 5,004 (34.7)        | 2,130 (14.8)        |
| 2004        | 7,663 (100.0)        | 6,110 (79.7)                  | 1,553 (20.3)        | 14,894 (100.0)        | 7,625 (51.2)                            | 5,082 (34.1)        | 2,188 (14.7)        |
| 2005        | 7,671 (100.0)        | 6,172 (80.5)                  | 1,499 (19.5)        | 15,185 (100.0)        | 7,917 (52.1)                            | 5,056 (33.3)        | 2,212 (14.6)        |
| 2006        | 7,600 (100.0)        | 6,135 (80.7)                  | 1,466 (19.3)        | 15,551 (100.0)        | 8,204 (52.8)                            | 5,143 (33.1)        | 2,204 (14.2)        |
| 2007        | 7,463 (100.0)        | 6,049 (81.1)                  | 1,413 (18.9)        | 15,970 (100.0)        | 8,620 (54.0)                            | 5,172 (32.4)        | 2,178 (13.6)        |
| 2008        | 7,371 (100.0)        | 5,970 (81.0)                  | 1,401 (19.0)        | 16,206 (100.0)        | 9,007 (55.6)                            | 5,079 (31.3)        | 2,121 (13.1)        |

Source: National Statistics Office, Economically Active Population Survey, 2008.

**Figure 7: Trends of Wage Workers by Employment Type**



Source: National Statistics Office, *Economically Active Population Survey*, 1990–2008.

#### 4. CONCLUSION AND POLITICAL IMPLICATION

We studied the historical background of the Korean EIS and the change of labor policies from the 1998 Asian financial crisis to the current financial crisis. To say that the main source of the different performance in the Korean labor market is due to the expansion of the social welfare system—including the Korean EIS—is arguable. What is certain is that the social welfare system is one of the influential factors that helped overcome the problems from the global financial crisis, and empirical evidence supports this conclusion. From the analysis over the Korean experience of the two financial crises, we can deduce the following.

First, financial stability at the national level is important for employment stabilization. Governments should set rules and standards over financial institutions and large companies to keep the finance sector sound. A country should have control over macroeconomic policies, including interest and foreign exchange rates, to avoid consequent mass unemployment from industrial restructuring forced by a high interest rate policy during recession.

Second, countries need to develop a social welfare system ahead of any economic crisis. If a country faces an economic crisis without a social welfare system in place, quick and effective counter-policies are necessary to help those who lose their jobs and income. Establishing a social welfare system is costly compared to expanding existing systematic welfare programs. Policies also need time to be effective. Therefore countries should construct their own social welfare system during normal business cycles. Programs should depend on a country’s own cultural and economic conditions and should be flexible enough to enable adjustments during times of crisis. Eventual expansion of the coverage of the programs and inclusion of more target-specific programs could help disadvantaged people at the time of crisis.

Third, layoffs should be the last method to use for lowering labor costs even during recession. Flexible working hours and wages, and inside-labor-market could be useful to overcome short-term labor cost problems.

Finally, cooperation and coordination across government departments are important. Policies involving the macroeconomy, labor market, social welfare system, and industry, including industrial relations, should be coordinated.

Even with serious efforts from both the Government of Korea and businesses to avoid mass unemployment during the current crisis, irregular workers—who work under bad conditions and are paid low wages—still risk losing their jobs. These workers are numerous, are not covered by EIS, and do not get any benefits. Income distribution will deteriorate and the number of families living below the poverty level will continually increase if the situation is not resolved. Thus it is necessary to reinforce the labor policies for irregular workers and to include them in the social system.

## **APPENDIX A: PROGRAMS OF THE EMPLOYMENT INSURANCE SYSTEM IN KOREA\***

### **A. Structure of Employment Insurance System Programs**

Korean Employment Insurance programs can be categorized into Employment Stabilization, Vocational Competency Development, Unemployment Benefits, and Childcare Benefits.

### **B. Employment Stabilization and Vocational Competency Development Programs**

Employers of small and medium-sized enterprises, who create jobs by reducing working hours or adopting a new shift work system, are entitled to the subsidy for working hour reduction in small and medium-sized enterprises.

An employer who, although there is a pressing need to adjust employment, retains workers by way of employee leave or training or offers outplacement service, is entitled to the subsidy for employment retention or the subsidy for outplacement service, which is to cover the costs incurred for such retention or service.

The support for employment promotion is intended to promote employment and job security of disadvantaged groups, such as women, the aged, or the long-term unemployed.

An employer who provides vocational competency development training for his or her employees is qualified for the subsidy or loan for vocational competency development training.

An employee who signs up for a training or educational course to develop his or her job skills is entitled to get reimbursed for part of the training or educational expenses.

An unemployed person who takes a training course for re-employment to increase his or her employability is qualified for the subsidy for training expenses and the training allowances.

### **C. Unemployment Benefits**

Unemployment benefits are paid to promote the re-employment of the unemployed by stabilizing their livelihood and giving them access to information on job vacancies.

To be eligible for unemployment benefits, workers should be insured for at least 180 days over the last 18 months while they were in employment. Unemployment benefits are paid for 90 to 240 days (depending on the contribution period and age). The amount of unemployment benefits is 50% of the previous average wage. The lower limit is set at 90% of the minimum wage and the upper limit of daily benefits is W40,000, which is designed to reduce the gap between benefit recipients and ensure fairness in benefit payment. There had been no lower limit on the amount of daily payment at the time the program was first launched. It was first incorporated into the Employment Insurance Act with its revision on 17 September 1998 at 70% of the daily minimum wage and was adjusted upward to 90% on 31 December 1999.

Unemployment benefits can be extended for the following cases:

Training Extended Benefits can be paid for a maximum of 1 year (2 years at the time of inception) to eligible recipients attending job training courses as ordered by the head of an Employment Security Office.

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\* These contents are quoted from the Homepage of the Ministry of Labor, with some editing. Available: [www.molab.go.kr/english/Employment/Employment\\_Insurance\\_Rate.jsp](http://www.molab.go.kr/english/Employment/Employment_Insurance_Rate.jsp)

The Individual Extended Benefits are paid for a period not exceeding 60 days to an eligible recipient who experiences severe financial hardship, and received job placement services from the Employment Security Office on three or more occasions until the prescribed duration of benefits was exhausted.

The Special Extended Benefits can be paid at the discretion of the Minister of Labor for a period not exceeding 60 days. These benefits can be enforced if the unemployment rate exceeds 6% for three consecutive months, or the number of the beneficiaries of job-seeking benefits exceeds 3% of the total number of insured workers for 3 consecutive months, or the number of new benefits claimants exceeds 1% of the number of the total insured workers for 3 consecutive months. The Special Extended Benefits Scheme was enforced from 1 July 1998 until 31 December 1999, but the Individual Extended Benefits and the Training Extended Benefits have not been widely used.

**Table A1: Payment Duration of Unemployment Benefits (Original Regulation)**  
(Days)

| Age                            | Contribution Period |           |           |            |                  |
|--------------------------------|---------------------|-----------|-----------|------------|------------------|
|                                | Shorter than 1 Year | 1–3 Years | 3–5 Years | 5–10 Years | 10 Years or More |
| <b>Below 30</b>                | 90                  | 90        | 120       | 150        | 180              |
| <b>30–49</b>                   | 90                  | 120       | 150       | 180        | 210              |
| <b>50 or above or Disabled</b> | 90                  | 150       | 180       | 210        | 240              |

Source: Homepage of the Republic of Korea's Ministry of Labor. Available: [www.molab.go.kr/english/Employment/Employment\\_Insurance\\_Rate.jsp](http://www.molab.go.kr/english/Employment/Employment_Insurance_Rate.jsp)

## D. Miscellaneous

### Childcare Leave Benefits

Childcare Leave Benefits of W500,000 shall be provided for those who received the childcare leave of 30 days or longer as stipulated in Article 19 of the Equal Employment Act and whose insured period prior to the beginning date of the childcare leave shall be 180 days or more in total every month during the childcare leave.

### Maternity Leaves Benefits

The Maternity Leave Benefits shall be provided for a female worker who is granted the maternity leave (miscarriage and stillbirth leave) in accordance with Article 72 of the Labor Standards Act and whose total insured period before the last day of the maternity leave shall be 180 days or more.

The Maternity Leave Benefits shall be paid in the amount corresponding to the ordinary wage (calculated from the beginning day of the maternity leave) under the Labor Standards Act. The Maternity Leave Benefits of 90 days (up to W4.05 million) shall be provided for a preferentially supported enterprise, and that of 30 days (up to W1.35 million) for other enterprise.

The Miscarriage and Stillbirth Leave Benefits shall be provided based on the same criteria of the Maternity Leave Benefits.

When the ordinary wage of a worker exceeds W1.35 million, the maximum of the amount for 30 days, the worker may claim the excessive amount from the employer. (However, the claim may be made within the extent of the amount of 60 days according to the Labor Standards Act.)

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