

## Evaluation of Korea's Activation Policy and Direction for Development\*

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### Introduction

This paper reviews the significance to Korea of activation policies that have recently been adopted around the world and investigates what conditions are required if such policies are to be implemented effectively in Korea.

Many aspects of Korea's unemployment-benefit system resemble those of an activation policy. Among these, the requirement that unemployment-benefit recipients register as a job-seeker, the use of profiling systems to categorize recipients and individual action plans (IAP), and the obligation of recipients to periodically visit public employment-service agencies and engage in job-seeking activities show Korea to be applying stronger activation policies than other OECD countries. One exception is the fact that unlike other OECD countries, Korea does not have a system that forces recipients to participate in active labor market programs when they receive unemployment benefits for a certain period (OECD, 2007).

Paradoxically, it is difficult to conclude that Korea's unemployment-benefit system does in fact contribute to the activation of unemployed workers. This paper seeks to investigate why such inconsistencies occur as well as the possibility and conditions for successful activation policies in Korea, with a focus on the implementation process and delivery systems for employment services.

The organization of this paper is as follows. First, it examines the concept of activation policies. It is necessary to clarify the concept of activation policies used in this paper because a multidimensional approach that covers not only specific programs but also changes in the ideological goals of a welfare state is possible. Next, the paper looks at the key characteristics of the Korean labor market and their significance from the viewpoint of activation. The paper then discusses the characteristics of key welfare programs and labor market policies that can be viewed in relation to activation policies. Next, it examines how Korea's current

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employment-support services can be evaluated from the viewpoint of activation policies by focusing on employment-service delivery systems. Finally, the results of the study are put together to discuss the possibility and conditions for the success of activation policies in Korea.

## Concept of Activation Policies

Despite its extensive use in recent literature on the employment policies of many European countries, the European Union (EU), and the Organisation for Economic Co-operation and Development (OECD), the concept of activation has yet to be clearly defined (Eichhorst, Kaufmann, Konle-Seidl, & Reinhard, 2008). Therefore, in order to investigate the possibility of developing activation policies in Korea, it is necessary to clarify the definition of the term.

The terms “active labor market policies(ALMPs)” or “workfare policies” become familiar when considering English terms or the goal of the policies. The concept of activation policies is closely related to these two concepts.

Unlike the passive labor market policy of providing benefits to the unemployed, active labor market policies are policies that facilitate re-employment through job placement, vocational training or wage subsidies. In fact, many activation policy programs are active labor market policy programs. The EU (2006) pointed out that activation policies need to be strengthened in order to achieve synergy between the management of unemployment benefits and the provision of active labor market policies.

But while the term “active labor market policy” refers to an individual program, the term “activation policy” transcends programs and implies instead policy goals. According to the OECD (2007:p. 208), an “activation strategy” “encourage[s] job seekers to become more active in their efforts to find work and/or improve their employability.”

The goal of activation policies leads to the question of the relationship between workfare policies and activation policies. Whereas the main idea of workfare policies is to “impose social benefit recipients with the capability to work the obligation to participate in work-related activities” (Hwang. et al., 2002), the approach and key points of activation policies share many common factors with workfare policies.

Pascual (2007) argued that activation policies are new interventionist strategies of welfare states that bear the following characteristics: An individualist approach to solving the problem by transforming the behavior of individuals through policies tailored to individuals, emphasis on employment, and, as the core principle, contractualism based on mutual obligations of society

and the individual. Such characteristics are shared with workfare policies.<sup>1</sup> Activation policies are also very similar to workfare policies in that their main idea is to provide various programs so that recipients capable of working may find jobs.

Despite their similarities, activation policies are different from workfare policies in terms of their respective targets and the comprehensiveness of their respective policy measures. First, whereas workfare policies target social-assistance recipients—AFDC (Aid to Families with Dependent Children, Temporary Assistance for Needy Families after 1996) in the case of the United States, and unemployment-assistance recipients in Europe—activation policies target all benefit recipients within the working-age population. Therefore, the target for activation policies includes unemployment-benefit recipients based on unemployment insurance as well as incapacity/sickness-benefit recipients who are “regarded to be incapable of working.” In some countries, incapacity- or sickness-benefit recipients become the main targets of activation policies, and this is because working-age benefit recipients in different countries are protected by different systems. Figure 1 shows the ratios of recipients of various benefit systems in the working-age population of OECD nations.

According to Figure 1, in the United Kingdom and United States, the ratio of recipients of unemployment-related benefits is very low, whereas the ratio of recipients of incapacity- or sickness-related benefits is very high. On the other hand, in Germany, the ratio of recipients of unemployment-related benefits is higher than in other countries, whereas the ratio of recipients of incapacity- or sickness-related benefits is lower. Meanwhile, France has a very high ratio of recipients of old-age-related benefits compared with other countries.

Such differences imply that the focus of activation policies can differ depending on the beneficiaries or targets. Moreover, Eichhorst et al. (2008) pointed out that the expansion of the scope of targets for activation policies is partly due to recipients’ transferral to other systems when early activation policies focused on specific policies such as unemployment benefits or social assistance.<sup>2</sup>

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<sup>1</sup> Although Pascual (2007) emphasized the difference between workfare policies and activation policies, which symbolizes comprehensive change in the policy paradigm of the welfare state, by focusing on the punitive nature of workfare policies. Workfare policies can also be defined as a comprehensive approach, as seen in the use of the term Schumpeterian Workfare State (Hwang et al., 2002).

<sup>2</sup> The early activation policies that Eichhorst et al. (2008) referred to here can be regarded as workfare policies.

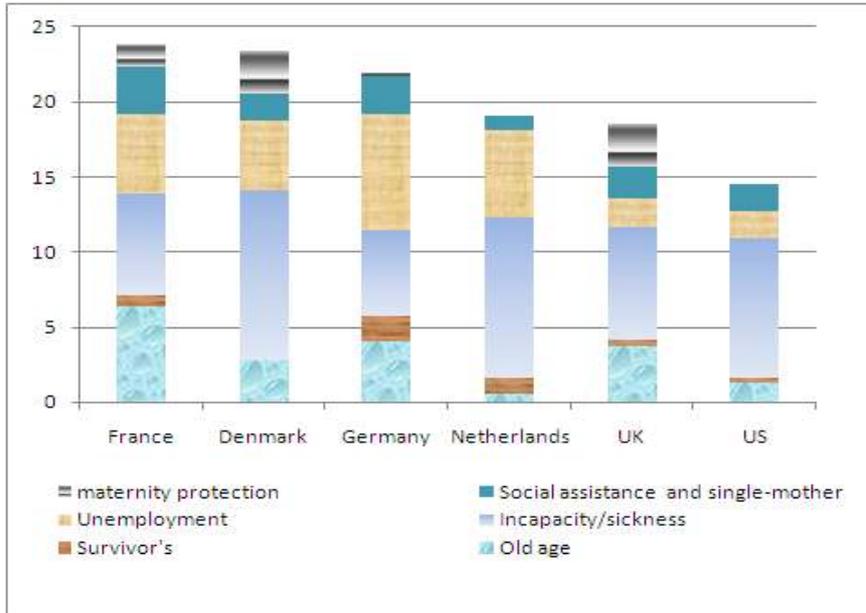


Figure 1. Ratio of social benefit recipients in the working age population, 2004. Erlinghagen and Knuth (2008).

In addition, the scope of activation policies includes work-related activities in which recipients must participate in return for benefits, as well as comprehensive policies for changing the behavior of job-seekers.

The OECD (2008) pointed out (a) early intervention by the Public Employment Service (PES) in the unemployment spell and a high contact density between job-seekers and employment counsellors, (b) regular reporting and monitoring of work availability and job-search action, (c) direct referrals of unemployed clients to vacant jobs, (d) the setting-up of back-to-work agreements or individual action plans, and (e) referral to active labor market programs to prevent loss of motivation, skills, and employability as a result of longer-term joblessness.

Eichhorst et al. (2008) also included “make work pay” policies and social services that support employment. Table 1 shows components of activation policies suggested by Eichhorst et al.

Table 1. *The Two Sides of Activation*

Demanding	Enabling
1. Duration and level of benefits	1. “Classical” active labor market policies
. Lowering of insurance or assistance benefits . Reduction of maximum benefit duration	. Job search assistance and counseling . Job-related training schemes . Start-up grants . Subsidized employment . Mobility grants
2. Stricter availability criteria and sanctioning clauses	2. Fiscal incentives/make work pay

. More restrictive definition of suitable job offers . Punitive sanctions for noncompliance	. Earnings disregard clauses . Wage supplements granted in case of taking up low-pay jobs (“in-work benefits”)
3. Individual activity requirements	3. Social services
. Integration contracts . Monitoring of individual job search effort . Mandatory participation in active labor market policies schemes (workfare)	. Case management, personalized support . Psychological/social assistance . Childcare support, etc.

*Note.* From Eichhorst et al. (2008), p. 6.

This paper uses the concept of activation policies to mean comprehensive policies that target a wide range of recipients as described by Eichhorst et al. (2008). This is partly because of the practical necessity to examine as many policies and their probability of success in order to investigate the possibility of activation policies in Korea, where social welfare programs have not sufficiently developed. Meanwhile, this paper does not accept the approach of Pascual (2007), although it is somewhat appropriate, that activation policies signify a change in the intervention paradigm of the welfare state, because it is difficult to apply to Korea’s case.<sup>3</sup>

Therefore, this paper broadly defines activation policies as *policies that encompass changes in benefit eligibility criteria, active labor market policies, make work pay policies, and social service policies to facilitate the re-employment of benefit recipients that are capable of working and their promotion to better jobs.* Moreover, because the target group becomes too narrow if this concept is applied to Korea, where welfare programs are not fully developed, and the target for the policies or studies are limited to benefit those capable of working, *people who do not currently receive benefits but require labor market policies for employment or employment at better jobs* are viewed as potential targets for activation policies.

While examination of labor market policies will include not only those for benefit recipients, but those groups experiencing difficulties in getting a job in the labor market as well.

## Characteristics of Korea’s Labor Market and the Implications for Activation Policies

Before looking at the welfare policies and labor market policies that form the basis of activation policies, this part examines the characteristics of Korea’s labor market in order to elicit

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<sup>3</sup> Just as with workfare policies, the policies that emerge may appear similar, but the direction of the policy development is likely to be different because the quantitative expansion of Korea’s welfare systems may also be a process of the spread of the activation policies.

implications for activation policies; the labor market is the policy area that activation policies are targeted at.

Figure 2 shows unemployment and employment rates, both key labor market indicators, over the past 20 years together with real economic growth during the same period. It is a simple indicator, but a few notable characteristics can be found in it.

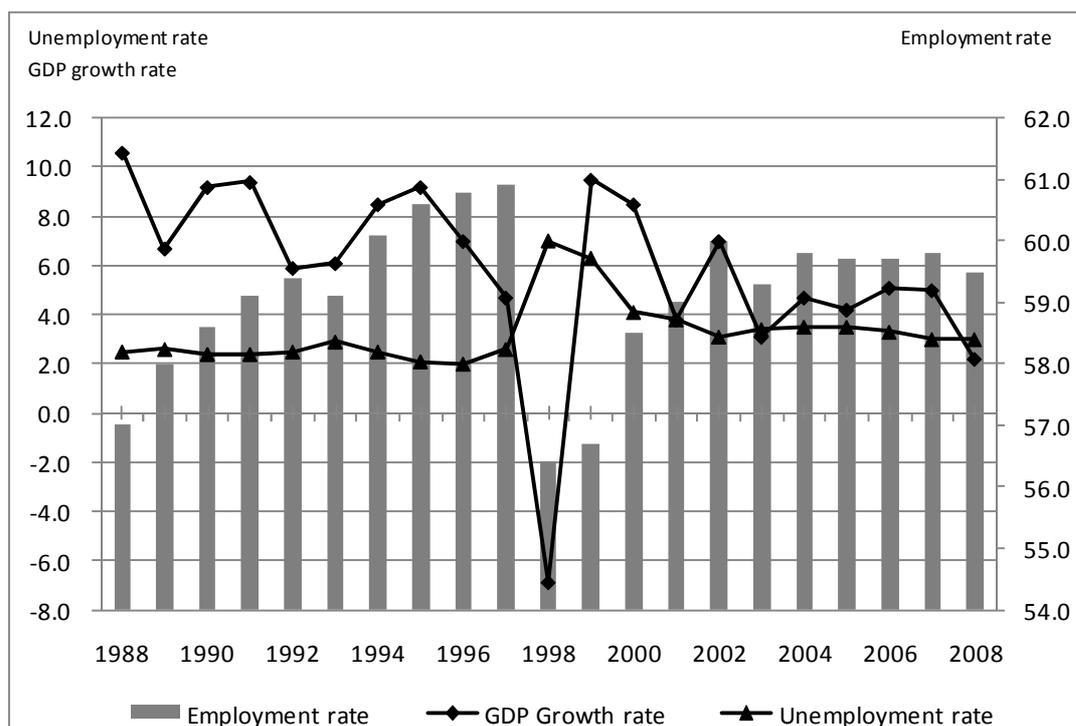


Figure 2. Unemployment and employment rates, economic growth, 1988–2008.

First, the employment rate, after increasing during the first 10 of the past 20 years, remained stagnant in the following 10 years. Employment temporarily dropped immediately after the Asian financial crisis in the late 1990s and rose again, but has not still recovered to precrisis levels. Second, the unemployment rate remains very low, and is not closely related to economic growth. Before the Asian financial crisis, unemployment hovered at 2%, and rose slightly to 3% after the crisis, but when compared with the economic cycle, the change in unemployment rates is not significant, and does not necessarily move in the opposite direction. This implies that unemployment may not be an appropriate indicator of labor market situations.

The characteristics of Korea’s employment and unemployment rates can be more clearly seen when compared with those of other countries. Table 2 compares the overall rates of employment and unemployment, male and female employment, and long-term unemployment

and youth unemployment of Korea to those for the United Kingdom, Germany, Denmark, Sweden, and to the OECD average.

Table 2. *Comparison of Korea's Employment Indicators With European Countries, Ages 15–64, 2007*

	Korea	UK	Germany	Denmark	Sweden	OECD average
employment rate	63.9	72.3	68.9	77.3	75.7	66.6
male employment rate	74.7	78.4	74.8	81.3	78.0	75.9
female employment rate	53.2	66.3	62.9	73.3	73.2	57.4
unemployment rate	3.4	5.3	8.8	3.6	6.2	5.9
youth unemployment (ages 15–24)	8.8	14.4	12.4	7.2	18.9	12.1
long-term unemployment (6 months)	11.7	41.5	71.3	29.5	27.3	42.6
long-term unemployment (1 year)	0.6	24.7	56.6	18.2	13.0	29.3

*Note.* From OECD Employment Outlook (2008).

Together, Table 2 and Figure 2 convey the general condition of Korea's labor market. First, Korea's employment and unemployment rates are lower than those of the other countries. Although employment and unemployment rates are generally expected to be negatively related, in Korea "low employment" and "low unemployment" coexist. In addition, the employment rate remained stagnant during the 10-year period, although it should have increased more when considering that of Western welfare states. Why low employment and unemployment rates coexist is a topic for another study, but from the perspective of activation policies, the phenomenon indicates that the potential target group for the policy in Korea must include not only the unemployed, but the economically inactive population as well.<sup>4</sup>

The second problem with the low unemployment rate is that it occurs mostly in women. Whereas male employment is just 1.2 percentage points lower than the OECD average, female employment is 4.2 percentage points lower. In addition, whereas the gap in male employment rates with the comparison-group countries ranges from 0.1 percentage points to 6.6 percentage points, the gap in female employment rates ranges from 9.7 percentage points to 20.1 percentage points. Therefore, activation are related to facilitating female employment.

The argument that the potential target group of activation policies should be different from that in other countries is also backed up by the rates of youth unemployment and long-term unemployment. In many countries, the target groups of activation policies are people who have remained unemployed for long periods and unemployed youths. Although it will be

<sup>4</sup> The term "potential" targets is used here because activation policies are policies that target benefit recipients.

explained again while comparing policies for each target group, policies that intervene in the early stages of youth unemployment are usually applied to prevent long-term unemployment. But the youth unemployment rate is quite low in Korea compared with most OECD countries, except for Denmark.

But despite low unemployment, the problem of youths remaining in the economically inactive population cannot be overlooked (Lee et al., 2004). Moreover, given that the main targets for activation policies in countries are the long-term unemployed and that long-term unemployment (over 1 year) in Korea is a mere 0.6%, there are few targets for activation policies in Korea. But the issue can be seen from a different perspective if other characteristics of Korea's labor market not shown in Table 2 are considered.

The other characteristics of the Korean labor market this paper takes note of is that Korea's labor market is very unstable, and that the size of the groups that lie in the gray area between "unemployed" and economically inactive" is very large. One reason long-term unemployment is not high is that many irregular workers move between employment and the out-of-labor force.<sup>5</sup>

This paper made use of the employment insurance database to examine the high flexibility of Korea's labor market. As of December 31, 2007, there were 9,063,301 insured permanent workers registered in the employment insurance database. During 2007, 4,061,173 lost their insured status, and 4,642,261 became insured. The sum of these two figures is close to the total number of insured permanent workers. Table 3 shows the number of people in the insurance database who continued employment at the same job in 2007. According to the data, 53.3% of permanent workers who were registered in the employment insurance database remained at their jobs. This shows that a low level of job security prevails among workers even during a short term of only 1 year.

Table 3. *Ratio of Continuously Employed Workers Among the Insured Workers Covered by Employment Insurance*

(Unit: 1,000 people, %)

Employment insurance DB (permanent workers, 2007)	
number of people covered by employment insurance at least one day(a)	10,764
number of people with continuing employment at the same job during the whole 1 year (b)	5,739
number of people with multiple job/ non-employment experience	5,025

<sup>5</sup> For such characteristics of the labor market, refer to Hwang (2000a).

job maintenance rate (b/a)*100	53.3
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*Note.* From Korea Employment Information Service, calculated from employment insurance database raw data.

Not only is Korea's labor market very flexible, but the line between unemployment and economic inactivity is ambiguous as well. Table 4 shows the monthly ratio of people by employment type who switched to unemployment among those who moved to the nonemployment (unemployment and economic inactivity) group in economically active population surveys from 2003 to the first quarter of 2009.

Table 4. *Monthly Ratio of Movement to Unemployment Among Total Movement to Nonemployment*

(Unit: 1,000 people, %)

		Permanent worker	Temporary worker	Daily worker	Employer	Self-employed	Unpaid family worker	Total
Proportion of movement into unemployment (%)	2003	41.2	31.4	19.8	27.1	11.6	3.4	23.0
	2004	42.8	32.5	22.2	29.2	16.0	1.9	24.7
	2005	44.9	31.1	22.2	21.6	13.3	2.3	24.0
	2006	40.8	29.6	20.3	28.0	12.1	2.4	22.7
	2007	44.4	28.9	19.4	19.1	10.1	3.3	22.7
	2008	40.2	31.5	20.4	28.5	13.0	2.4	23.9
	2009	39.3	23.6	22.0	16.8	11.2	1.9	22.6

*Note.* Calculated from raw data from the Economically Active Population Survey.

Since 2003, the ratio of people who switched to unemployment among those whose statuses changed from employment to nonemployment was less than 25% each month. The movement to unemployment differs depending on employment type, the ratio being higher among wage workers than the self-employed, whereas people in groups with greater job security were more likely to move to unemployment. But despite the differences among groups by working status, even in permanent workers, only 39.3% moved to unemployment in the first quarter of 2009 after losing their jobs.

It is best if movement within the labor market is concentrated upward. But Korea's percentage of low-wage jobs is higher than the OECD average, and not only is the probability of losing jobs high, but also a high proportion of those who lose their jobs move toward economic inactivity. On the other hand, the probability of moving upward within the labor market is lower than for other OECD countries (Lee, 2008a).

Therefore, if the two main goals of activation policies are defined as first, employment of the nonemployed, and second, upward movement of people from lower-level jobs to high-paying permanent jobs (Eichhorst et al., 2008), it can be said that the target group in Korea for "potential" activation policies to achieve the second goal is very large.

## Employment Support Policies for the Unemployed and Vulnerable Groups in the Labor Market

If the target group for activation policies is seen as working-age people who receive benefits, in Korea that group would be unemployment-benefit recipients of the employment insurance system (hereafter, EIS) and National Basic Livelihood Security System (hereafter, NBLIS) recipients who are of working age. In order to receive unemployment benefits, people must meet various requirements related to job-seeking, and NBLIS recipients capable of working must be employed or participate in self-support programs as conditional recipients. Therefore, these two systems can be seen as operating according to the principles of activation. In particular, self-support programs for the NBLIS can be seen as workfare policies that target public-assistance recipients.

Although they do not take the form of cash benefits, many active labor market policies to compensate for the wide gap between the NBLIS and the EIS are currently in operation. They include vocational training to enhance skills; the employment-stabilization program, a wage-subsidy system for facilitating employment of vulnerable groups; and policies for creating social jobs. In 2008, the government introduced an EITC (earned income tax credit) type system called the Work Promotion Tax Credit as a make work pay system. Recipients will receive their first payments in 2009. In addition, the “Employment Facilitation Package” program targeting low-income groups was introduced in 2009 as part of efforts to abolish blind spots.

This part first examines the unemployment-benefit system, which falls under the scope of conventional activation policies; and the employment insurance system and NBLIS, which integrate active labor market policies; and then investigates the implications of other policies, such as job-creation policies, from the perspective of activation policies.

### *Employment Insurance System*

Introduced in 1995, the employment insurance system consists of the unemployment-benefit program, a passive labor market policy that provides cash benefits to the unemployed, and job-skill development and employment-stabilization programs, which are active labor market policies. A motherhood protection program was included in 2002.

*Unemployment benefits.* The unemployment-benefit system provides job-seeking benefits to unemployed persons who meet contributory requirements, demonstrate good cause for their job loss, and meet job-seeking activity requirements. The contributory requirements are that the applicant has paid his insurance premium for more than 180 days in the past 18 months, that the

applicant must not have left his or her job out of unjustified personal reasons or misconduct, in other commonly used terms, when the loss has been caused involuntarily. The job-seeking activity requirements are that the applicant must be capable of working and actively engage in job-seeking activities. To fulfill this requirement, benefit recipients should register at the public employment service agency known as the Employment Support Center in Korea, visit the center regularly, and report their job-seeking activities.

Applicants who have fulfilled these requirements are provided with unemployment benefits as specified in Table 5.

Table 5. *Prescribed Days of Unemployment Benefits*

		before 2000.1.1					after 2000.1.1				
		insured period					insured period				
		less than 1 year <sup>1)</sup>	less than 3 years	less than 5 years	less than 10 years	more than 10 years	less than 1 year	less than 3 years	less than 5 years	less than 10 years	more than 10 years
age	below 25		30	60	90	120					
	below 30	60	60	90	120	150	90	90	120	150	180
	below 50	60	90	120	150	180	90	120	150	180	210
	over 50 <sup>2)</sup>	60	120	150	180	210	90	150	180	210	240

*Note.* Shaded area on the left shows the number of days at the introduction of system (1995.7.1). After March 1 of 1998 (during the Asian financial crisis) the lower 3 rows on the left were applied.

1) More than the minimum insured period of 180 days.

2) Including the disabled.

Although the employment insurance system was introduced in 1995, it was after the Asian financial crisis in the late 1990s that it came into full use. The number of unemployment-benefit recipients saw a sharp increase during the period of high unemployment before falling again, and since 2002, it has continued to grow. Figure 3 shows the number of unemployment-benefit recipients and the ratio of job-seeking benefit recipients to the unemployed. The increase rate is very high in recent days. In 2007, the number of unemployment-benefit recipients reached 244,000, and the ratio of job-seeking benefit recipients to the total unemployed surpassed 30%.

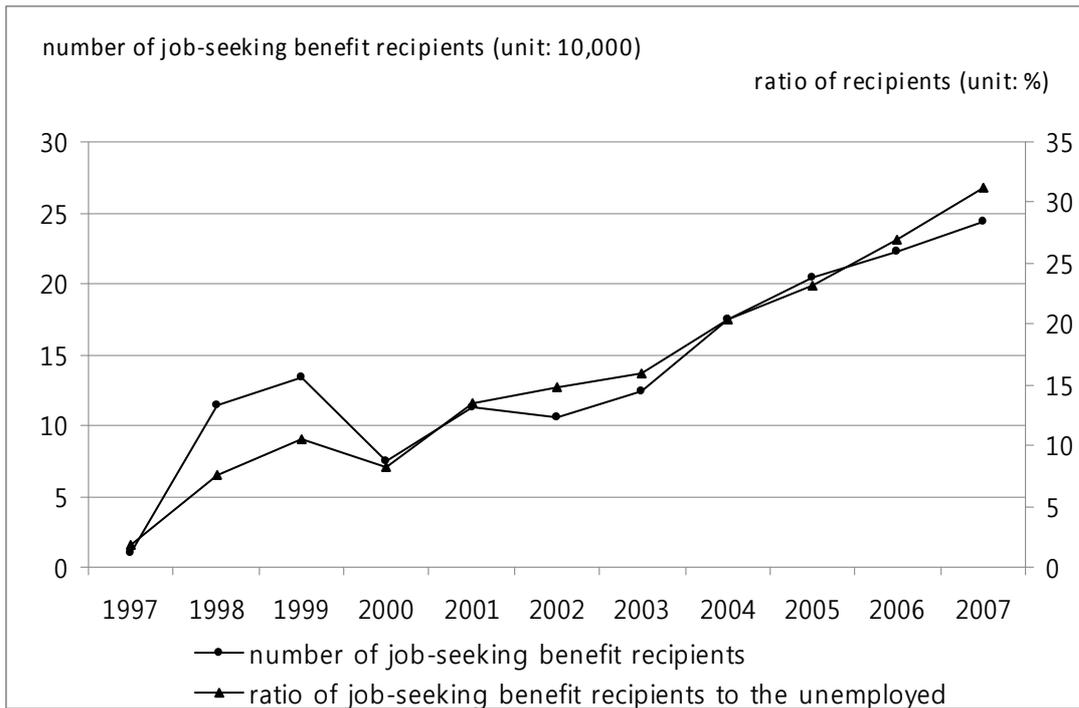


Figure 3. The number of job-seeking benefit recipients and the ratio of job-seeking benefit recipients among the unemployed. From Korea Employment Information Service, *Employment Insurance Statistics Annual Report 2007*.

One of the reasons for the increase in the number of job-seeking benefit recipients and in the job-seeking benefit recipients ratio is the continuous rise in the number of workers covered by employment insurance. As of August 2008, 56.8% of all wage workers were covered by employment insurance. But even if a worker has been covered by employment insurance, he or she must meet contributory requirements, job-loss criteria, and job-seeking activity requirements in order to receive unemployment benefits.

As an index of unemployment-benefit receipt rates, the ratio of job-seeking benefit recipients to the unemployed in Figure 3 is commonly used in Korea, but this index has its limitations. This is because the size of the unemployed population does not properly reflect unemployment risks, as pointed out previously.<sup>6</sup> Therefore, this study seeks to analyze the level of protection provided by unemployment benefits by using data from the *Korea Labor and Income Panel Survey* (hereafter KLIPS) to calculate the actual unemployment-benefit receipt rate of wage workers who lose their jobs.

Table 6 shows the percentage of unemployed wage workers who received unemployment benefits calculated from the KLIPS data. The percentage of wage workers receiving

<sup>6</sup> Unemployment-benefit receipt rates, defined as the ratio of job-seeking benefit recipients to the unemployed, were 50.5% as of March 2009, higher than in the United States and Canada. This is unexpected given that Korea has a high percentage of self-employed workers and low employment insurance coverage, and that benefits are not provided to workers who have voluntarily left their jobs.

unemployment benefits upon loss of employment doubled from 2002, but it remained at 10.3% in 2007. Limiting the scope to wage workers covered by employment insurance, the unemployment-benefit receipt rate was 22.5% in 2007 (Lee, 2008c).

Table. *Unemployment Benefit Receipt Rate Trends, 2002–2007*

	(Unit: %)					
	2002	2003	2004	2005	2006	2007
Wage workers	4.4	3.6	6.5	9.1	9.4	10.3
Insured workers by the employment insurance	14.2	10.8	16.7	23.0	21.8	22.5

*Note.* From Byung-Hee Lee (2008c) based on Korea Labor Institute, KLIPS 5th–10th round.

Lee (2008c) lists the four main reasons previous wage workers may be unable to receive unemployment benefits upon loss of their jobs. The first is nonapplication for employment insurance. The second is failure to satisfy the 180-day minimum insured period within the past 18 months. The third is that the reason for job loss is not justifiable, such as “shutdown/closing of workplace,” “early retirement or layoff,” “end of temporary or seasonal job,” or “lack of jobs or bad business.” The fourth is failure to apply for benefits even though the person meets the above-mentioned qualifications.

According to Table 7, the biggest reason unemployed people were unable to receive unemployment benefits was that they were not covered by employment insurance. It is necessary to increase employment insurance application rates in order to enable employment policies, including employment-support services, to be delivered to vulnerable groups.

Table. *Wage Workers’ Reasons for Failure to Receive Unemployment Benefits by Prevalence*

	(Unit: %)											
	2002		2003		2004		2005		2006		2007	
Not covered	68.8		66.7		61.0		60.4		56.7		54.0	
minimum insured	3.6	(11.4)	4.5	(13.4)	4.8	(12.4)	4.1	(10.5)	5.8	(13.3)	4.8	(13.4)
failure to meet good cover of job loss	18.0	(57.5)	19.2	(57.6)	20.8	(53.4)	18.8	(47.4)	21.6	(50.0)	23.5	(51.1)
Not applied to benefits	5.3	(16.9)	6.1	(18.3)	6.8	(17.5)	7.6	(19.2)	6.4	(14.9)	7.4	(16.0)
Received	4.4	(14.2)	3.6	(10.8)	6.5	(16.7)	9.1	(23.0)	9.4	(21.8)	10.3	(22.5)

*Note.* Parenthesized figures represent percentages of unemployed people who subscribe to employment insurance. From Byung-Hee Lee (2008c) based on Korea Labor Institute, KLIPS 5th–10th year.

Meanwhile, the biggest reason why covered workers did not receive unemployment benefits was unjust reasons for job loss. Because long-term unemployment despite engaging in job-seeking activities following a voluntary job loss can be seen as the same as an involuntary

loss, a plan to defer benefit payments for certain periods in such cases instead of completely depriving eligibility should be considered. The fact that enforcement of restrictions based on the reason for job loss is strict while other requirements—contribution and job-seeking activity requirements—are largely similar to those of other countries supports the need to implement such improvements. In Korea, involuntary job loss leads to complete disqualification, but in most other countries, with some exceptions, such cases are dealt with by deferring benefit payments for specified periods (Hwang, 2005).

Another reason is the fact that the duration of unemployment-benefit payment is relatively short compared with other countries except for the United States and the United Kingdom. Furthermore, there is no unemployment-assistance system for the self-employed, for youths, or for new entrants into the labor market, or for those who have exhausted their unemployment benefits.

*Vocational training.*<sup>7</sup> The number of vocational training programs for groups other than unemployment-benefit or NBS benefit recipients experiencing difficulty in seeking employment greatly outnumbers those for benefit recipients. In addition, a significant portion of the budget for vocational training comes from the Employment Insurance Fund. Vocational training programs funded by the general account target vulnerable groups not covered by employment insurance. Such programs will also be examined in this section.

Table 8 shows statistics from the results of vocational training in 2007. According to Table 8, vocational training for the unemployed who worked at employment-insurance-applied workplaces was delivered to about 54,000 people with a budget of 150.4 billion won. Meanwhile, vocational training for vulnerable groups unprotected by employment insurance was delivered to about 28,000 people with a budget of 65.8 billion won. This means that over two-thirds of training for job-seekers and vulnerable groups was carried out through the employment insurance system.

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<sup>7</sup> For evaluation of vocational training, this paper referred mainly to that provided by Lee (2008b).

Table 8. *Vocational Training for the Unemployed and Vulnerable Groups*

(Unit: million won, %, # of people)

	Budget			Training participation				Employment			
	Budget (A)	Executed amount (B)	Execution rate	# of trainees	Completed (C)	Mid-course disqualification	Mid-course disqualification rate	Employment (D)	Early employment (E)	Employment after finishing course	Re-employment rate
Insured workers				53,622	26,676	6,028	11.2	18,078	5,805	12,273	55.7
Vulnerable groups											
Newly unemployed	46,439	44,070	94.9	17,598	8,829	1,945	11.1	5,578	1,491	4,087	54.1
Regional unemployed	7,005	7,005	100.0	3,965	2,174	448	11.3	1,230	251	979	50.7
Farmers /fishermen	1,190	1,190	100.0	380	243	27	7.1	113	17	96	43.5
Female household head	2,014	1,906	94.6	1,034	699	95	9.2	324	52	272	43.1
Small business Owner	2,555	2,000	78.3	2,536	1,584	400	15.8	135	41	94	8.3
North Korean defector	4,363	3,721	85.3	894	398	217	24.3	113	32	81	26.3
Self-support program subjects	8,822	5,947	67.4	1,501	647	196	13.1	212	57	155	30.1
Total	72,388	65,839	91.0	27,908	14,574	3,328	11.9	7,705	1,941	5,764	46.7

*Note.* Statistics for vocational training for insured people are from 2006, and statistics for vocational training for vulnerable groups are from 2007. Because the number for early employment is not included in the number of course completions, the sum of the number of course completions and early employment was used as the denominator when calculating the employment rate. From Byung-Hee Lee (2008b) based on National Assembly Budget Office, *Analysis on Fiscal Year 2007 Settlement of Accounts III*, 2008; Ministry of Labor, *Employment Insurance White Paper 2007*.

With regard to vocational training, the following problems have been pointed out. First, the rate of mid-course disqualification is very high. Mid-course disqualification rates in vocational training programs for the unemployed exceed 11%, reaching 24.5% in 2006 when including the number of people who found employment before completing the program. The reasons for mid-course disqualification vary from having to make a living to dissatisfaction with the quality of the course, but one key factor is the fact that most people participate in the programs through invitation from the training agencies without receiving any prior counseling or information about the training.

Second, the training courses have little practical value. Given that information on the quality or results of the training is insufficient and the lack of a system to reflect actual demand,

training agencies display rent-seeking behavior by relying on governmental support instead of trying to meet demands and opening courses that are likely to attract more people. In 2006, 74.4% of courses were focused in areas such as services, IT, and office management.

As a result, training courses continue to be weak in terms of their ability to facilitate the re-employment of job-seekers under the initiation of the Employment Support Center and swayed by the training-course providers. The job skill development account system is one such system introduced to solve this problem and strengthen demand-side initiatives.

The job skill development account system was piloted on people who were out of work or newly unemployed from September to December 2008. This system allows workers to select training agencies for themselves, to receive financial support for training courses, to engage in self-initiated training, and to manage their training schedules through special accounts set with individual withdrawal limits. But trainees can already select training agencies under existing vocational training programs for the unemployed, and this has not led to self-initiated training. Therefore, it is unlikely that a switch to the job skill development account system will lead to achieving the goal of facilitating re-employment. Under the current vocational training system for the unemployed, those who have been covered by employment insurance can select training courses whenever they wish, whereas those who have not been covered can also select training courses on a first-come, first-served basis as long as they meet certain requirements. Therefore, the key to the issue is the lack of an appropriate trainee-selection process based on systematic provision of information about the quality and results of the training and counseling activities. In order for vocational training policies to be effective, the Employment Support Center must provide services that fit the characteristics of each trainee through case management. Therefore, if vocational training is to achieve good results, strengthening the competency of Employment Support Center becomes more important than changing the method of operating vocational training.

*Employment stabilization programs for facilitating re-employment of vulnerable groups.* The employment stabilization programs are wage subsidies. The employment stabilization programs can be divided into programs to support the continuous employment of existing workers during economic recessions and programs to facilitate employment.<sup>8</sup> Among these, programs related to re-employment and support for the unemployed are those that facilitate the re-employment of vulnerable groups. The types of programs for facilitating the re-employment of vulnerable

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<sup>8</sup> Programs to support continuous employment of existing workers can also be seen as a part of the social safety net for the unemployed, but this paper focuses on re-employment facilitation programs in the employment stabilization programs.

groups that are currently in operation and their results over the past 10 years are displayed in Table 9.

It can be seen from Table 9 that various types of wage-subsidy programs have operated depending on policy goals and targets. There are also programs that were temporarily implemented due to economic conditions as well as programs that were newly introduced during the system's 10 years of operation since 1995.

Table 9. *Employment Stabilization Support for Vulnerable Groups*

	(Unit: # of people)									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Employment incentive	5,181	101,359	62,661	30,272	3,488	15				
Re-employment incentive		268	746	394	270	408	175	1,832	2,254	2,084
Job transfer incentive			-	679	7,408	2,917	2,696	1,440	1,845	1,875
Elderly employment facilitation	115,351	190,207	226,841	253,600	272,394	310,085	265,870	216,823	226,619	255,803
Female employment facilitation	4,600	2,418	3,167	4,177	3,433	4,630	5,292	4,791	6,445	7,761
New employment facilitation		128	799	6,257	13,558	9,258	12,129	149,026	310,544	401,877
Employment of middle-aged workers who completed training courses						313	910	1,305	1,764	3,437
Continued employment of worker retired due to old age							249	1,718	2,502	3,580
Wage peak preservative allowance									501	1,360
Support for continued employment after child delivery									17	291
Total	125,132	294,380	294,214	295,379	300,551	327,626	287,321	376,935	552,491	678,068

Note. From *Korea Employment Information Service (2008), Employment Insurance Statistics Annual Report 2007*

Employment incentives, re-employment incentives, and job-transfer incentives are intended to promote the re-employment of unemployed workers in order to facilitate the adjustment of employment, whereas the other programs following elderly employment facilitation in Table 9 are intended to facilitate the re-employment or continued employment of vulnerable groups. The programs introduced after 2003 focus on supporting the employment of women as well as middle-aged and older workers.

With regard to the effects of the wage-subsidy system as an active labor market policy, there has been much theoretical discussion about deadweight loss, the substitution effect, and

the displacement effect; and several empirical studies have been conducted (Lee & Shin, 2003; Phang et al., 2007). Meanwhile, it is difficult to deny that the wage-subsidy program has been maintained and expanded because of its social justification of facilitating the re-employment of vulnerable groups despite continuously emerging doubts about the program's effectiveness and efficiency.

From the perspective of this paper's topic of activation policies, the focus of discussion should be whether the wage-subsidy program contributed to facilitating re-employment of vulnerable groups that "require support." Aside from re-employment incentives or multiple elderly employment incentives, and systems for supporting continued employment, in the case of job-transfer or new-employment facilitation systems, the various programs within the employment-stabilization programs currently require registration at the Employment Support Centers and certain periods of joblessness as well as employment through job placement or services provided by the Employment Service Centers.

Despite such institutional requirements, in reality, many employers perfunctorily register workers whom they have already decided to recruit for job-seeking, or seek workers applicable to the employment-stabilization program in the first place. Meanwhile, Employment Service Centers are not able to identify those job-seekers who are in need of support and who make good use of various programs as a means to facilitate their re-employment. Therefore, it can be said that employment-stabilization programs have failed to successfully meet their original purposes and as a result do not effectively contribute to activating the vulnerable groups.

#### *The Self-Support Program of the National Basic Livelihood Security System*

The Self-Support Program of the NBLS is one of Korea's most distinguished workfare policies and is a core component of its activation policies. Public assistance changed from the Public Assistance System, which provided no cash benefits to people who were able to work, to the NBLS, which provided subsistence benefits to those able to work in 2000. This transition can be regarded as a paradigm shift in the Korean welfare system. The transition was made with a sort of compromise of introducing a conditional benefit system for people able to work (Hwang, 2004a). Conditional benefits means that recipients of the NBLS who are able to work receive benefits if they participate in the Self-Support Program. Therefore, the NBLS is a typical form of a typical workfare policy.

As of the end of December 2007, among the 1.55 million NBLS recipients, only 2.2% or some 35,000 were conditional recipients who fell under the scope of this form of workfare policy. Narrowing this group down, only 11.6% of the 302,500 people able to work were

conditional recipients. The reason the percentage of conditional recipients is so low is that 80% of NBLs recipients were unable to work, whereas over half of the capable people were employed, or were exempted or deferred from the requirements because of household conditions and other reasons.

Conditional recipients are divided into employable recipients participating in the Self-Support Programs of the Ministry of Labor (MOL) or non-employable recipients participating in the Self-Support Programs of the Ministry of Health, Welfare and Family Affairs (MOHW). The majority of conditional recipients are non-employable recipients. The MOL's programs are composed of typical labor market policy programs such as placement services and job training, whereas the MOHW's programs are mostly self-support work. Most self-support work is conducted by private service contractors, the so-called Self-Support Centers, which are civic nonprofit organizations. The Self-Support work is a type of policy to enable job creation in the public sector, aiming to achieve self-support by starting a self-support community, which is a small joint business owned and managed by the recipients.

On the other hand, in addition to a narrow range of workfare policy subjects, some 22,500 participants from the quasi-poor group also voluntarily participate in the Self-Support Program. Because most of these people participate in self-support work, the program possesses the characteristics of a public job-creation program for the poor, who have difficulty obtaining jobs in the private labor market.

However, evaluations of the Self-Support Program are mostly negative in terms of whether it fulfills its goal of supporting recipients as they work toward self-reliance. Some recipients have tended to adapt to the NBLs. Table 10 shows that in recent years, the number of various forms of employed people among recipients participating in economic activities has declined, whereas the number of unemployed people has increased. Statistics based on working capabilities show that as of October 2001, 63.2% of people able to work were employed (Hwang, 2004a), whereas Figure 4 shows that 50.2% were employed.

The fact that the Self-Support Program is ineffective in facilitating employment and lowering poverty stems not only from the problems of the program itself but also from systematic factors including the design of the NBLs. First, although beneficiaries of the NBLs receive subsistence, education, medical, residence, and other various benefits, such support is cut once they leave the NBLs. Without adequate supplemental systems to prevent people from staying in the final safety net, the NBLs, and to help them leave it, it is difficult to achieve the expected results.

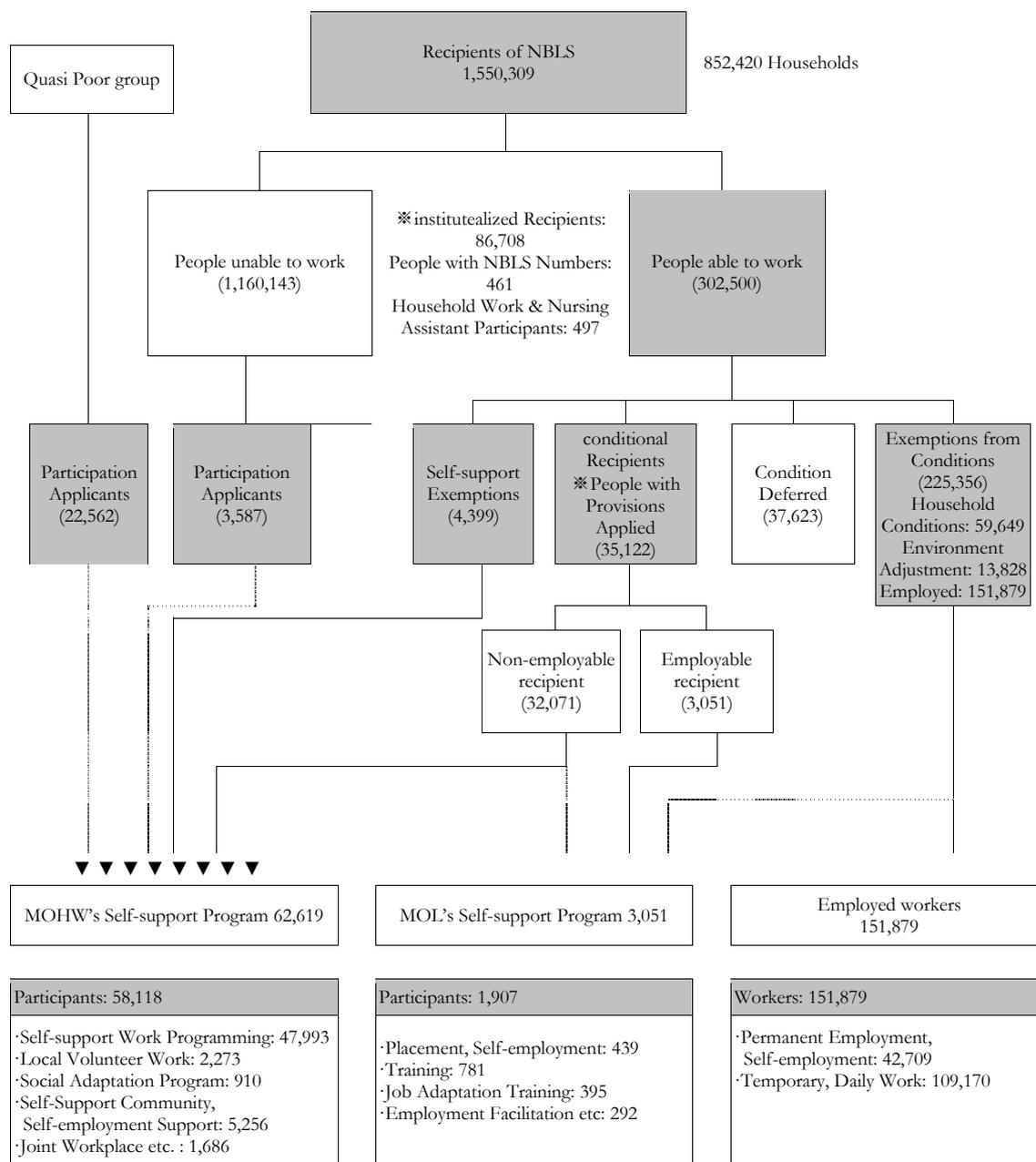


Figure 4. Number of self-support program subjects and participation overview (December 2008). — = Mandatory participation; ..... = Voluntary participation. From MOHW (2009).

Second, financial incentives to induce self-reliance through work are not provided. Since the total income from employment in the labor market is deducted from benefits when benefit amounts are calculated, the incentive to obtain employment in the labor market is reduced. This stems from budget constraints as well as the difficulty of identifying the actual amount of income earned in the labor market because many employed recipients work in the informal sector. Therefore, from another point of view, the key role of the Self-Support Program lies in

controlling the illegal income of people able to work in order to maintain the fairness of the NBLS.

Table 10. *Working age Recipients' Economic Activity*

Year	Permanent Employment	Temporary Employment	Daily Employment	Self Employment	Farming/ Livestock Industry	Unemployed	Total
2001	21,133 (6.3)	33,730 (10.0)	145,471 (43.2)	52,089 (15.5)	4,818 (1.4)	77,816 (23.1)	337,058 (100.0)
2002	17,556 (5.8)	29,979 (9.9)	131,282 (43.3)	46,028 (15.2)	7,672 (2.5)	68,685 (22.7)	303,204 (100.0)
2003	15,769 (5.3)	29,571 (9.9)	127,712 (42.7)	41,428 (13.8)	10,281 (3.4)	72,640 (24.3)	299,404 (100.0)
2004	14,293 (4.7)	29,963 (9.9)	127,336 (41.9)	37,604 (12.4)	11,909 (3.9)	80,595 (26.5)	303,704 (100.0)
2005	13,965 (4.4)	31,640 (9.9)	131,102 (40.9)	34,943 (10.9)	12,972 (4.0)	94,015 (29.3)	320,642 (100.0)
2006	13,317 (4.1)	32,101 (10.0)	129,487 (40.2)	31,518 (9.8)	12,655 (3.9)	101,267 (31.4)	322,351 (100.0)
2007	12,795 (3.9)	32,283 (9.9)	127,670 (39.3)	28,936 (8.9)	12,479 (3.8)	108,774 (33.5)	324,944 (100.0)

*Note.* From MOHW (2008a).

Third is the self-support program's independence-strategy issue. The strategy focusing on maintaining and developing working capabilities through self-support work, which has the most weight, as well as developing self-support communities, which are based on self-support work to joint start businesses, cannot succeed without institutional foundations to support the development of the social economy.

Fourth is the fact that the operation of the Self-Support Program is not customized to its subjects. When looking at the composition of people able to work in Figure 4, we see that the majority of self-support subjects have physical and psychological limitations that make it difficult for them to find work in the labor market. To make these people self-supportive, self-support programs and strengthened case-management strategies are required. However, case management that regularly evaluates the demands of clients and leads them to appropriate programs is nonexistent. The heavy workload of the local government public servants who are in charge of managing the NBLS makes it almost impossible. In addition, the Self-Support Centers in charge of case management do not possess the authority or the resources to do so. The role of the officials working in the Employment Support Centers is similarly limited.

### *Job Creation Policy*

The role of job-creation policy is to fill the gaps in the social safety net that exists between unemployment benefits and the NBLs. The job creation in social services is the most distinguished aspect of job-creation policy in Korea.

In Korea, the first job-creation policy was a public works program that was launched as a major component of labor market policies in the late 1990s, when the financial crisis caused an economic crisis and massive unemployment. In 1999, the public works program used 2.3 trillion won to provide 1,515,000 people (quarterly figures, 380,000 annually counted) with short-term jobs, but as the economy recovered and unemployment rates dropped, the program quickly faded.

The social job creation policy was launched to replace the public works program. Social job creation was suggested as a new type of job creation policy to replace the public works program by the civil society that participated in tackling the unemployment issue and in the private consignment of the public works program during the economic crisis in the late 1990s. The model of the social job creation policy suggested by civil society was based on the social enterprises activated in the European region in the 1990s.

Civil society's demand for social job creation was partially institutionalized in 2000, through the Self-Support Program, which commenced with the introduction of the NBLs. After 2003, the government accepted it as an official agenda of the job creation policy. In the second half of 2003, the MOL's social job creation program was launched. And in 2004, the policy to provide social services was extended to various governmental agencies.<sup>9</sup> In 2006, the policy was changed to focus on social services and was positioned as the social service job creation policy. Meanwhile, during this time, the MOL focused on activating social enterprises.

During the advancement of the job-creation policy, the number of social service jobs increased greatly. According to Table 11 the number of social service jobs increased from some 15,000 in 2004 to approximately 228,000 in 2008. The details of the social service job program can be found in Table 12.

Table 11. *Trends of the Social Service Job Program*

	2004	2005	2006	2007	2008
Budget	78,700	146,200	678,209	1,294,519	1,574,920
Number of participants	15,471	23,647	111,897	201,059	228,245

<sup>9</sup> The development of job creation policies up to this point can be found in Hwang (2004a, 2004b).

Note. From internal material from the Ministry of Strategy and Finance.

After moving through the aforementioned course of advancement, the job-creation program successfully expanded, but as an activation policy, it has limits.

First, while it was positioned as a means for social-service job creation, a conflict occurred between the type of work as temporary wage subsidy program and the contents which aimed to provide “social service.” Due to poor job quality and the fact that the policy created additional jobs by providing new services, the policy did help facilitate employment for disadvantaged groups, but providing appropriate services and creating short-term jobs to provide disadvantaged groups with working experience is contradictory.

This directly leads to the second problem, which is closely related to the limitation that the policy is not a job-creation policy mediated by Employment Support Centers that aim to facilitate employment for disadvantaged job-seekers. The central government or municipal government that directly executes the programs has no direct relationship with the Employment Support Centers. Moreover, the MOL’s social-job program has no procedure for selecting appropriate people in need of the Employment Support Center’s assistance or for linking them with appropriate programs contracted out to the private sector. This year, to overcome this limit, the MOL decided to operate a part of its social-jobs program in the form of transitional jobs, but it is too early to evaluate the result of this. However, one must ask whether the current employment-service infrastructure possesses the manpower and resources to adequately operate transitional jobs. This will be dealt with later in the evaluation of the delivery system.

Table 12. *Social Service Job Programs*

Project	2007		2008	
	Budget	People	Budget	People
<b>Total</b>	<b>1,294,519</b>	<b>201,059</b>	<b>1,574,920</b>	<b>228,245</b>
(Former) Ministry of Gender Equality & Family Total	388,755	82,108	552,899	102,259
Childcare Social Job Program	2,691	799	5,601	2,049
(Families with Disabled Children, Childcare Assistance)	2,334	192	-	-
Visiting Marriage Immigrant Service	3,843	508	18,152	2,320
(Childcare Assistant for Marriage Immigrants)	1,920	208	11,040	1,280
(Korean Language Education for Marriage Immigrants)	1,923	300	7,112	1,040
Labor Cost for Childcare Facility Workers	247,158	43,935	299,383	49,079
Labor Cost for Private Nurseries	132,729	36,674	229,763	48,811

Project	2007		2008	
	Budget	People	Budget	People
<b>Total</b>	<b>1,294,519</b>	<b>201,059</b>	<b>1,574,920</b>	<b>228,245</b>
<b>Welfare Ministry Total</b>	<b>352,953</b>	<b>63,765</b>	<b>469,831</b>	<b>63,196</b>
Senior Care Service	55,717	11,883	65,995	10,679
(Solitary Seniors' Assistant Dispatch Program)	23,556	7,200	38,355	6,600
(Nursing Voucher for Seniors)	32,161	4,683	27,640	4,079
Maternal & Infant Assistant Support Program	15,082	1,418	18,738	1,672
Operation of Local Children Centers	36,633	4,540	51,118	4,827
(Operation of Local Children Center Study Rooms)	20,610	1,800	26,158	2,087
(Children Welfare Teachers)	16,023	2,740	24,960	2,740
Dependent Children Group Home-type Protection Program	2,607	352	3,737	496
Provision of Assistants for Severely Disabled	29,577	11,000	74,978	12,500
Local Welfare Service Innovation Program	77,133	17,400	67,241	8,575
Universal Child Investment Voucher	-	-	47,712	7,000
Activation of Self-Support Assistance Agency Functions	27,014	1,340	27,809	1,340
Activation of Visiting Healthcare Program	15,476	2,000	23,726	2,300
Household/Nursing Assistants	73,900	10,833	59,583	10,653
Medical Benefit Management (Case Management)	6,034	439	8,584	484
Operation of Mental Health Centers	8,800	560	10,350	670
Community Center Assistant for Disabled Support Program	4,980	2,000	10,260	2,000
<b>(Former) National Youth Committee Total</b>	<b>14,607</b>	<b>1,300</b>	<b>18,296</b>	<b>1,610</b>
Operation of Youth Companion Program	2,573	400	3,215	470
Support for Youth Afterschool Activities (Academy)	12,034	900	15,081	1,140
<b>Ministry of Public Administration &amp; Security Total</b>	<b>3,749</b>	<b>801</b>	<b>5,951</b>	<b>836</b>
Volunteer Workers	1,737	496	3,707	496
Informationalized Village Program Manager	2,012	305	2,244	340
<b>Ministry of Education, Science &amp; Technology Total</b>	<b>104,440</b>	<b>19,170</b>	<b>2,205</b>	<b>20,296<sup>1)</sup></b>
Special Education Assistant for Disabled Children	19,704	4,000	804	4,000
Securing Manpower for Special Education Provision	6,520	604	400	604
Making Clean School	17,196	4,231	180	2,000
After-school Programs	61,020	10,335	821	13,692

Project	2007		2008	
	Budget	People	Budget	People
<b>Total</b>	<b>1,294,519</b>	<b>201,059</b>	<b>1,574,920</b>	<b>228,245</b>
Cultural Heritage Administration Total	4,561	392	3,525	331
Extended Operation of Old Palaces	1,636	36	600	36
Manpower Support for Special Management of Cultural Heritages	2,925	356	2,925	295
<b>Ministry of Culture, Sports &amp; Tourism Total</b>	<b>49,486</b>	<b>5,465</b>	<b>57,959</b>	<b>6,727</b>
Extended Operation of Libraries and Other Cultural Facilities	10,380	440	10,177	552
Operations of Art Instructors	23,300	2,225	28,977	2,725
(Support to Operate a Pool System for Art Instructors of Each Field)	17,800	2,000	23,621	2,478
(Culture & Art Education for Social Disadvantaged group)	5,500	225	5,356	247
Training & Placing Culture & Tour Guides	1,500	1,400	2,535	1,900
Daily Sports Instructor Support	14,306	1,400	16,270	1,550
(Daily Sports Instructor)	10,989	1,100	12,348	1,200
(Physical Exercise for Seniors)	3,317	300	3,922	350
<b>Ministry of Environment Total</b>	<b>12,119</b>	<b>695</b>	<b>15,913</b>	<b>908</b>
Job Creation for Regions with Good Ecosystems	8,119	528	11,770	741
(Job Creation for Regions with Good Ecosystems)	8,119	528	8,416	528
(Guards for National Parks)	-	-	3,354	213
Protectors of the 5 Key River Environment	4,000	167	4,143	167
<b>Ministry of Labor Total</b>	<b>121,541</b>	<b>12,000</b>	<b>141,337</b>	<b>12,636</b>
Provision of Social Jobs	121,541	12,000	140,713	12,536
Private Employment Support Consultants	-	-	624	100
<b>Forest Service Total</b>	<b>242,308</b>	<b>15,363</b>	<b>307,004</b>	<b>19,446</b>
Provision Forestry Service	44,166	4,030	59,248	4,915
(Enhancement of Forestry Service)	11,355	767	15,658	1,083
(Strengthened Forest Protection)	32,811	3,263	43,590	3,832
Forest Maintenance	198,142	11,333	247,756	14,531
(Ordinary Forest Maintenance)	43,508	2,833	54,190	3,827
(Policy Forest Maintenance)	154,634	8,500	193,566	10,704

Note. From internal material from the Ministry of Strategy and Finance.

On the other hand, considering the aspect of the quality of services, the policy is being operated in a fashion inappropriate for providing quality service, since the program is basically

similar to public works, and the wage level is not adequate for the service contents and the required manpower.

*EITC (Work Promotion Tax Credit)*

Beginning in 2008, a Korean form of the EITC (Work Promotion Tax Credit) was introduced to provide support to the working-poor group. This system was made to counter the working-poor issue, which has been intensifying since the financial crisis, and was legislated in 2006. The need to introduce the system as part of a productive welfare system has been voiced since 2000 (Hwang, 2000).

Since this system provides support to working-poor households with an employed family member, it is categorized as a make work pay policy. Unlike the early “negative income tax system,” it is designed to prevent a disincentive to work by adjusting benefit levels in accordance with labor income. Therefore, the benefit level increases with an increase of income during the phase-in section, remains the same regardless of the income level in the plateau section, and drops with an increase in income during the phase-out section. The benefit level in accordance with income level under the current system is seen in Figure 5.

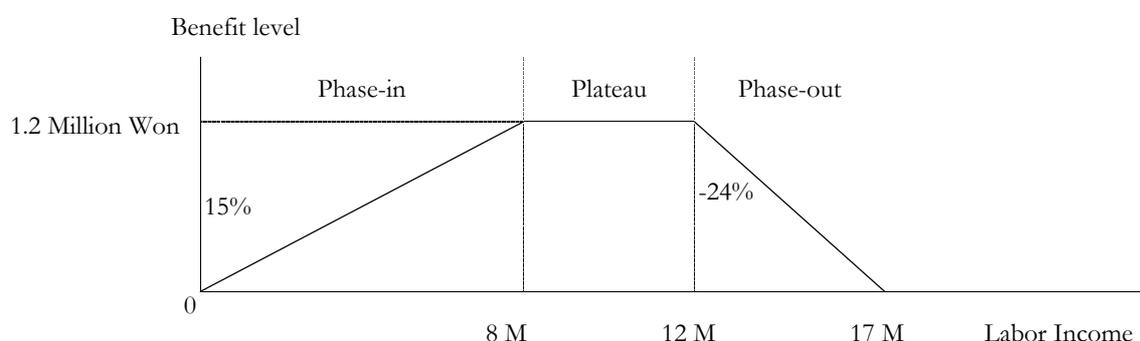


Figure 5. Benefit levels of the Work Promotion Tax Credit. From National Tax Service, EITC Introduction Material.

However, the new EITC provides a low level of support (1.2 million won annually) and the range of beneficiaries is extremely narrow. This may be because the system is the first to provide welfare through taxation.

Currently, the households eligible for benefits are limited through property, the existence of dependent children, and other factors, and the selection process is extremely complex. The income requirement, as seen in Figure 5, is a household with a total annual income of less than 17 million won. Total income includes labor income, business income, and other forms of income. The income requirements also have a property condition, which limits beneficiaries to households with no house or that own a house priced under 50 million won and a total property

valuation of under 100 million won. It also includes a dependent-children condition, which limits subjects to households having at least one child under 18 years of age.

The current standard was revised before the current system was introduced. The old standard limited beneficiaries to households with two or more dependent children and no owned house (total property valuation under 100 million won). When calculating the number of beneficiaries using these standards and KLIPS data, only 1.3% of city households can receive benefits, encompassing only 7.1% based on absolute poverty and 6.1% relative poverty (Table 13).

Table 13. *Estimation of the Size of Work Promotion Tax Credit Recipients in Accordance with Poverty Level (as of 2005)*

	Poverty	Quasi Poor	General Household	Total Households
Based on Absolute Poverty	7.1	5.9	0.1	1.3
Based on Relative Poverty	6.1	1.1	0.0	

*Note.* Income level is for 2005 and has been adjusted for consumer price increase rates. Upon initial introduction, the requirements were 2 or more dependent children and no owned houses. Based on Korea Labor Institute KLIPS 9th round raw data.

In relation to other social security programs, a key condition is that anyone who has received NBSL benefits for more than 3 months is excluded. As seen above, it is hard to justify excluding NBSL recipients given that there is no work-incentive system for NBSL recipients who are employed in the labor market.

One argument for excluding NBSL recipients is the need to focus support on the quasi-poor group, but even among the quasi-poor, only 5.9% based on absolute poverty and 1.1% based on relative poverty are eligible to receive benefits. On the other hand, one may assert that excluding NBSL recipients induces them to escape the NBSL, but it is difficult to believe that an annual maximum of 1.2 million won will help recipients escape the NBSL.

#### *Employment Package Support Program for the Low-Income Group*

Beginning in 2009, the Employment Package Support Program for Low Income Group has operated as a new policy program to facilitate employment for the low-income group. This policy is a support method for low-income disadvantaged job-seekers, aiming to fill the gaps between unemployment benefits and the NBSL. It has been discussed since 2007, and the Lee Myung-bak administration included it as a policy agenda. The bill was completed in 2008, but the legislation has been delayed until now and a pilot program began in 2009. The program included about 10,000 people, and it had a budget of 10.387 billion won.

The basic goal of the program is to establish individual employment-support plans for low-income group members who experience difficulty obtaining a job and to provide a coordinated employment-support program. With the launch of the employment package support system, the MOL's Self-Support Program was merged with this system. In addition, the "transitional job" creation policy was separated from the social job creation policy and was merged with the employment package program to facilitate employment for the disadvantaged group. As a result, the system can be viewed as designed to comply with the activation policy principle of facilitating re-employment. The basic operation method of the system is as seen in Figure 6.

However, one must be cautious in evaluating whether the current institutional foundation is capable of upholding the program's basic goal. First, the program does not include any cash benefits for the low-income group. The only cash benefit provided is the "successful employment payment," which is given upon successful employment. Without the support of cash benefits, it is hard to expect that various programs will be comprehensively provided in accordance with individual employment-support plans, which are similar to IAPs for unemployment-benefit recipients.

The absence of a sufficient employment-support infrastructure to uphold the operation of the system is also a large burden. As the IAP, which operated for unemployment-benefit recipients, was narrowed to encompass a portion of the recipients, Employment Support Centers without adequate employment service manpower would be too overburdened to provide comprehensive support services. The second-stage programs in employment support in Figure 6, searching for job offers and job placement, will be contracted out to the private sector. However, it would be hard to obtain meaningful results without appropriate diagnoses and course configuration.

The third problem is the long-term sustainability of the program. Currently, the program is only a pilot, and the prospect of legislation is not bright. Whether the MOL can introduce living-expense support, in other words cash benefits, will determine the system's fate. On the other hand, cash benefits would strain the budget. Designing a clear relationship between this program and the NBLs will also pose a challenge.

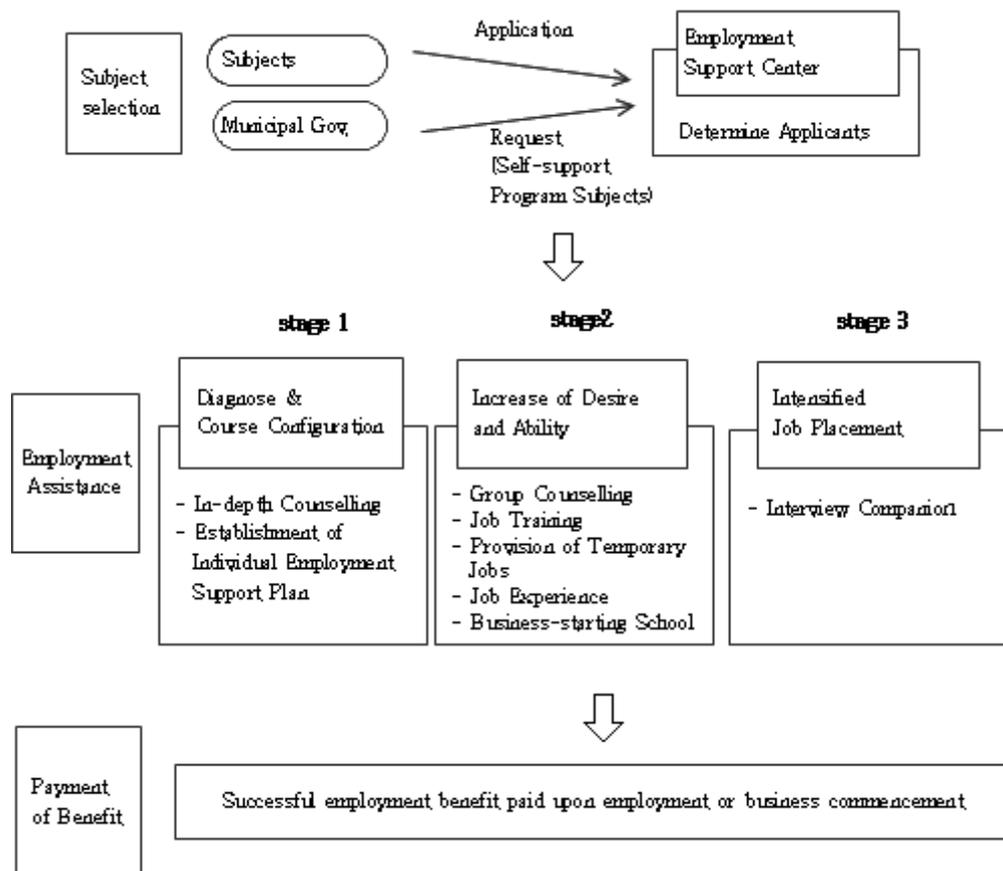


Figure 6. The employment facilitation package policy. Reference: MOL, 2008b, Employment Package Support to the low income group, Pilot Program Operation Plan.

### *Delivery System for Activation Policies*

*The MOL's Employment Support Centers.* The MOL's employment services are provided through 84 Employment Support Centers across the nation. Among these, 47 are comprehensive centers that handle job placement and the payment of unemployment benefits, as well as various corporate-sponsored services, while the remaining 37 are ordinary or visiting centers that focus on job placement and the payment of unemployment benefits.

Employment Support Centers were established across the nation in response to the high unemployment rate following the financial crisis of 1997. During the period of high unemployment, the number of Employment Support Centers was increased to about 120 locations but gradually dropped as the unemployment rate fell. Pursuing economies of scale, 84 centers are currently operating.

The workforce of Employment Support Centers was 2,751 people as of 2007. Not only does this number include ordinary public servants, it also encompasses job-counseling public servants, employment consultants, and others. During the period of high unemployment, those

managing the counseling services were hired as private contract workers. After 2006, their employment status was changed to job-counseling public servants.

The appropriateness of Employment Support Center infrastructures and their level of manpower can be evaluated from a variety of angles, but the relatively simple method would be to compare them with other countries. According to the MOL (2008a), Germany has 851 PES agencies and employs 90,000 people, England has 1,144 agencies and employs 74,000 people, and Japan has 639 agencies and employs 18,000 people. These figures are significantly different from those for Korea. Although it is an indirect indicator, the ratio of expenditure for operating PES agencies against the total GDP can also be considered. According to Table 14, Korea's PES-related expenditures are 0.03% of GDP, just under one fifth of the OECD average. The ratio of expenditure for services is only one sixth. The gap increases when compared with other nations.

Table 14. *Ratio of Public Employment Service and Administration Expenditure to GDP in Selected OECD Countries (2006)*

	Korea	England	Germany	Denmark (2004)	Sweden	OECD Average
Total	0.03	0.37	0.27	0.33	0.23	0.16
Placement and related services	0.01	0.14	0.13	0.05	0.08	0.06
Benefit administration	0.01	0.06	0.05	0.17	0.04	0.05

*Note.* From OECD, Employment Outlook 2008.

It would not pose a big problem if the low level of PES-related expenditures stemmed from low need. However, Employment Support Center employees are overloaded with work, which leaves them no choice but to focus on essential benefit-management work rather than on services. In reality, the work of Employment Support Centers is focused on managing benefit-payment-related work such as determining eligibility and confirming unemployment for unemployment-benefit recipients, and managing employment-stabilization programs and job-skill development programs.

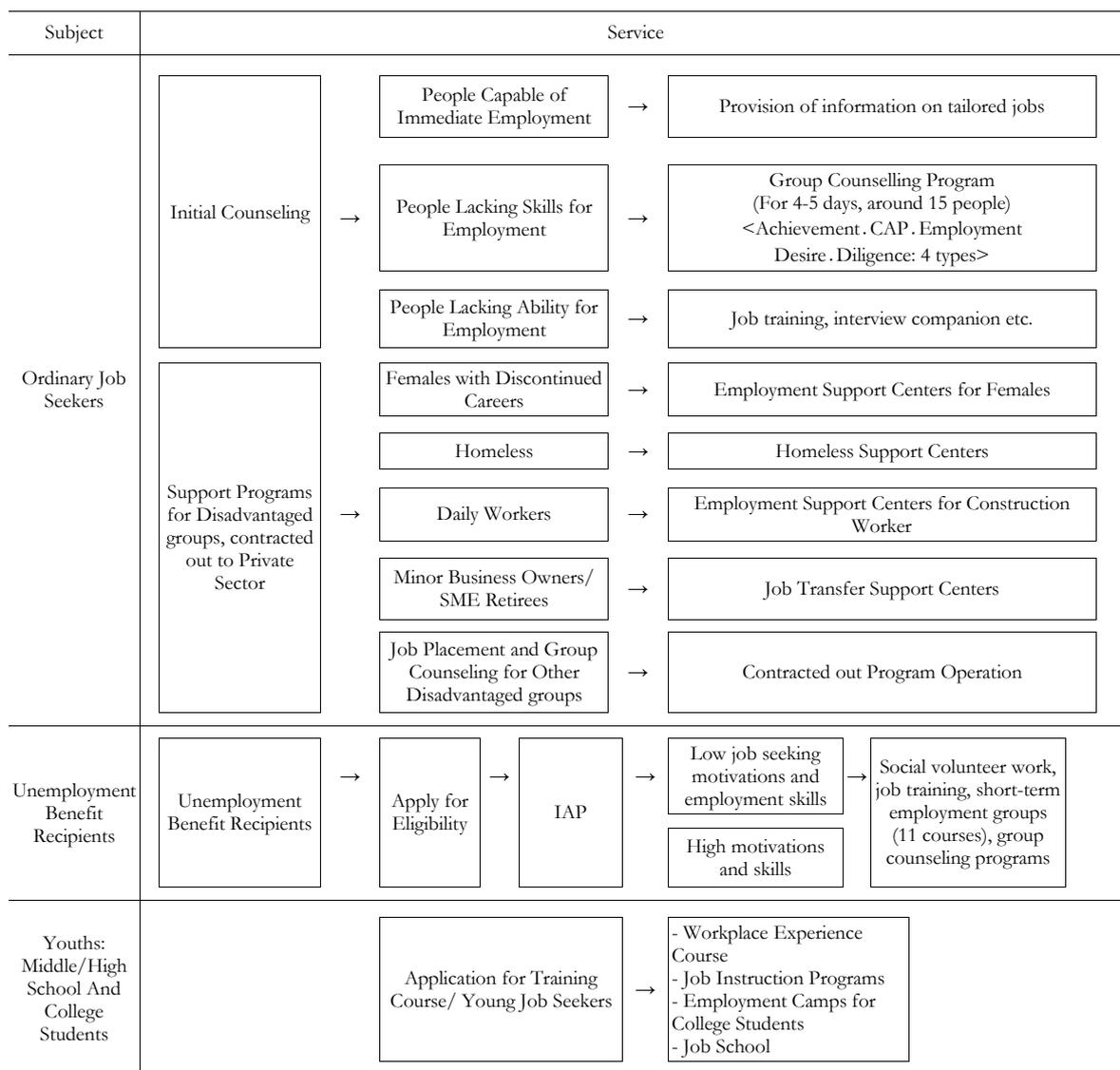


Figure 7. Employment services according to each subject group. From Seoul Employment Support Center (2008).

Figure 7 describes the service contents for each subject group that Employment Support Centers provide. It offers various programs for different types of job-seekers or categorized policy beneficiaries, but in reality, Employment Support Centers focus on providing services to unemployment-benefit recipients. The services provided to the different types of disadvantaged groups are contracted out to private agencies, and the group-counseling programs are also contracted out to the private sector.

Management of unemployment-benefit recipients, on which services are centered, is also inadequate. IAP, which was introduced to establish individual employment-support plans, was reduced to encompass subjects who required strengthened employment support, and unemployment confirmation became a formality. Surveys of job consultants at Employment Support Centers revealed that the consulting time on the initial day of unemployment recognition, which usually requires in-depth counseling, generally did not last 10 minutes. In

addition, a survey of those in charge of unemployment confirmation revealed that the average number of confirmed cases was 45.7 per day and average required time was 6.9 minutes, almost similar to that for 1999 (Lee, 2008b).

The first thing required for activation policies that facilitated the re-employment of the unemployed is case management handled by an Employment Support Center. This is the reason why IAP, profiling, and in-depth counseling are the basic methods of the policy.

Despite the fact that the number of clients at Employment Support Centers has skyrocketed and services have become diverse over the last 10 years, the service infrastructure has not been improved significantly. Because employment support is a “service,” it cannot develop without investments in the workforce in charge of it. Under such circumstances, it is natural that outsourcing to the private sector has increased. Even if we acknowledge that the services provided to the homeless and daily workers in the construction industry, who have trouble accessing Employment Support Centers because of time and location constraints, cannot be provided by the Employment Support Center, it would be difficult to evaluate the services positively because the services provided to other disadvantaged groups have been contracted out to civil organizations without initial counseling by the Employment Support Center.

*Roles of central government agencies and local governments.* Among the programs operated by the central government agencies and the local governments, the programs with the clearest employment-support function are the Self-Support Programs provided to NBLIS recipients. These programs also show a clear partnership between the key providers of public employment services, because the local governments, Employment Support Centers, and Self-Support Centers (contracted out to private institutes) all participate in delivering services.

Figure 8 describes the delivery system of the Self-Support Program. The social welfare public servants at the local governments must divide the conditional recipients and voluntary participants into two groups: the employable and non-employable recipients. Then they are referred to Self-Support Program operators. Subjects to employment are referred to Employment Support Centers, and non-subjects to employment are mostly placed under local Self-Support Centers. From a local level, self-support assistance plans should be established, and the respective public servants of districts, heads of Employment Support Centers, and representatives of the private institutes participating in self-support assistance form the self-support institution committee. At first glance, it appears that a well-organized delivery system has been established. However, actual coordination between the related agencies is very limited. The self-support institution committee meets only once or twice a year.

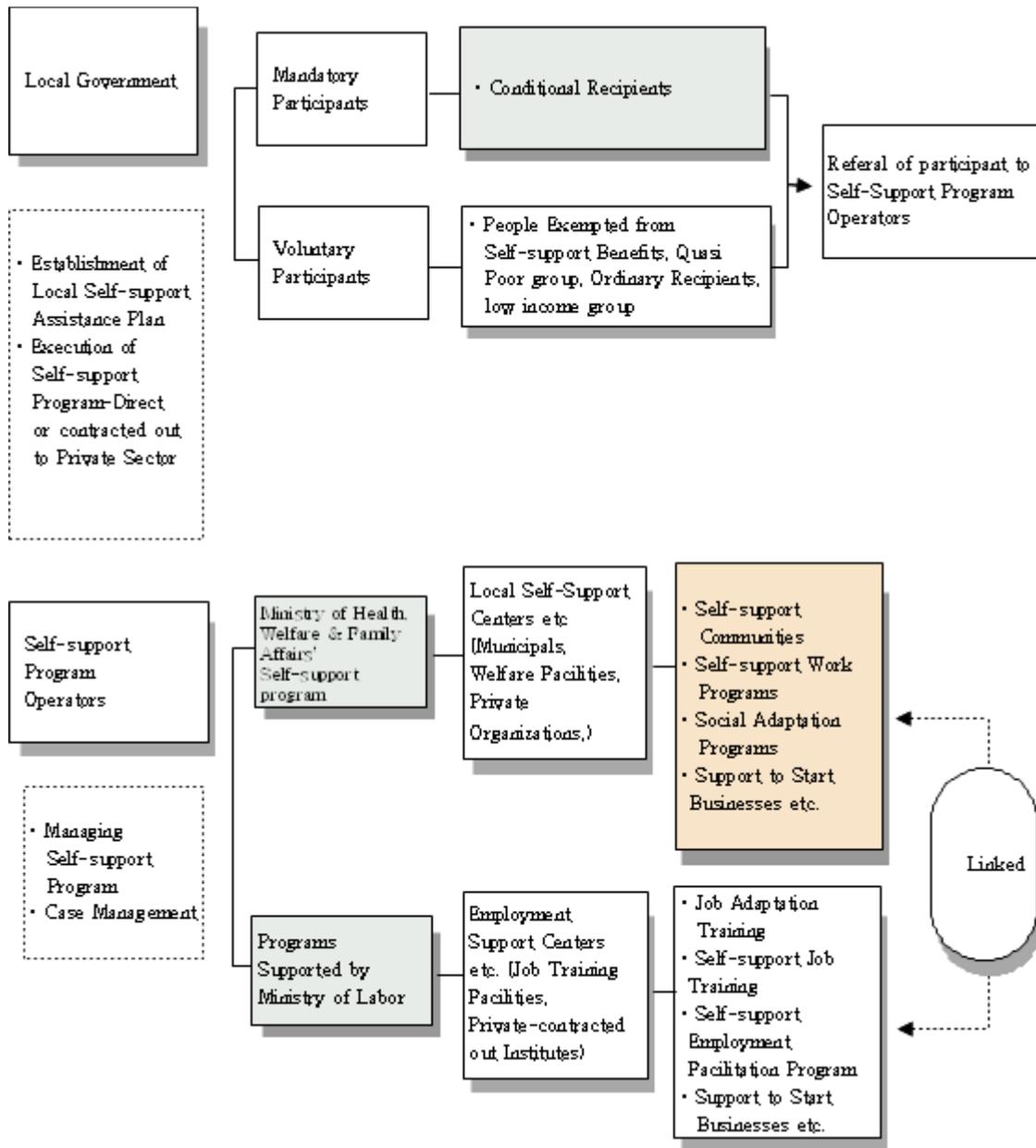


Figure 8. Delivery system of the self-support assistance program. From Ministry of Health, Welfare & Family Affairs, (2008b).

Central government agencies other than the MOHW play a limited role in delivering employment services. Such services include the Ministry of Gender Equality & Family's Women Resources Development Centers, which provide employment-support services for women with discontinued careers; and the Ministry of Health, Welfare & Family Affairs' Job Creation Program for Seniors, which is supported by the Senior Club. In 2005, in accordance with the Fiscal Decentralization Policy, the budgets for some of these programs were transferred to local governments. As a result, central government agencies take charge of policy designs only, and all responsibilities related to execution have been entrusted to the local governments.

It is difficult to say that local governments play a direct role in relation to employment-support services. Local governments of metropolitans, cities, counties, and districts operate departments in charge of job placement, but their performance is insignificant and is rather a formality. Policies that deliver direct employment services to certain groups through outsourcing to private employment-service companies, such as the Gyeonggi Province's "Youth New Deal" program, are more noteworthy. However, aside from some local governments such as Gyeonggi Province, the programs are very small. Therefore, it is difficult to say that the majority of local governments directly participate in providing employment-support services.

### Conclusion: Directions for Improving Activation Policies

The key results of this study are as follows. First, the Korean labor market is very unstable, and much of the working-age population, particularly women, does not participate in it. Furthermore, many irregular workers move between employment and the out-of-labor force. This is why low unemployment rates and low employment rates coexist in Korea. These large groups experiencing instability or who are part of the out-of-labor force are potential targets for activation policies in the Korean context.

Second, the number of actual beneficiaries of activation policies is small, and inadequate case management prevents passive labor market policies and active labor market policies from being coordinated for activation. The role of Employment Support Centers is limited in selecting subjects for key active labor market policies (job training, job creation policy), and services are being provided indiscriminately in a "first come, first served" manner or recipients are selected by the service providers.

Third, a large gap exists between the design of the policies and their execution. The grounds for such evaluation are that despite stricter job-seeking and other related requirements compared with other countries, actual results are almost nonexistent; the Self-Support Program, a typical welfare policy connected with labor, produces low self-support achievement and has no systems for maintaining self-support; the EITC, a make work pay policy, is inadequately designed to create incentives to work; and the job-creation policy and the employment-support service are not coordinated. There is a high possibility that the new Employment Package Support for the Low Income Group will result in a gap between design and execution.

The fourth is the lack of employment-support infrastructures (delivery systems) to back the activation policies. This is the cause of the third problem. Above all, Employment Support Centers lack the professional manpower necessary to handle the services. Also, the capacity of

central government agencies and local governments is extremely weak. The policy designs are comparable to those of other countries, and Korea does not fall short in terms of the utilization of information technology, but it lacks the infrastructure to back them.

Fifth, by supplementing the lack of public employment-service infrastructure through outsourcing, the number of private service providers has increased, but in the absence of an appropriate role model between the public and private sectors, the function of case management has been lost.

The direction of Korea's future activation policies can be deduced from the aforementioned diagnoses of the current situation. The first is reducing the gaps of the cash benefits that support the livelihood of the unemployed—in other words, reducing the holes in the social safety net for the unemployed. To do so, the gap between the legal application of employment insurance and the actual application must be reduced, whereas the blind areas of the NBLS should be reduced and new systems introduced to fill the gap between the EIS and the NBLS.

In order to reduce the gap between the legal application and actual application of employment insurance, the application and taxation of social insurance and tax administration must be further coordinated to enhance the administrative capabilities of social insurance. And the support to non-regular workers in small business with the reduction of social insurance premium would be helpful in raising social insurance application rate. This is because when considering that Korea's labor market structure makes it difficult to tackle the problems of low income and job instability, the risks of the labor market must be socialized through the application of social insurance, and loss of income must be minimized during job transitions. In addition, the period of receiving unemployment benefits must be adjusted to expand the scope of beneficiaries, and the sanction against voluntary separation from one's job must be eased for those who experience long periods of unemployment despite their job-seeking efforts. To reduce the size of the non-recipient poverty group (the blind area of the NBLS), the dependent-family requirement and other selection standards must be eased, and the recognized income calculation method must be improved.

In addition, the introduction of a new social safety net for the unemployed must be considered to fill the wide gap between employment insurance and the NBLS. Key subjects would be self-employed people and youths entering the job market, people who are subject to employment insurance but who do not meet the requirements for receiving unemployment benefits, and people who have exhausted their unemployment benefits. The employment-package support program for the low-income group, which began this year, may be

developed to tackle this issue given that under the current economic crisis, the new system is likely to be insufficient to tackle poverty and job loss, thereby increasing demand for a system that provides living expenses with cash benefits.

The second is reducing the holes in the social safety net for the unemployed, while increasing coordination between livelihood support and labor market policies. A change in the system's design would enable a large portion of the social service job creation policy to facilitate re-employment of the jobless, in other words, to develop the program into "transitional jobs" for activation. This would also secure the financial sources for livelihood benefits. Job training should also use job skill development vouchers or other such programs to save money. Focusing policies on those who really need assistance would also help the government redesign systems to facilitate activation without financial strains. Various employment-stabilization programs to facilitate employment for disadvantaged groups must be redesigned to enable operation in accordance with the "activation" principle of facilitating the re-employment of recipients. These systems can be merged with the employment package support program, establishing an employment-oriented protection system for the unemployed in low-income groups.

Third is increasing employment-service infrastructures, the number of professional job counsellors in particular, to fill the gap between policy design and execution. This is a simple solution, but it is impossible to ignore the fact that service provision relies on the quantity and quality of the workforce. Many policies on service improvement have meant merely opening a new counter or shifting the order of procedures, causing the original goal of the policy to fade. In order for an activation policy to work properly, the minimum requirement is applying case management method to provide appropriate policies for individual demands and circumstances. Strengthening cooperation between local governments and Employment Support Centers is also required. This is most needed in the NBL. The current Self-Support Program has operated by distinguishing between the MOHW's non-subjects to employment and the MOL's subjects to employment, causing a conflict of subject distribution between the two ministries. Instead of dividing subjects, it would be better if both agencies provide the programs they specialize in and leave program-participant selection to the public servants in charge of self-support at local governments and the Employment Support Centers.

Fourth, it is necessary to establish a model dividing the roles between the public and private sector. Until now, outsourcing has been pursued to handle the increasing demand for services and the lack of infrastructures rather than it being appropriate for implementing the policy. Therefore, given that infrastructures are secured, a model that appropriately divides roles between the public and private actors must be designed. The minimum but necessary role of

public agencies is case management based on in-depth counseling at the beginning of the service and the decision of resource allocation to deliver services to clients.

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