



KLI Working Paper

September 29, 2017

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Employment and Labor Policies in Transition : Social Policy

# How to Introduce the Unemployment Assistance Scheme

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## I. Introduction

Widespread in-work poverty, where workers remain below the poverty line despite having jobs, epitomizes the problems facing Korea's labor market and social safety nets. While low wages, informal work or non-regular jobs are the factors related to the labor market, the blind spots of social safety nets are the factors that fail to prevent people from falling into poverty when exposed to social risks such as unemployment, sickness or old age.

In particular, the lack of social safety net for the unemployed (unemployment safety net) is one of the main reasons that the working poor struggle to make a living and are forced to accept any job offer, even one that does not match their abilities or preferences. Although they may quickly find employment, they may be subject to repeated

unemployment due to inadequate job matching. Until now, the measures to support the working poor have been focused on implementing active labor market policy rather than providing income support. The effectiveness of such measures, however, has been widely criticized due to the following reasons. First, using fiscal policy as a means of directly providing employment cannot protect the working poor against the risks of unemployment and poverty because the jobs created are mostly short-term ones that do not lead to employment in the general labor market. Second, training benefits for individuals with no or unstable work history are provided only when they participate in training programs, creating supply of unnecessary training regardless of the need. Third, the lack of an unemployment safety net undermines the access to employment services.

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This paper presents the need for a complementary unemployment safety net in order to integrate the working poor in the labor market. The government should introduce an unemployment assistance scheme that corresponds to the characteristics of Korea's working poor and the conditions of the labor market. While providing benefits in cash to support jobseekers in finding adequate jobs that match their skills and experience, the government should also provide active labor market policy depending on the level of individuals' employment vulnerability by requiring them to participate in job searching activities and various other policy programs. By doing so, the government can introduce an unemployment safety net while minimizing the negative impact on the labor market.

## II. The Need To Build a Complementary Unemployment Safety Net

Let us examine how serious Korea's unemployment risks are. Although the rate and the average duration of unemployment observed in the Korean economy are lower than those in other nations, the share of workers experiencing unemployment is quite high.<sup>1)</sup> I calculated the percentage of workers experiencing unemployment in a year based on the 2013 Survey of Household Finances and Living Conditions (SFLC) conducted by Statistics Korea. In 2012 alone, 14.1% of those who were capable of work (aged 15 to 64) engaged in job-seeking activities—e.g. submitting job applications, making phone calls—while having no employment.<sup>2)</sup> By household income level, those from low-income families were more likely to have participated in job-seeking activities. For instance, the percentage of those who engaged in job-seeking activ-

ities from households earning less than 30% of the median income was a whopping 31.2%, and the percentage stood at 25.7% in the case of households that earn between 30 to 60% of the median income.

It is highly likely that unemployment will lead to poverty. Using the Household Income and Expenditure Survey released by Statistics Korea, I compiled quarterly panel data. The percentage of families entering poverty a quarter after the head of household loses employment is 32.3%. Low-income households are more likely to fall into poverty immediately after their head becomes unemployed, and to be at persistent risk of poverty caused by unemployment of the head of household. In fact, the percentage of families staying in poverty three quarters after the head of household loses employment is 39.7% among the bottom (first) quintile of the income distribution, and 36.6% among the second quintile.

Both unemployment insurance (designed to stabilize the livelihood of unemployed workers) and unemployment assistance (designed to guarantee a minimum income for the unemployed poor) are implemented for the benefit of the unemployed, the public assistance system does not consider whether an individual is economically active or not in order to determine his eligibility. Korea does not have an unemployment assistance program. Although it provides the basic livelihood allowance under the National Basic Livelihood Security System (NBLSS), the ratio of those capable of work is very low among eligible recipients. Therefore, the nation's main welfare scheme that guarantees income for the unemployed is unemployment benefits paid to eligible applicants under the unemployment insurance system. Unemployment-benefit reciprocity rates have been on a steady rise despite fluctuations depending on the circumstances of the labor market. The

1) Korea ranked third in terms of monthly unemployment inflow probability among the 33 OECD countries for which data were available. Please see OECD Employment Outlook (2014).

2) Most surveys point to the fact that Korea has high unemployment risks. The Economically Active Population Survey results released by Statistics Korea shows that the number of those who entered unemployment was 12.8% of those capable of work in 2015. Based on the Korea Welfare Panel Survey conducted by Korea Institute for Health and Social Affairs, 18.0% of those who were capable of work (aged 15 to 64) engaged in job-seeking activities in 2015.

Table 1. Number of Those Who Participated in Job-Seeking Activities Among Those Who Are Capable Of Work (2012)

(Unit: Thousand Persons, %)

		People who are capable of work	People who participated in job-seeking activities during the year	Percentage of those who participated in job-seeking activities
Total		29,724	4,193	(14.1)
Household Income (compared with Median Income)	Less than 30%	763	238	(31.2)
	30~60%	3,965	1,020	(25.7)
	60~150%	16,666	2,347	(14.1)
	150% or more	8,330	587	( 7.0)

Source : Statistics Korea (2013), *Survey of Household Finances and Living Conditions*.

Table 2. Percentage of Non-poor Households Falling into Poverty After the Head of Household Loses Employment (2011)

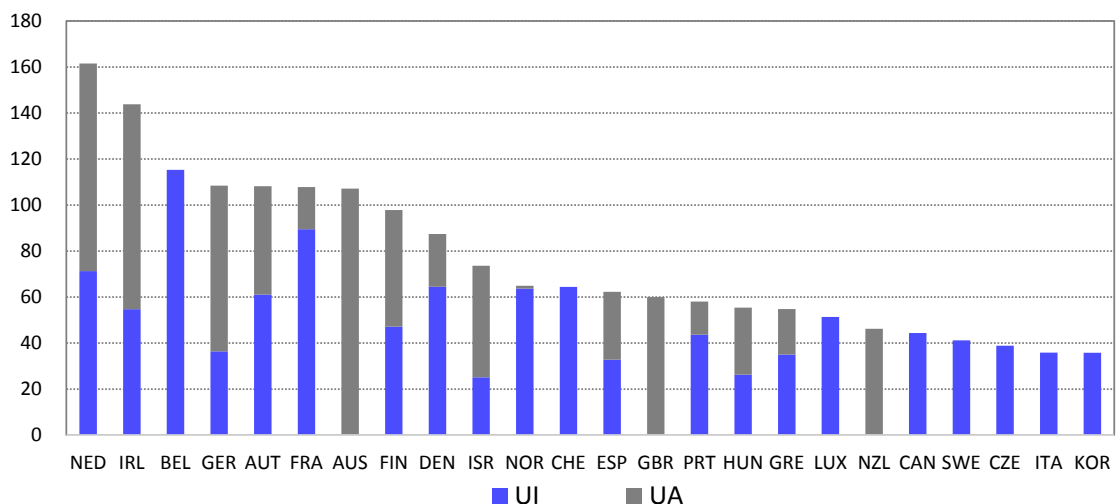
(Unit : %)

	Total	Household Income				
		Bottom Quintile	Second Quintile	Middle Quintile	Fourth Quintile	Top Quintile
After a quarter	32.3	78.6	80.1	30.3	3.4	5.9
After two quarters	31.4	59.3	64.2	47.7	6.4	5.5
After three quarters	18.5	39.7	36.6	23.1	4.3	6.8

Source : Quoted from Lee, Byung-Hee (2012); original sources are Statistics Korea (2011), *Household Income and Expenditure Survey*

Figure 1. Unemployment-related benefits Reciprocity rates (average during the period 2004~2014)

(Unit : %)



Note : 1) Given the differing impact of the economic crisis in different countries, the average value of the share of unemployed persons receiving unemployment benefits during the period 2004~2014 was calculated.

2) The beneficiary rate may be above 100% due to some recipients that were not observed to be unemployed during the survey.

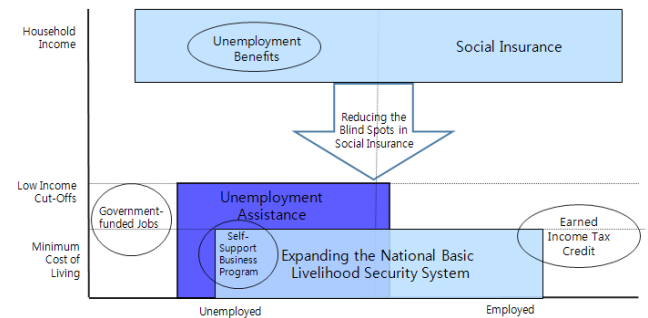
Source : OECD.Stat; Minister of Employment and Labor, *The 20-year history of Employment Insurance*; Statistics Korea, *Economically Active Population Survey*.

average beneficiary rate during the period from 2004 to 2014 was 35.8%. Korea's beneficiary rates were compared against those of other countries using the OECD database. Since it is not possible to identify the share of the unemployed among the public assistance recipients, the author measured the share of unemployed persons among the recipients of unemployment insurance benefits and unemployment assistance. Among the 24 OECD nations surveyed, Korea had the lowest beneficiary rate of unemployment-related benefits.

### III. Suggestions on How to Implement Unemployment Assistance

When introducing unemployment assistance in Korea, it is desirable to target the working poor placed in the blind spots of unemployment insurance and public assistance. Simply expanding the existing system to address the blind spots in unemployment safety net would have limitations. Although expanding coverage for unemployment insurance and the eligibility to unemployment benefits must take precedence, unemployment insurance alone cannot protect all the vulnerable groups. An increase in the number of informal and non-regular workers, as well as a large number of youth with no work experience, women whose career were interrupted, and the self-employed, are the factors undermining the universality of unemployment insurance. Meanwhile, extending the public assistance scheme is not sufficient in protecting socially-vulnerable groups. Although the reform of the NBLSS into a customized individual benefit system in July 2015 was taken place, the provision of employment services for the working poor is limited. This is not only due to the lack of infrastructure needed to offer employment services but also because there is little inducement for the working poor to make use of employment services without being granted an income.

Figure 2. How an Unemployment Safety Net Will Address the Blind Spots



When unemployment assistance is newly introduced, it should play a complementary role in the nation's unemployment safety net. In other words, while minimizing the number of those placed in the blind spots through unemployment insurance, the unemployment assistance scheme will act as a complementary safety net at the same time. This is because 1) unemployment assistance will be under bigger pressure if the number of those placed in the blind spots of unemployment insurance is high; and 2) the target group of unemployment assistance is limited to the poor who are capable of work. Meanwhile, when unemployment assistance replaces some of the functions played by public assistance that protects the poor, its characteristics differ depending on whether it plays a leading role or a supporting role with regard to public assistance. Under the current conditions of the social safety net, it is likely that applying the principles of public assistance, e.g. such as doing a strict means test to determine eligible beneficiaries, guaranteeing a minimum income through supplementary benefits, providing benefits for an indefinite period as long the beneficiaries remain in poverty, and considering the household—that has a member/members not capable of work—as a unit when providing support, to the unemployment assistance scheme in the initial phase would be difficult. Inevitably, public assistance aimed at guaranteeing a minimum income would provide the last social safety net for people in need, and unemployment assistance would play a complementary role.

When designing the unemployment assistance scheme, it would be essential to consider the conditions of the labor market, the characteristics of the working poor, and the current challenges of the social safety net. The unemployment assistance scheme would need to support those who are capable of work belonging to poor households by providing benefits in cash and implementing active labor market policy. This is because the working poor subject to repeated unemployment need not only income support to prevent the risks of unemployment from resulting in poverty, but also employment support in order to move out of low-wage jobs. Taking such an integrated approach would not only improve individuals' employment outcome but also contribute to enhancing the fiscal sustainability of welfare programs. Unemployment assistance should to be granted as a right to those who satisfy the requirements related to poverty, capability to work, and the need for employment support. However, prior to exercising such a right, the beneficiaries must fulfill the obligations to conduct job-search activities and participate in active labor market policy.

The unemployment assistance scheme needs to provide income support for the working poor, regardless of their employment status or contribution, as they cannot satisfy their needs with their income (or assets). In the sense that beneficiaries are required to participate in job-seeking

activities, the scheme is consistent with typical unemployment assistance programs. However, rather than aiming to guarantee a minimum income just as typical programs do, the goal of unemployment assistance in Korea should be designed to help beneficiaries find better quality jobs. Given that the working poor in Korea tend to be more active in the labor market than those in other countries, it is more important to assist them with finding better jobs. Therefore, it is better that the level of benefits in cash would be set to fulfill the obligations to conduct job-search activities. In addition, rather than providing benefits for an indefinite period as long the beneficiaries remain in poverty, it would be inevitable to provide benefits for a limited period of time, that is, while employment services are being provided.

The success of the new unemployment assistance scheme which combines the provision of benefits in cash and active labor market policy will depend on the quality of employment services. Professional employment counselors will be in charge of case management, which are in-depth counseling sessions with individuals, connecting jobseekers with recruiting services, monitoring of job-search activities, and imposing sanctions on unsatisfactory participants. Therefore, expanding infrastructure needed to offer employment services is an urgent task requiring immediate attention.