

The Employment Insurance System in Korea

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Preface

Korea introduced the Employment Insurance System (EIS) on July 1, 1995. The Korean EIS is a combination of a traditional unemployment benefits program and active labor market policy to prevent unemployment. This is why Korea calls this system as “employment insurance” rather than “unemployment insurance.”

EIS has played a very important role in reducing unemployment by carrying out various policy measures in the Employment Stabilization Program and the Job Skill Development Program, and in stabilizing the living conditions of the unemployed by paying unemployment benefits. The role of EIS has become increasingly important since the financial crisis in November 1997 as the Korean labor market conditions become worsened.

The Korea Labor Institute (KLI) has played a very important role in designing and developing EIS. KLI recommended introducing EIS in March 1991, and the government decided to introduce EIS according to the recommendation of KLI in August 1991 and asked KLI to design EIS in 1992. KLI launched the Employment Insurance Research Commission and designed EIS. In December 1995, KLI established the Employment Research Center in order to evaluate EIS programs and study the Korean labor market.

It is needless to say that EIS has to adjust to the rapidly changing labor market situation. At the same time, EIS affects the labor market in several respects as well. In order to maximize the positive effects and minimize the negative effects of EIS, Korea evaluates the effects of each EIS program every year while continuing to develop other programs and delivery systems. However, there is still much to be done.

This volume sets out to explain the basic structure of Korea's EIS.

Every country is trying to achieve full employment without inflation and to develop efficient social safety nets for the unemployed. In designing Korea's EIS, we applied the experiences and lessons in developing unemployment insurance system of other countries. Korea's own experience may also offer important ideas and suggestions for other countries in their development of unemployment insurance systems.

This volume is written by Dr. Kilsang Yoo, a senior fellow at KLI. He has greatly contributed to the introduction and development of EIS. Dr. Yoo suggested the Korean system be referred to as "employment insurance" for the first time in 1981 when he served on the Korean government's Economic Planning Board. He designed EIS as a coordinator and research team leader of the Employment Insurance Research Commission, and served as the Director of the Employment Research Center from 1995 to 1998.

On behalf of the author, I express my deepest appreciation to Professor Peter H. Lindert at the University of California at Davis for his kind comments on the first draft.

I sincerely hope this volume serves as a good reference for those who are interested in Korea's EIS.

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. Introduction

1. Background

It was in the early 1970s that Korea began to discuss the need for an unemployment insurance system to stabilize the living conditions of the unemployed. When the first oil shock hit the Korean economy in 1973, the Administration of Labor and some scholars discussed the need for an unemployment insurance system. Those discussions, however, proceeded only informally within the Administration of Labor, and they decided not to discuss it openly because they thought the Korean economy at that time was too underdeveloped to implement the system efficiently.

When the second oil shock and political turmoil caused by the assassination of former president Park Chung-Hee hit the Korean economy in 1979, the economy recorded a negative economic growth rate, and the unemployment rate reached 7.5 percent in 1980. The high unemployment in the early 1980s forced the Korean government to consider introducing the unemployment insurance system when the Korean government designed the Fifth Five-Year (1982-1986) Economic and Social Development Plan in 1981. Even in the early 1980s, however, most Koreans were opposed to introducing the unemployment insurance system because they believed it would weaken the job search efforts of the unemployed, thereby resulting in a higher unemployment rate. Moreover, many people thought the time

was not yet right mature for Korea to introduce the unemployment insurance system because the Korean economy was not strong enough to implement it. Hence, the Korean government decided not to introduce the unemployment insurance system during the 1980s.

In the process of discussing the unemployment insurance system in 1981, however, Korea achieved a very important social consensus on the direction of the Korean system. This was that the government should not seek to address unemployment with a cash benefits. Rather, the important thing was to prevent unemployment itself through stable economic growth and an efficient labor market system. In this respect, they agreed to name the future Korean system the Employment Insurance System rather than the Unemployment Insurance System.

After successful economic development since 1960s, the Korean economy faced a turning point in the late 1980s. The average GNP growth rate during the 1962-1988 period was 8.8 percent. The per capita GNP increased remarkably from USD82 in 1962 to USD4,127 in 1988. As a result of rapid economic growth, the Korean economy ranked 17th in total GNP and 12th in trade amount in the world in 1988.

Until the 1970s, Korea's rapid economic development was mainly due to diligent, cheap and abundant labor. However, economic development absorbed abundant labor from the rural areas, and Korea's "unlimited supply of labor" ended in the mid-1970s. With the fall of the authoritarian regime in June 1987, Korea underwent rapid political, social and economic changes. The Korean economy suffered from explosive labor disputes from the second half of 1987 to 1989 and high increases in wages until 1996. Workers no longer accepted dirty, difficulty and dangerous jobs, and thus labor-intensive manufacturing sectors suffered from serious labor shortages from the end of the 1980s. Labor was no longer a cheap resource in Korea (See Table 1.1).

Table 1.1. Major Statistics of the Korean Economy and Labor Market

Year	GNP Growth Rate (per cent)	Per Capita GNP (U.S. dollars)	CPI Increase Rate (per cent)	Real Wage Increase Rate (per cent)	Labor Disputes (number)	Unemployment Rate (per cent)	Labor Shortage Ratio (per cent)
1986	11.6	2,568	2.8	5.3	276	3.8	2.30
1987	11.5	3,218	3.0	6.8	3,749	3.1	3.29
1988	11.3	4,295	7.1	7.8	1,873	2.5	3.54
1989	6.4	5,210	5.7	14.5	1,616	2.6	3.21
1990	9.5	5,886	8.6	9.5	322	2.4	4.34
1991	9.1	6,810	9.3	7.5	234	2.3	5.48
1992	5.1	7,183	6.3	8.4	235	2.4	4.26
1993	5.8	7,811	4.8	7.0	144	2.8	3.62
1994	8.6	8,998	6.2	6.1	121	2.4	3.57
1995	8.9	10,823	4.5	6.4	88	2.0	3.71
1996	7.1	11,380	4.9	6.7	85	2.0	2.98
1997	5.5	10,307	4.5	2.4	78	2.6	2.44
1998	-5.8	6,823	7.5	-9.3	129	6.8	0.65

Notes : Labor shortage Ratio=unfilled vacancies/current employees.

Sources : National Statistical Office, *Korea Statistical Yearbook*, Relevant issues.

Ministry of Labor, *Report on Monthly Labor Survey*, Relevant issues.

Bank of Korea, *National Accounts*, Relevant issues.

High increases in wages and the labor shortage forced the Korean economy to convert from a labor intensive economy to a technology intensive economy, and this transformation in the economy created a considerable mismatch between the skills workers actually possessed and those needed for jobs.

Strong trade unions demanded a lot of economic and social reforms from the government and employers. Introducing the Employment Insurance System became the top priority.

The depletion of cheap labor, strong trade unions and a considerable mismatch between workers' skills and occupations called for a new paradigm in economic and labor management strategies in

Korea.

In 1990, the Korean government assigned several public research institutes to design a specific area of the Seventh Five-Year (1992-1996) Economic and Social Development Plan. The Korea Labor Institute was in charge of designing labor policies for the year 1992-1996. It recommended the government to introduce the Employment Insurance System and provided an outline of the Korean system. The Government reviewed the proposal from the Korea Labor Institute and held several public hearings. It later confirmed that most people supported the proposal. On August 23, 1991, Korean government finally decided to introduce the Employment Insurance System during the mid-1990s.

On March 9, 1992, the government decided to ask the Korea Labor Institute to design a detailed Korean Employment Insurance System. At the government's request, the Korea Labor Institute launched the Employment Insurance Research Commission on May 18, 1992. The Commission was composed of 28 scholars, and observers from the government, management and labor were invited to participate in the discussion process of the Commission. The role of the Commission was to design the Korean Employment Insurance System in detail and carry out the necessary research. The Commission studied the unemployment insurance systems and experiences of many developed countries, as well as Korea's labor market conditions. After one year of research and a series of workshops and seminars with representatives from the government, labor, management and academia, the Commission presented its research findings and policy recommendations to the government on May 18, 1993, under the name, Proposed Employment Insurance System for Korea.

The government then collected opinions of various strata of society through public hearings, created the Employment Insurance Bill based on the Commission's recommendations and submitted it to the National Assembly in September 1993. The National Assembly passed the bill unanimously on December 1, 1993, promulgating it on December 27, 1993. The Employment Insurance Law was put into effect on July 1, 1995, and the unemployment benefits, which

requires at least a year's contribution by the insured, became operational from July 1, 1996.

2. Characteristics of the Korean Employment Insurance System

2.1. Compulsory Social Insurance System

The Korean Employment Insurance System is a compulsory social insurance system. All employers and employees in the covered enterprises should pay an insurance premium regardless of their willingness, and they are entitled to receive grants or unemployment benefits from the Employment Insurance Fund.

Generally, there are three types of cash benefits systems for the unemployed: i) compulsory unemployment insurance, ii) voluntary unemployment insurance, and iii) unemployment assistance.

In a compulsory or involuntary unemployment insurance system, the law decides the coverage of the system, and the covered employees and employers cannot choose to be exempted. All of these covered employees are entitled to claim unemployment benefits provided they meet the requirements.

In a voluntary unemployment insurance system, participation in the system is optional except for trade union members who are required to contribute to the unemployment insurance fund managed by the trade union.

In an unemployment assistance system, cash benefits for the unemployed are subject to means, income and earnings tests. Only the low-income unemployed are covered by the system, and the costs of cash benefits are financed from tax revenues.

Some countries have a dual system of a compulsory unemployment insurance system and an unemployment assistance system, or a voluntary unemployment insurance system and an unemployment assistance system.

The current unemployment benefit programs were preceded by the voluntary unemployment fund developed in the nineteenth century by trade unions or friendly associations in several European countries. Under these programs, each member of trade unions or friendly associations contributed to an unemployment fund from which unemployment benefits were provided when he/she was laid off. At that time, the level of benefits was much lower than that of today, and the unemployment funds managed by the unions were vulnerable to sudden fluctuations in economic conditions.

Governments gradually began to recognize the risk of unemployment came not only from an individual worker or employer, but also economic fluctuations, and that broader measures were needed to ensure the livelihood of employees. As a result, in several countries, government began to subsidize the unemployment funds of trade unions. This tradition is still alive in countries with a voluntary unemployment insurance system.

The United Kingdom introduced the compulsory unemployment insurance system for the first time in 1911, and many countries began to follow. Particularly after the Great Depression, many countries changed from a voluntary unemployment insurance system to a compulsory unemployment insurance system.

As of 1998, seventy countries had unemployment insurance system. Among them, fifty-seven have a compulsory unemployment insurance system, three have a voluntary unemployment insurance system, and ten have an unemployment assistance system.

2.2. Combination of Active and Passive Policy Measures

Whereas the traditional unemployment insurance system concentrates on remedial measures in post-factum by giving cash benefits to the unemployed, the Korean Employment Insurance System institutionalizes preventive measures against unemployment as well by adopting various measures for active labor market policy. The Korean Employment Insurance System is designed not only to help unemployed workers by giving them unemployment benefits, but also to

enhance employment stabilization and employability of workers through active labor market programs within the framework of the Employment Insurance System (EIS). Thus Korea's EIS is a combination of traditional unemployment benefits and active labor market programs. This is why Korea refers to its system as an employment insurance system rather than an unemployment insurance system.

Korea's EIS has three major programs: i) Employment Stabilization Program (ESP), ii) Job Skill Development Program (JSDP) and iii) Unemployment Benefits.

ESP seeks to prevent massive layoffs, stimulate reemployment and expand job opportunities by providing economic incentives to employers who have averted massive unemployment and employed marginal displaced workers. It also seeks to promote job placement by providing accurate information on the labor market and administering vocational counseling and guidance.

JSDP seeks to foster and stimulate vocational training for new entrants to the labor market and develop the job skills of employees and displaced workers. The current world economy dictates that a nation's comparative advantage in the quality of human resources determines its competitiveness, and countries are trying to reform their education and training system. JSDP is a way Korea hopes to strengthen its competitiveness, improve labor productivity and guarantee stable employment and employee earnings.

Unemployment Benefits aim to stabilize living conditions and promote reemployment of the unemployed by providing unemployment compensation.

2.3. Preventing Abuse of Unemployment Benefits

Unemployment benefits affect the labor market in several respects. Unemployment benefits can weaken job search efforts and encourage deliberate unemployment by claimants, thereby lengthening the spell of unemployment and reducing the supply of labor. Thus, in order to prevent abuse of unemployment benefits, there are several built-in

measures in Korea's EIS.

First, claimants for unemployment benefits have to be insured for at least twelve months out of eighteen months immediately before the layoffs. The 12-month insured employment period and 18-month base period are strict conditions compared to other countries. In most countries, the required insured employment period is shorter than or equal to half of the base period, as shown in Table 1.2, which is an easier condition for claimants to satisfy. Moreover, once a claimant receives unemployment benefits, his/her new insured employment period and the base period are counted after his/her most recent benefit period.

Second, claimants for unemployment benefits must register at the

Table 1.2. Base Period and Insured Employment Period in Selected Countries

Countries	Base Period	Required Time of Insured Employment in the Base Period
Austria	12 months	20 weeks
Canada	12 months	10 weeks
Denmark	12 months	3 months
Finland	24 months	26 weeks
Germany	3 years	360 days
Italy	2 years	52 weeks
Japan	1 year	6 months
Korea	18 months	12 months
Netherlands	1 year	26 weeks
Spain	4 years	6 months
Switzerland	2 years	6 months
Sweden	12 months	4 months

Source : Yoo and Lee(1996).

public employment office as a job seeker, and they should be ready and able to work and search job actively. Each claimant should report to the public employment office every two weeks of his/her active job search effort, willingness and ability to work, and availability for

work. If he/she fails to satisfy these requirements, the claimant is disqualified for unemployment benefits.

Third, claimants who voluntarily quitted their jobs without good reason or were fired for their own great faults are ineligible for unemployment benefits. In most countries, unemployment benefits are only suspended for a certain period, and the claimant can receive unemployment benefits after the suspension period even in these cases.

Fourth, the first 14 days of unemployment is treated as a waiting period, and there is no remuneration for this period. The 14-day period is longer than most other countries, where the waiting period is around seven days, as shown in Table 1.3.

Fifth, if a claimant refuses the job placement services of the public employment office, his/her unemployment benefits are suspended for

Table 1.3. Waiting Period in Selected Countries

Waiting Period	Countries
None	Belgium, Denmark, France, Germany, Netherlands, Portugal, Spain
2 days	Switzerland
3 days	Barbados, Cyprus, Ireland, Norway, Austria, U.K.
5 days	Finland, Israel, Sweden
6 days	Greece
7 days	Australia, Egypt, Italy, Japan, U.S.A.
14 days	Canada, Korea, New Zealand
1 month	Venezuela
60 days	Brazil, Ecuador

Source : Yoo and Lee(1996).

two weeks. And if a claimant refuses the order of the public employment office to participate in a job skill development program, his/her unemployment benefits are suspended for four weeks. These help to ensure that claimants utilize the job placement services of the

public employment office and undergo job skill development for reemployment.

Sixth, a claimant is entitled to receive unemployment benefits for only 10 months from the first day of unemployment barring any permission from the public employment office. This encourages the claimant to register at the public employment office right after unemployment in order to receive his/her unemployment benefits for the maximum allowed period. The earlier they register, the sooner the government hopes they will be able to find a new job with support from the public employment office.

Seventh, unemployment benefits are awarded for a relatively short period, ranging from 60 to 210 days, depending on the insured employment period in the base period and age of the claimant. And the amount of unemployment benefits is basically 50 percent of the claimant's average wage for the last three months immediately before the layoff, which is relatively lower than most European countries.

2.4 Incentives for Early Reemployment and Vocational Training

Although Korea's EIS is quite strict to prevent abuse of unemployment benefits, it is also generous in encouraging active job search and job skill development training for reemployment.

In order to encourage the job search efforts of claimants, EIS offers the Early Reemployment Allowance (ERA). ERA is an incentive benefit to minimize the period of unemployment and encourage speedy and stable reemployment. It is given when the recipient of unemployment benefits finds employment before exhausting a half of his/her unemployment benefits. The amount of the Allowance is 50 percent of the claimant's remaining unemployment benefits. Therefore, the sooner the claimant finds a new job, the bigger the allowance.

In order to encourage active job search efforts, EIS created the Nationwide Job-Seeking Allowance (NJSA). NJSA assists nationwide job search activities by subsidizing the transportation and lodging

costs for job interviews. If the applicant finds a suitable new job through a nationwide job search that requires relocating his/her residence, the moving costs are subsidized in the form of the Moving Allowance (MA) from the Employment Insurance Fund. Both the NJSA and MA are aimed at encouraging active and extensive job search efforts, thereby reducing the duration of unemployment.

There are several incentives for job skill development training for trainees and employers with EIS. The Job Skill Development Program (JSDP) is a basic tool for encouraging life-long vocational education and training for workers. Even in unemployment benefits, there are incentives for claimants to receive vocational training. For example, an employer who provides vocational education and training for employees, new entrants to the labor market and displaced workers may receive subsidies from the Employment Insurance Fund. An employer who plans to install vocational training facilities and equipment may receive a low-interest long-term loan from the Employment Insurance Fund. If a worker is laid off, he/she can receive free vocational education and training. A trainee eligible for unemployment benefits can receive both unemployment benefits and free training at the same time. In addition, even after the unemployment benefits have been exhausted, the unemployment benefits can be extended up to 24 months until he/she has completed the vocational education and training. If the trainee is not eligible for unemployment benefits, he/she receives a training allowance instead of unemployment benefits while undergoing training programs for reemployment.

When a worker is admitted to or enrolled at a technical or specialized college or a higher educational institution, he/she may receive a very low-interest loan from the Employment Insurance Fund to finance tuition and other fees.

3. Basic Structure of the Korean Employment Insurance System

The first clause of the Korean Employment Insurance Law stipulates the principal purpose of fostering economic and social development by i) preventing unemployment and promoting employment in conjunction with the development of and improvement in vocational knowledge, skills and capabilities; ii) strengthening development of job skills of the labor force and efficient job placement services; and iii) providing financial assistance to displaced workers.

More specifically, the Employment Insurance Research Commission enumerated five rationales for introducing EIS in Korea (Yoo, 1992; Yoo and Uh, 1993). First, EIS is implemented to facilitate, enhance and ease the industrial restructuring process, and to improve the efficiency of the economy. Since the late 1980s, the Korean labor market structure has undergone dramatic changes, leading to a tight labor market and decline in competitiveness. The current world economic structure demands prompt and efficient adaptation of technological changes through effective utilization of manufacturing and labor organizations. In most cases, the resulting industrial and enterprise restructuring necessitate management rationalization and downsizing of firms, creating a labor surplus and a significant number of layoffs. Hence, EIS is formulated to counterbalance these negative side effects of industrial restructuring and employment adjustment by institutionalizing welfare benefit provisions and necessary vocational training for reemployment.

Second, EIS is designed to ameliorate the disequilibrium in the supply and demand for labor. A computer network system with easy access to various information on employment opportunities and means to connect job seekers with potential employers may resolve critical job mismatches and misinformation problems in Korea.

Third, EIS purports to popularize vocational training and enhance firm competitiveness. Extensive investment in vocational training facilities and resources induces a higher standard of job performance and quality of the work force, strengthening firm competitiveness. Furthermore, EIS provides incentives such as subsidies and financial assistance to encourage individual firms to invest in the internal labor

force, thereby improving labor productivity, employment stability and the firms' competitive edge in the international market.

Fourth, EIS channels financial assistance to temporarily unemployed workers via unemployment benefits to stabilize living conditions and facilitate timely reemployment. The current severance payment system contains a one-time lump sum cash payment upon termination of employment. It, however, fails to satisfy the stated objectives of stabilization and speedy reemployment. It is often the case that employers fail to make payments, if at all, within one year, thus making the system ineffective and useless. Hence, although some have argued the severance payment system as a sufficient protective device for unemployment, the need for a comprehensive and systematic approach to employment stabilization is compelling.

Fifth, a properly functioning EIS will facilitate Korea's reunification process in the future by providing aid to unemployed workers from North Korea. Although Germany experienced substantial unemployment after reunification, it withstood social and economic hardships by executing, inter alia, an effective employment insurance policy that provided vocational training, created public sector jobs, and encouraged early retirement. Similarly, it is imperative for the Korean government to consolidate an effective EIS as it anticipates reunification with North Korea and absorption of its weak and unstable economy.

For these purposes, Korea's EIS has three basic programs: the Employment Stabilization Program, Job Skill Development Program and Unemployment Benefits.

The Employment Stabilization Program (ESP) seeks to prevent massive layoffs and expedite transfers, reorientation and adjustment when sudden changes in the industrial structure or technology result in extensive corporate restructuring, and to promote utilization of job seekers' skills and interests by providing accurate information on the labor market.

The Job Skill Development Program (JSDP) seeks to foster and stimulate lifelong vocational training and job skill development. JSDP provides financial incentives to encourage individual firms to invest

in employee training, thereby improving labor productivity, employment stability, marketability of workers and firm competitiveness.

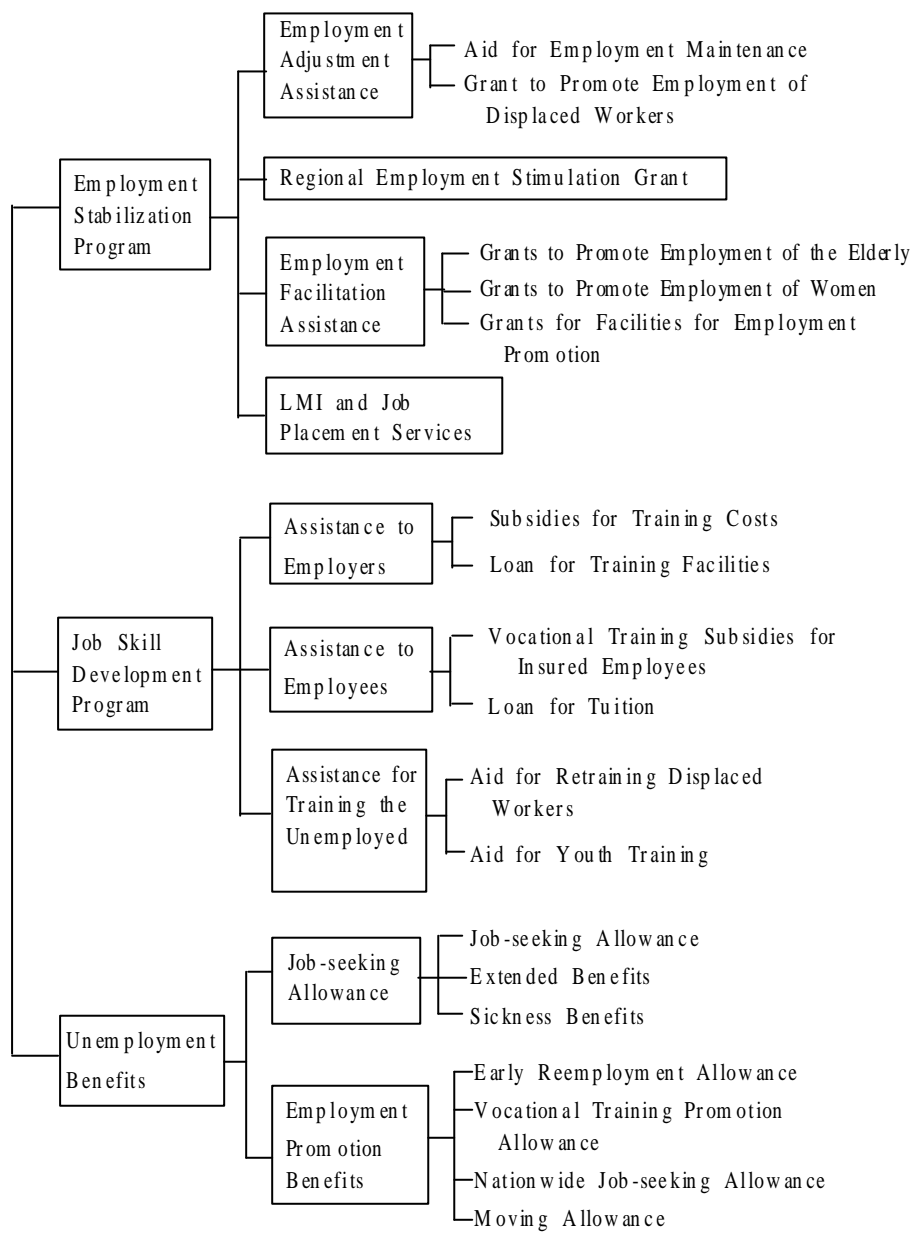
Unemployment Benefits aim to stabilize living conditions and promote early reemployment of displaced workers by providing unemployment compensation. For those who are taking vocational training for reemployment, who have found new employment in a relatively short period of time, or who are actively seeking work, there are financial benefits in EIS. This financial incentive system is to induce recipients of unemployment benefits to participate in retraining programs and actively seek new employment.

The structure of Korea's EIS is shown in Figure 2.1.

4. Financial Crisis and the Employment Insurance System

The financial crisis in Korea has affected the Korean economy and labor market in many respects. After the financial crisis in November 1997 and the International Monetary Fund (IMF) bailout package in December 1997, Korea experienced a GDP growth rate of -5.8 percent in 1998, after a 5.5 percent gain in 1997. This drastic downturn of the economy resulted in the highest unemployment rate that this country has even experienced. The unemployment rate, which was 2.1 percent in October 1997, soared to 4.5 percent in January 1998, 7.6 percent in July 1998, and further to 8.7 percent in February 1999. The annual unemployment rate was 2.6 percent in 1997, but it was 6.8 percent in 1998. The average number of the unemployed was 556 thousand in 1997, but it increased to 1.46 million in 1998. The average number of the employed also dropped from 21 million in

Figure 2.1. Structure of the Korean Employment Insurance System



1997 to 19.9 million in 1998. Moreover, a large number of people moved into the economically inactive population as many unemployed people gave up searching for new job. As a result, the number of the economically inactive population increased from 13 million in 1997 to 13.85 million in 1998, while economically active population decreased from 21.6 million in 1997 to 21.4 million in 1998.

The financial crisis elevated the need for development of relevant labor market programs and sound social safety nets for the unemployed. EIS has played a key role in mitigating unemployment and providing interim support for those who have suffered unemployment. In order to help displaced workers and smooth the employment adjustment process in the economic restructuring, there have been several changes in Korea's EIS after the financial crisis.

First, EIS coverage extended rapidly after the financial crisis. Until 1997, EIS applied to enterprises with thirty employees or more. It was extended to enterprises with ten employees or more from January 1, 1998, as scheduled. In February 1998, the Tripartite Commission, which is the presidential advisory board composed of representatives of government and political parties, management, and trade unions, agreed to expand the coverage of EIS to all enterprises from July 1, 1999. However, the Korean economy and labor market situation became much worse than expected as time passed. Confronted with a rapidly increasing unemployment rate, Korea expanded the coverage of EIS to enterprises with five employees or more from March 1, 1998, and to all enterprises regardless of their size from October 1, 1998.

Second, in order to help the unemployed from these smaller covered enterprises claim unemployment benefits, the qualifications for the benefits were temporarily amended. The former requirement of an insured employment period of 12 months out of the 18-months base period immediately before the layoff was shortened to six months out of a 12-months' base period from March 1, 1998, to June 30, 2000.

Third, the amount of unemployment benefits was adjusted. The

amount of the Job-seeking Allowance (JSA) is approximately 50 percent of the average wage of the three months immediately preceding the layoff, within the allowed maximum and minimum amount. The minimum amount of JSA began to increase from 50 percent of the minimum wage to 70 percent of the minimum wage from March 1, 1998. Also, the amount of the Early Reemployment Allowance was increased from one-third of the remaining JSA to one-half of that from February 1, 1998.

Fourth, the Special Extended Benefits (SEB), which extends the duration of JSA by 60 days when the unemployment rate is six percent or higher in three consecutive months, was introduced in March 1998. It was implemented from July 15, 1998.

Fifth, measures for reducing unemployment were strengthened by amending the Employment Stabilization Program (ESP). The requirements and process for ESP were simplified, and the amount of assistance to an employer who averted unemployment through ESP was increased from 1998.

Sixth, confronting a rapid increase in expenditures for unemployment benefits and other programs, the contribution rate of EIS was increased in January 1, 1999, from 0.9–1.3 percent to 1.4–2.0 percent of the payroll, depending on the size of the enterprise.

Unemployment is one of the key factors in poverty. EIS is the most important social safety net for the unemployed in Korea. However, not all of the unemployed are covered by EIS. Thus Korea has tried to expand the coverage of EIS and develop supplementary social safety nets for the unemployed who have exhausted their unemployment benefits or who are not qualified for unemployment benefits. Nevertheless, once the unemployment rate goes up, it is very difficult to escape the unemployment trap. The social safety nets for the unemployed themselves cannot be the answer to unemployment, rather, they just mitigate the pain of unemployment for a while. The only answer to overcoming high unemployment is to develop a strong national economy by consistently restructuring and strengthening the potential energy of a country. If people worry too much about the pains of the economic, political and social restructuring process and

seek generous social protection for the unemployed, the potential energy of the national economy for growth will weaken, and the country will not be able to escape the high unemployment trap. On the other hand, if people endure the short-term pains of restructuring and high unemployment during the restructuring process, the country can escape the high unemployment trap by recovering the potential energy for growth and eventually enjoy sound economic development in the long run.

Korea is being confronted with severe economic trials and a high unemployment rate as a result of from the financial crisis, which Korea has never experienced before. Which path Korea should choose is obvious. EIS may help both employers and employees in restructuring the Korean economy, transforming Korea into a model case for the world in overcoming the financial crisis.

. Coverage

1. Principle of Coverage

Coverage means that the employment of these workers is insurable and that their earnings are subject to a contribution assessment for which they and their employers are liable.

In principle, the Employment Insurance System (EIS) of Korea is mandatory for all enterprises. Therefore, all employees in any enterprise are covered by EIS with some specific exceptions.

Considering the administrative difficulties in collecting the insurance premium in very small enterprises, the EIS coverage began in enterprises with 30 employees or more for Unemployment Benefits, and enterprises with 70 employees or more for the Employment Stabilization Program (ESP) and the Job Skill Development Program (JSDP). But according to the Enforcement Ordinance of the Employment Insurance Law, EIS was scheduled for expansion to enterprises with 10 employees or more for Unemployment Benefits, and enterprises with 50 employees or more for ESP and JSDP from January 1, 1998.

The unexpected financial crisis in November 1997, however,

changed the Korean labor market situation drastically. After the International Monetary Fund (IMF) bailout package in December 1997, the unemployment rate, which was 2.6 percent in November 1997, began to soar to 5.9 percent in February 1998 and further to 7.6 percent in July 1998. Facing a with rapidly increasing unemployment rate, Korea expanded the coverage of EIS to enterprises with five employees or more for Unemployment Benefits on March 1, 1998. From July 1, 1998, the coverage of ESP and JSDP also extended to enterprises with five employees or more. On October 1, 1998, all enterprises were covered by EIS regardless of their size and EIS program. The process of expanding EIS is summarized in Table 2.1.

Table 2.1. EIS Coverage Expansion

Date	Unemployment Benefits	Employment Stabilization Program and Job Skill Development Program
July 1, 1995	30 employees or more	70 employees or more
January 1, 1998	10 employees or more	50 employees or more
March 1, 1998	5 employees or more	50 employees or more
July 1, 1998	5 employees or more	5 employees or more
October 1, 1998	1 employee or more	1 employee or more

2. Coverage Exclusions

Basically, all workers are to be covered by EIS. Considering the various types of employment and administrative difficulties, however, the following employees are excluded from EIS coverage.

2.1. Workers Employed in Enterprises with Four or Less Employees in Agriculture, Forestry, Fishery, and Hunting Industries

Enterprises with four or less employees in the agriculture, forestry, fishery and hunting industries are excluded from EIS coverage, because employment in these enterprises tends to be occasional, casual, temporary or part-time. It is extremely difficult to get correct information on their employment and wages. Therefore, workers in enterprises with four or less employees in agriculture, forestry, fishery and hunting are excluded from Korea's EIS.

2.2. Workers Employed in Construction with Extremely Small Scale

Construction work of which the cost is less than the amount specified annually by the Minister of Labor (For 1999, the noted amount is 340 million won.) and small-scale housing construction not executed by a housing contractor based on the Housing Construction Promotion Act, are excluded from EIS coverage. The size of the housing construction work not covered by EIS is determined by the criteria of the Basic Construction Industry Act.

Most workers employed in very small construction jobs with extremely small scale are usually temporary, part-time or seasonal workers, and so it is very difficult to get correct information on their employment and wages. Therefore, workers employed in construction with extremely small scale are excluded from EIS coverage.

2.3. Workers Employed in Household Services

Workers employed in household services are usually temporary, part-time, or seasonal workers, and usually there are no records on their employment and wages in Korea. So workers employed in household services are not covered by EIS.

2.4. Workers Aged 65 or Over

Elderly job seekers aged 65 or over are generally retirees of regular jobs, and there are very few full-time jobs for this age group. Therefore, those aged 65 or over and those newly employed after age 60 are excluded from EIS. They are covered by the National Pension Program.

2.5. Part-time Temporary Workers

EIS mainly focuses on full-time employees under normal conditions of employment. Those whose monthly working hours are less than 80, or whose weekly working hours are less than 18 are excluded from EIS coverage.

Short-term, temporary workers whose employment period is shorter than or equal to one month are covered by ESP and JSDP, but they are excluded from Unemployment Benefits. Most temporary employment is contracted on a daily basis, and there is no guarantee of further work opportunity. Administrative constraints that result from such unstable working relationships account for the exclusion of short-term employment from Unemployment Benefits. The government is considering a special benefit program for them.

2.6. Government and Private School Employees

Both national and local governments as well as private school employees, as defined by respective laws, are not covered by EIS since they are protected by special pension plans and enjoy a very stable employment status. However, even among government and private school employees, those who are not protected by the special pension plans are covered by EIS.

2.7. Fishermen Engaged in Coastal Fishery

It is very difficult to get correct information on workers in the

costal fishery sector. Their employment records are not well maintained, and usually they are seasonal and temporary workers. Thus, those engaged in maritime activities, except those employed in pelagic-fishing or merchant vessels as determined by the Minister of Labor, are excluded from EIS.

2.8. Foreign Workers Without Work Permits

Foreign workers are covered by EIS in Korea if they hold work permits from the government. But, if they are employed without work permits, their employment is illegal and they are excluded from EIS.

3. Trend of Insured Employees

With the expansion of EIS coverage, the number of employees and enterprises actually covered is increasing. The actual number of covered enterprises registered at public employment offices and paying their EIS premiums was 39 thousand on December 31, 1995, out of 43 thousand estimated number of enterprises that should be covered, 140 thousand on June 30, 1998, out of 199 thousand estimated number of enterprises, and 558 thousand on May 31, 1999, out of 664 thousand estimated number of enterprises (see Table 2.2). The actual number of covered employees that paid their EIS premiums and registered at the public employment offices as insured employees was 4.2 million on December 31, 1995, out of 4.28 million estimated number of employees that should be covered, 4.8 million on June 30, 1998, out of 5.7 million estimated number of employees, and 5.8 million on May 31, 1999, out of 8.34 million estimated number of employees (see Table 2.2). Therefore, as of May 31, 1999, about 16 percent of enterprises and 30 percent of employees that should be covered by EIS were not actually registered at public employment offices as covered enterprises and insured employees.

Why are many enterprises and employees still not protected by the safety net even if they are entitled to EIS coverage by law? First, although it is the employers' duty to register at the public employment office and pay EIS premiums for their employees, many employers of very small enterprises neglect to do this. Second, it is extremely difficult for the public employment office to identify very small enterprises and their employees and collect insurance premiums from them because small businesses open and close down constantly.

Therefore, how the government can effectively identify very small enterprises and their employees and collect insurance premiums is a big issue in effectively implementing EIS.

Table 2.2. Number of Insured Employees and Covered Enterprises

(in thousands)

	Dec. 31, 1995	June 30, 1998	May 31, 1999
Scope of Coverage (enterprise)	30 employees or more	5 employees or more	1 employee or more
Estimated Number of Enterprises to be Covered ¹⁾	43	199	664
Actual Number of Covered Enterprises ²⁾	39 (90%)	140 (74%)	558 (84%)
Estimated Number of Employees to be Covered ¹⁾	4,280	5,710	8,342
Actual Number of Insured Employees ²⁾	4,204 (98%)	4,797 (84%)	5,796 (70%)

Notes : 1) The numbers are estimated based on survey data of the National Bureau of Statistics and enterprise data of the National Tax Office.

2) The number is actually the registered number of enterprises and employees at the public employment office.

Source : Ministry of Labor.

. Employment Stabilization Program

1. Program Outline

1.1. Purpose of the Program

In a rapidly changing globalized economy, each firm has to continuously adjust to changing circumstances. In the adjustment process, firms may inevitably need to modify their employment structure. It is needless to say that a flexible labor market will respond must effectively to labor market conditions in the long run. Therefore, improving the flexibility of the labor market would be the correct direction for labor market policy. However, improving the flexibility of the labor market could worsen unemployment and income inequality in the short run, because employment adjustment sometimes results in massive unemployment, and the marginal workers would be the victims in most cases. Therefore, it is important to harmonize efficiency and equity in the process of employment adjustment and development of labor market flexibility, which is the major target of the Employment Stabilization Program (ESP).

ESP seeks to prevent massive layoffs, stimulate reemployment of

displaced workers, promote employment of marginal workers, expand job opportunities, and improve job matching by connecting job seekers to the right job offerers.

For these purposes, ESP provides economic incentives to employers who have avoided massive unemployment and employed marginal displaced workers. In order to prevent massive unemployment, ESP gives grants to employers who have prevented layoffs by maintaining the same level of employment, reducing work hours, training and relocating workers. To improve job matching, ESP also provides job placement services to labor market participants.

Article 15(1) of the Employment Insurance Law states, "The Ministry of Labor is to administer employment stabilization policies to prevent massive layoffs, stimulate reemployment, expand job opportunities, etc., in the case of employment instability created by business cycles, technological and structural changes, and other economic factors."

1.2. Priority Enterprises Versus Large Enterprises

Article 16(3) and Article 21(2) of the Employment Insurance Law establish the legal bases for conferring preferential treatment to relatively small enterprises in implementing ESP and JSDP. Based on this, when Korean EIS programs give subsidies to qualified employers, preferential treatment to relatively small-sized enterprises is conferred in the form of larger amounts of financial aid. These relatively small-sized enterprises are called "priority enterprises," and non-priority enterprises are called "large enterprises" under EIS. Determination of priority enterprises in each industry depends on the following criteria:

- Mining industry : less than 300 employees;
- Manufacturing industry : less than 500 employees;
- Construction industry : less than 300 employees;
- Transportation, Storage and Communication industries : less than 300 employees;

- Other industries : less than 100 employees.

1.3. Program Structure

The ESP is composed of four sub-programs: Employment Adjustment Assistance Regional Employment Stimulation Grants, Employment Facilitation Assistance, and Labor Market Information and Job Placement Services (see Figure 3.1).

Employment Adjustment Assistance assists employers who stabilize employment i) by taking the proper measures for employment maintenance such as a temporary shutdown, reduced working hours, employment maintenance training, dispatching employees, leave of absence, and employee relocation, or ii) by hiring displaced workers.

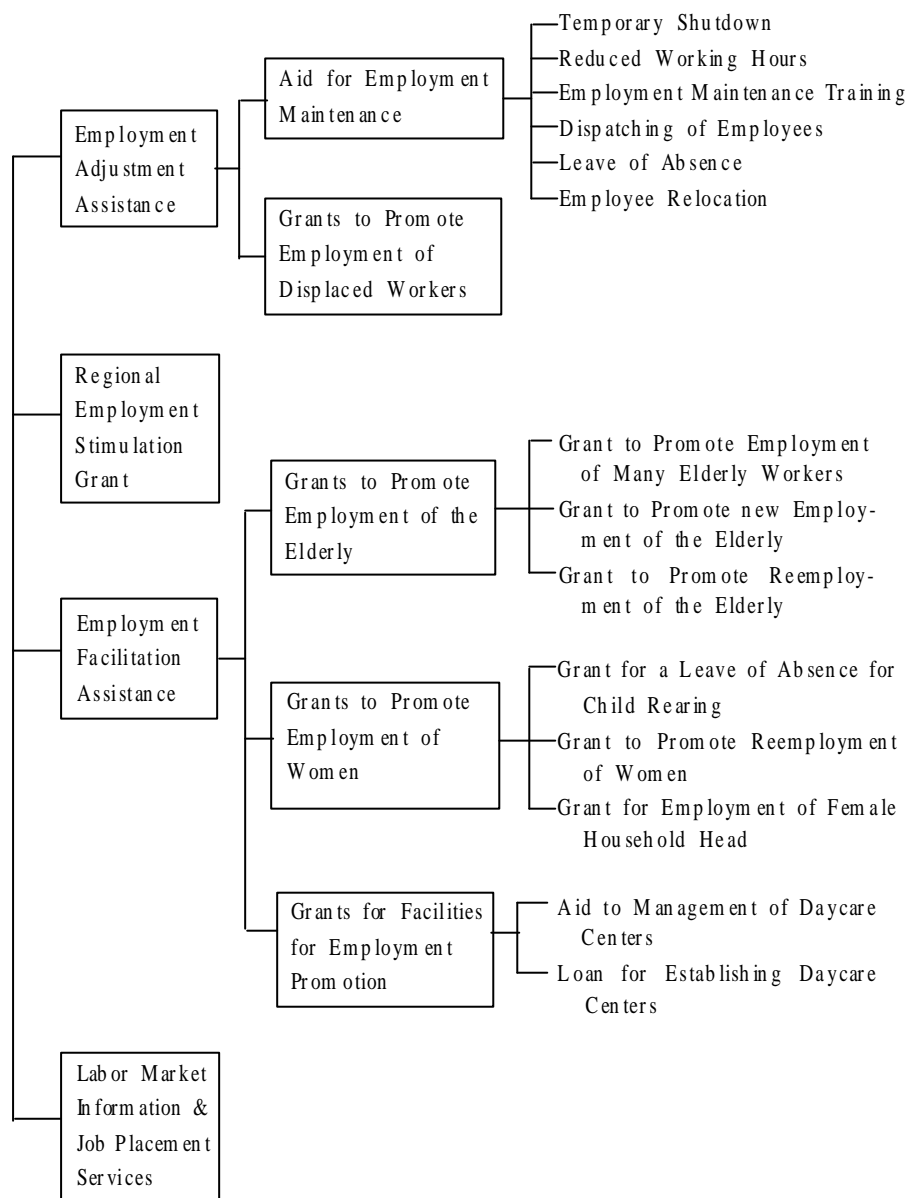
The Regional Employment Stimulation Grant was created to expand employment opportunities in the designated regions where employment conditions were very serious by subsidizing employers who created employment in those regions.

Employment Facilitation Assistance assists employers who promote employment of marginal workers, such as the elderly and female household heads. Employment Facilitation Assistance is composed of Grants to Promote Employment of the Elderly, Grants to Promote Employment of Women, and the Grants for Facilities for Employment Promotion.

The purposes of the Labor Market Information (LMI) and Job Placement Services programs are: i) to improve job placement and shorten the spell of unemployment by providing job seekers with quick, active and tailored services for new jobs; and ii) to improve efficiency in the labor market by supplying appropriate, prompt and accurate information to all participants of the labor market.

2. Employment Adjustment Assistance

Business activity can be defined as the process of adaptation and

Figure 3.1. Structure of the Employment Stabilization Program

development in response to changing environments, both internal and external. Economic changes, in particular, cause firms to continually alter their level of employment to equilibrate it with the level of production. This creates the problem of employment adjustment. Article 16 i) of the Employment Insurance Law states, "The Ministry of Labor may assist the employer who has stabilized employment by taking proper measures for employment maintenance such as a temporary shutdown, reduced working hours, employment maintenance training, dispatching of employees, leave of absence and relocation of employees in his/her efforts to adjust to the changing economic environment and industrial structure." Article 16 ii) of the Employment Insurance Law promotes unemployment prevention by decreeing assistance to the employer who has contributed to the stabilization of the labor market by hiring displaced workers in the process of employment adjustment. Reflecting these goals and purposes, the Enforcement Ordinance regarding the Employment Insurance Law stipulates employers who have stabilized employment through a temporary shutdown, reduced working hours, employment maintenance training, dispatching employees, leave of absence, and employee relocation as concrete means of employment adjustment are eligible for Employment Maintenance Assistance.

Employment Adjustment Assistance is composed of Aids for Employment Maintenance and the Grants to Promote Employment of Displaced Workers.

2.1. Aid for Employment Maintenance

Aid for Employment Maintenance encourages employers to maintain employment and avoid laying off employees in the process of employment adjustment.

An employer is qualified for Aid for Employment Maintenance when he/she satisfies all of the following conditions:

- (1) In the process of employment adjustment, layoffs are inevitable.
- (2) An employer has guaranteed continued employment by taking proper measures for employment maintenance.

- (3) An employer has reported the employment maintenance plan to the public employment office, and the measures for employment maintenance have been carried out according to the plan.
- (4) Before and during the measures for employment maintenance are implemented, there should be no reduction of employees.

2.1.1. Inevitability of Layoffs

If the enterprise meets the following conditions, layoffs are considered inevitable.

- (1) As of the first day of taking measures for employment maintenance, the inventory of the enterprise has increased by more than 50 percent compared with the average stock of the previous year.
- (2) Production for the month of the first day of taking measures for employment maintenance has been reduced by more than 10 percent compared to the previous month, compared to the average production of the last three months, or compared to the average monthly production of the previous year.
- (3) Sales in the month of the first day of taking measures for employment maintenance have fallen by more than 10 percent compared to the amount of sales in the previous month, the average amount of sales in the last three months, or the average amount of monthly sales in the previous year.
- (4) The inventory for the month of the first day of taking measures for employment maintenance and the monthly inventory in the previous two quarters are continuously increasing or the amount of sales for the month of the first day of taking measures for employment maintenance and the monthly inventory in the previous two quarters are continuously decreasing.
- (5) The size of the enterprise has been reduced because sections have been abolished, organizations in the enterprise have been reduced, parts of production lines have ceased, etc.
- (6) Labor-saving facilities such as automation have been installed, or a labor-saving way of working or production method has

been introduced.

- (7) The public employment office recognizes that a reduction in the workforce is inevitable considering the circumstances of the concerned industry and local economy.
- (8) When employees take over the business, more than 60 percent of the former employees have been relocated to the concerned business, and more than 50 percent of the stocks of the concerned business have been transferred to the former employees.

2.1.2. Proper Measures for Employment Maintenance

An employer is qualified for Aid for Employment Maintenance when the employer has stabilized employment by taking proper measures for employment maintenance such as a temporary shutdown, reduced working hours, employment maintenance training, dispatching employees, leave of absence and employee relocation.

1) Temporary Shutdown

Article 45 of the Labor Standards Act of Korea requires the employer responsible for a business closure to compensate the employees for an amount that exceeds 70 percent of the employee's average wage rate of the three months preceding the business closure. Although the compensation provides a measure of economic security for laid-off workers and their families and may prevent massive unemployment, it may also result in employment instability when the employer resorts to layoffs, as opposed to shutdowns, to avoid the undue expense of shutdown compensation. Therefore, the Employment Insurance Law guarantees financial assistance to employers encumbered with paying shutdown compensation resulting from industrial restructuring, business fluctuation, and other economic reasons, with the end goal of ameliorating management difficulties and preventing massive layoffs.

In order to receive Aid for Employment Maintenance for a temporary shutdown, the employer must satisfy the following

conditions:

- (1) The shutdown must be due to economic reasons and carried out during a designated period. Non-economic reasons, such as labor disputes, strikes and fires, as well as a violation of the time requirement, preclude the grant.
- (2) The shutdown ratio must exceed one-fifteenth, and shutdown compensation to workers must have been paid. The shutdown ratio is the total number of shutdown days of the insured in a month divided by the total number of required working days of the insured in a month.
- (3) The shutdown must be carried out in accordance with the agreements made with the labor union organized by a majority of the employees.

2) Reduced Working Hours

An employer who has avoided layoffs in the face of reduced productivity or downsizing of the firm by reducing the working hours may receive Aid for Employment Maintenance under the following conditions.

- (1) The daily working hours have been reduced by 10 percent or more, or the weekly working hours have been reduced by 8 hours or more.
- (2) The period of reduction in working hours should be one month or longer.
- (3) The actual working hours after the reduction should be shorter than the legal minimum working hours according to the Labor Standards Act and the Industrial Safety and Health Act, which is 44 hours (42 hours for aged 18 and under) per week.
- (4) The employer must consult and negotiate with the labor union or the employee representative on the reduction of the working hours.

3) Employment Maintenance Training

In order to receive Aid for Employment Maintenance for employ-

ment maintenance training, the employer must satisfy all of the following conditions.

- (1) The employer must train the workers with the purpose of enhancing their employability.
- (2) The trainees in the employment maintenance training programs should not be engaged in work during the training period.
- (3) The employment maintenance training programs should be thirty hours or more in total, and four hours or more per training day.
- (4) The employer must consult and negotiate with the labor union or the employee representative on employment maintenance training.

4) Dispatching of Employees

An employer who has maintained workers by dispatching them to another location when reorganization has become necessary due to reduced productivity or downsizing of the firm qualify for Aid for Employment Maintenance.

In order to receive Aid for Employment Maintenance for dispatching employees, the employer must satisfy all of the following conditions.

- (1) The employer has maintained employment for their workers by dispatching them to his/her affiliated companies or other workplaces while maintaining an employment relationship with the dispatched worker.
- (2) Each dispatched employee must be allowed to come back to the original workplace upon release or the end of the dispatching period.
- (3) The employer must consult and negotiate with the labor union or the employee representative on dispatching employees.

5) Leave of Absence

An employer who has provided continued employment to insured workers through a paid or unpaid leave of absence even when

employment reduction is inevitable qualifies for Aid for Employment Maintenance.

In order to receive Aid for Employment Maintenance for the leave of absence, the employer must satisfy all of the following conditions.

- (1) The leave of absence should be an effort to avoid reducing the workforce when such a measure is deemed necessary. The employer does not have to pay any allowance to an employee during his/her leave of absence.
- (2) The employer must get a written agreement from the employee on the leave of absence.
- (3) The leave of absence should be one month or longer.

6) Relocation of Employees

The relocation of employees involves transferring employees who face layoffs to new businesses. This has the beneficial effects of preventing unemployment as well as transforming the industrial structure.

Aid for Employment Maintenance is awarded to an employer who satisfies all of the following conditions.

- (1) An employer should guarantee continued employment of the transferred workers by relocating them in the process of business reorientation to a properly equipped facility.
- (2) The number of transferred workers must comprise at least 60 percent of the insured employees at the time of submitting a reorganization proposal.
- (3) The relocation of employees has to be completed within 18 months since the employer reports the proposal to relocate the employees to the public employment office.
- (4) The employer must consult and negotiate with the labor union or the employee representative on the relocation of employees.

2.1.3. The Amount and Duration of the Aid for Employment Maintenance

The amount of Aid for Employment Maintenance depends on the measures an employer has taken to guarantee continued employment for the employees in the process of employment adjustment.

The maximum duration of the Aid is 180 days in total, except in the case of employee relocation, including each period of measures for employment maintenance. When an employer has taken several measures for employment maintenance on the same day, it is counted as one day.

1) Temporary Shutdown

When an employer maintains employment through a temporary shutdown, priority enterprises may receive Aid for Employment Maintenance totaling two-thirds of the shutdown compensation which the employer has paid during the shutdown period, while large enterprises receive 50 percent of the shutdown compensation, for up to 180 days.

2) Reduced Working Hours

When an employer maintains employment by reducing working hours, the amount of Aid for Employment Maintenance is one-tenth of the average wage prior to the reduction of working hours for priority enterprises, while large enterprises receive one-fifteenth of the average wage. The maximum duration of the Aid is 180 days.

3) Employment Maintenance Training

When an employer maintains employment through employment maintenance training, priority enterprises may receive total training costs and two-thirds of wages the employer has paid for the trainees during the training period for up to 180 days. Large enterprises receive total training costs and 50 percent of wages, for up to 180 days.

4) Employee Dispatch

When an employer maintains employment through dispatching his/her employees, priority enterprises may receive Aid for Employment Maintenance totaling two-thirds of wages the employer has paid for the dispatched employees, while large enterprises receive 50 percent of wages, for up to 180 days.

5) Leave of Absence

If the leave of absence is paid, priority enterprises may receive two-thirds of the allowances the employer has paid for the employees during the leave of absence, while large enterprises receive 50 percent of the allowances, for up to 180 days.

If the leave of absence was unpaid and the employer supplied social insurance contributions and other fringe benefits for the employees on a leave of absence, employers in priority enterprises may receive 140,000 won¹⁾ per person per month during the leave of absence for up to 180 days. Employers in large enterprises may receive 110,000 won per person per month for up to 180 days in such a case.

If an employer trains employees who are on an unpaid leave of absence, he/she may receive total training costs, and the trainees may receive 70 percent of the minimum wage and 30,000 won for transportation costs as a training allowance during the training period, for up to 180 days.

6) Relocation of Employees

When an employer maintains employment through employee relocation, priority enterprises may receive Aid for Employment Maintenance totaling two-thirds of the payroll of transferred employees that an employer has paid during the period of relocation, for up to one year. Large enterprises receive 50 percent of the payroll

1) "Won" is the unit of Korean currency. As of the end of 1998, 1 US dollar=1,208 won.

for up to one year from the day the employees are relocated.

2.2. Grant to Promote Employment of Displaced Workers

2.2.1. Qualifications for the Grant

The Grant to Promote Employment of Displaced Workers is to encourage employers to hire the unemployed during employment adjustment. This Grant is awarded when special employment stabilization measures are necessary considering the current and future labor market conditions after the Minister of Labor designates the period for the Grant. The Minister of Labor has designated the period for the Grant each year since the second half of 1997.

In order to receive the Grant, an employer has to satisfy one of the following conditions. If an employer has laid-off employees during the last three months before he/she claims the Grant, however, he/she is not qualified for the Grant even if he/she satisfies one of the following conditions.

- (1) An employer who has hired at least five displaced workers or at least five percent of the monthly average number of employees in a given quarter through the public employment office. The newly hired employees should have been insured by EIS before being laid-off in employment adjustment. "A layoff due to employment adjustment" means losing one's job because of firm downsizing, shutdown or transition caused by changes in economic conditions and industrial structure.
- (2) An employer who has laid off employees due to employment adjustment and reported the reasons of the layoff and his/her reemployment referral plan to the public employment office, and helps the laid-off employees find new employment in the referral plan. In this case, an employer who has hired displaced workers as insured employees within thirty days of their layoff through their former employer can receive the Grant for any number of the newly hired displaced workers.

2.2.2. Amount and Duration of the Grant

For priority enterprises, the Grant amounts to one-half of the payroll that the qualified employer has paid. It is one-third of the payroll for large enterprises.

If an employer has hired displaced workers unemployed for more than a year, or a worker who is 55 years old or over and unemployed for more than six months, the Grant amounts to two-thirds of the payroll for priority enterprises, and one-half of the payroll for large enterprises.

The award period is limited to six months.

3. Regional Employment Stimulation Grant

3.1. Purpose of the Regional Employment Stimulation Grant

Changes in the industrial structure resulting in deteriorating labor market conditions in certain industries or regions may cause serious social unrest and instability. For instance, if declining industries such as shoes, textile or coal mining industries are concentrated in certain regions, the labor market conditions in those regions could deteriorate when those industries lose competitiveness. Although it is the role of industrial policies to resolve these structural problems in the long-run, the Regional Employment Stimulation Grant may expand employment opportunities in those regions in the short-run by subsidizing employers who have created employment by opening, expanding or moving businesses into those regions. The Regional Employment Stimulation Grant is designed to expand employment opportunities in the designated areas where employment conditions have seriously worsened.

3.3.2. Qualifications for the Regional Employment Stimulation Grant

The Grant is awarded to an employer that meets all of the following qualifications.

- (1) Transfer, opening or expansion of the business must take place within a designated period and in the designated regions by the Minister of Labor. However, as of July 1999, no region had been designated for the Regional Employment Stimulation Grants. Hence, as of 1999, the Regional Employment Stimulation Grant has not been instituted.
- (2) The employer must write up a regional employment proposal explaining the transfer, opening, or expansion of his business, submit it to the Ministry of Labor, and execute the plan in accordance with the proposal.
- (3) The business must begin its operations within 18 months of the day on which the proposal was submitted.
- (4) Newly hired employees must have resided in the designated regions for at least six months at the time of the business opening.
- (5) The business must contribute to the development of the economy in the designated regions.
- (6) Execution of the proposal and the payroll of the newly employed workers must be documented.

3.3.3. Amount and Duration of the Grant

The Grant amounts to one-half of the payroll of the newly employed workers for priority enterprises and one-third for large enterprises. The employer can receive only 30 percent of the grant for newly employed workers that exceed 200 people if the number exceeds 200 people in a given designated period. The grant is limited to one year from the time of the business opening or to a designated expiration date.

4. Employment Facilitation Assistance

The Employment Facilitation Assistance is to promote employment of marginal workers such as the elderly and female household heads, as well as to encourage employers to establish employment promotion facilities for female employees. The Employment Facilitation Assistance is composed of the Grants to Promote Employment of the Elderly, Grants to Promote Employment of Women and Grants for Facilities for Employment Promotion.

4.1. Grants to Promote Employment of the Elderly

Grants to Promote Employment of the Elderly are to aid those who experience difficulties in obtaining employment under the prevailing labor market conditions.

Grants to Promote Employment of the Elderly are classified into the following three categories:

- (1) Grant to Promote Employment of Many Elderly Workers
- (2) Grant to Promote New Employment of the Elderly
- (3) Grant to Promote Reemployment of the Elderly

4.1.1. Grant to Promote Employment of Many Elderly Workers

The Grant to Promote Employment of Many Elderly Workers is awarded to an employer whose labor force has more than six percent of workers aged 55 or over. For the number of workers aged 55 or over beyond the 6 percent minimum and below the 15 percent maximum for priority enterprises or 10 percent for large enterprises, the employer may receive the given amount per older worker per quarter, set each year by the Ministry of Labor. The amount per older worker per quarter is 90,000 won in 1999.

4.1.2. Grant to Promote New Employment of the Elderly

The Grant to Promote New Employment of the Elderly is awarded to an employer who hired at least five new workers aged 55 or over, or five percent new workers aged 55 or over of the total number of employees, in a given quarter.

For priority enterprises, the amount of the Grant is one-fourth of the payroll for the first six months, which the employer has paid for the newly hired elderly workers. For large enterprises, the amount of the Grant is one-fifth of the payroll for the first six months. However, if the total number of elderly employees exceed 100 in one year, then only 30 percent of the elderly workers hired after the first 100 people will be counted toward the award.

4.1.3. Grant to Promote Reemployment of the Elderly

The Grant to Promote Reemployment of the Elderly is awarded to an employer who has re-employed workers between 45 and 55 years old within two years of their job dismissal for economic reasons.

The Grant is determined by the number of re-employed workers multiplied by an amount set each year by the Minister of Labor based on the industry and the size of the firm. As of 1999, the Grant per re-employed qualified employee was 1.6 million won for priority enterprises and 1.2 million won for large enterprises in the manufacturing industry, and 1.2 million won for priority enterprises and 800 thousand won for large enterprises in non-manufacturing industries. This grant is awarded once for each qualified re-employed worker.

4.2. Grants to Promote Employment of Women

4.2.1. Grant for a Leave of Absence for Child Rearing

Childbirth necessitates a maternity leave for childbearing, recuperation and child rearing. The Employment Law for Gender Equality, legislated in 1987, guarantees a leave of absence for child rearing in

firms that employ more than five workers. Therefore, the employer must allow a leave of absence for child rearing when requested by employees whose child is below one year old. The employer cannot hold this request against them, and the total period of the leave of absence for child-bearing and rearing may not exceed one year, as specified in the Labor Standard Law, Article 72. This period of absence is included in the period of continuous service.

The Grant for a Leave of Absence for Child Rearing, instituted to promote the popularization of parental leaves, is awarded to employers who have granted such a leave for more than 30 days in accordance with the Labor Standard Law, Article 71. It also specifies those days overlapping with paid maternity leave, lasting 60 days, will be discounted. Afterwards the worker must be re-employed for at least 30 days.

Each year the Minister of Labor announces the amount of the Grant per person. As of 1999, the amount of the Grant per person is set at 140,000 won for priority enterprises and 110,000 won for large enterprises.

4.2.2. Grant to Promote Reemployment of Women

The Grant to Promote Reemployment of Women is instituted to promote reemployment of female workers who have left the workforce due to pregnancy, childbirth or childcare. It is given to employers who satisfy one of the following requirements.

- (1) The collective agreement or rules of employment of the enterprise specifies that the employer can reemploy female workers who quit for reasons of pregnancy, childbirth or childcare.
- (2) The employer has re-employed female workers who quit for reasons of pregnancy, childbirth or childcare within five years.

The amount of the Grant is determined by the number of qualified re-employed female workers multiplied by an amount set each year by the Ministry of Labor based on the size of the firm. As of 1999,

the amount of the Grant per person is set at two million won per person for priority enterprises and one million won for large enterprises in the manufacturing industry, and 1.6 million won per person for priority enterprises and 1.2 million won for large enterprises in non-manufacturing industries. The Grant is awarded once for each qualified worker.

4.2.3. Grant for Employment of Female Household Heads

The Grant is instituted to foster employment of women who are the head of the household. Employers who hire female household heads registered at the public employment office as job seekers with dependants are qualified for the Grant.

The Grant amounts to one-half of the payroll of the newly employed for six months for priority enterprises and one-third of the payroll for large enterprises.

4.3. Grants for Facilities for Employment Promotion

When an employer or a group of employers establish daycare centers for the children of their employees, the Employment Insurance Fund offers support for managing the daycare centers and/or loans for their establishment. The Grants for Facilities for Employment Promotion are intended to reduce daycare expenses and promote the economic activities of female workers.

4.3.1. Aid to Management of Daycare Centers

Aid to Management of Daycare Centers is awarded to an employer or employers managing a daycare center for the children of their employees. The Aid subsidizes the salary of the teachers in the daycare centers. As of 1999, 600,000 won is granted toward a teacher per month for priority enterprises and 550,000 won per teacher per month for large enterprises without a time limit.

4.3.2. Loan for Establishing Daycare Centers

An employer or a group of employers establishing new daycare centers for their employees' children or expanding current daycare centers may receive a loan from the Employment Insurance Fund at a low interest rate for up to 300 million won.

5. Labor Market Information and Job Placement Services

The globalization and development of information technology have changed the patterns of employment, working hours and needed knowledge and skills for jobs. In order to minimize job mismatch problems and structural unemployment in rapidly changing economic conditions, we should develop an individually tailored job placement service system, flexible labor market system and efficient labor market information (LMI) system.

In order to shorten the job search period and improve job placement, active and individually tailored advice to job seekers and unemployment benefit claimants should be developed. Korea's EIS pursues the development of efficient modern services in helping job seekers find appropriate jobs as soon as possible.

LMI offers information on the labor market which can help job seekers and employers. It includes information on the past, current and future trend of labor force demand and supply, wages, working hours, employment structure, job seekers and job openings, laws and regulations on the labor market, occupations, industries, vocational education and training, job guidance and placement and labor market programs and policies. The process or system that collects, analyzes, and distributes this information is called the LMI system.

The LMI system improves the efficiency of the labor market by supplying appropriate, prompt and accurate information to the beneficiaries of LMI. By using correct and prompt information in the

LMI system, job seekers can find better jobs in a shorter period of time, and employers can find better staff. Therefore, well-developed LMI system could reduce unemployment based on the market principle. The LMI system provides schools, training institutes, students and trainees with correct information on the demand in the labor market. The LMI system is the basic infrastructure in delivering labor market policies and programs to the public. Thus, the LMI system can improve the efficiency of labor market mechanisms by enhancing job placement processes and reducing employment problems. In this sense, one of the most urgent tasks in labor market policies might be to develop an efficient LMI system as soon as possible.

Considering the importance of LMI, EIS has a program for developing the LMI system within the Employment Stabilization Program. Each year, EIS invests money in developing the LMI system, following several basic principles.

First, the LMI system should be developed so that everyone can access LMI at any time, anywhere and free of charge by internet, telephone or by visiting the public employment offices. This means that the central government has to play a key role in developing the LMI system. It takes a lot of money, time and highly qualified experts to design and implement the LMI system. Data from different organizations must be collected, analyzed and modified so that everyone can easily understand and use it. In order to develop an efficient LMI system, it is necessary to strategically plan an integrated system. The beginning stages of developing the LMI system are especially important because a failure in the first step would render the whole system inefficient.

Second, the LMI system should be customer-oriented. Once job seekers or job openers access LMI, they should be able to get all the information they need in one stop. All of the information customers want to know on the labor market should be collected, rearranged and supplied in the LMI system. To do this, the system should regularly research what the customer needs.

Third, all of the information in the LMI system should be

standardized so that the information in the system can be easily integrated and updated. Therefore, the criteria for standardizing LMI is very important. In this sense, development of the National Occupational Classification is essential to developing an efficient LMI system.

Fourth, the LMI system should be nationwide so that everybody in the country can easily access it. With the development of transportation and communication technology, the geographical distance is no longer a barrier to finding a job.

Fifth, LMI should be specialized in order to guarantee the quality of services. Gathering, analyzing and reproducing prompt and accurate labor market information require specialized knowledge on the labor market, occupation, statistics, economics and vocational education and training. Those who are involved in LMI should be equipped with sufficient knowledge in related fields and periodically receive training.

Sixth, all stakeholders - government, business, education and training providers, trade unions and community groups - should cooperate to formulate and implement the LMI system. It is needless to say that the role of the government is the most important in the development of LMI, but the government cannot do everything without active support from other stakeholders. Deregulation of private employment agencies is also necessary to improve the quality of services through the ensuing competition between public and private agencies.

6. Performance of the Employment Stabilization Program

The Employment Stabilization Program (ESP) is usually widely utilized during a period of economic downturn and employment adjustment for business restructuring. Before the financial crisis in November 1997, the total expenditure for ESP was only 8.5 billion

won in 1996 and 12.2 billion won in 1997, mainly due to the stable economy and labor market conditions. However, ESP began to be widely utilized from 1998 by employers as a measure for reducing

Table 3.1. Performance of the Employment Stabilization Program (1998)

(in cases, persons, million won)

	Cases	Employees	Amount
Total	14,756 (100.0)	780,579 (100.0)	96,481 (100.0)
1. Employment Adjustment Assistance	4,345 (29.4)	659,858 (84.5)	80,295 (83.2)
1) Aid for Employment Maintenance	4,220 (28.6)	654,375 (83.8)	74,223 (76.9)
2) Grant to Promote Employment of Displaced Workers	125 (0.8)	5,483 (0.7)	6,072 (6.3)
2. Regional Employment Stimulation Grant	-	-	-
3. Employment Facilitation Assistance	10,411 (70.6)	120,721 (15.5)	16,186 (16.8)
1) Grants to Promote Employment of the Elderly	9,583 (65.0)	113,395 (14.5)	12,116 (12.6)
2) Grants to Promote Employment of Women	575 (3.9)	4,541 (0.6)	2,425 (2.5)
3) Grants for Facilities for Employment Promotion	253 (1.7)	2,785 (0.4)	1,645 (1.7)

Note : Numbers in parentheses indicate the composition percentage in each column.

Source : Employment Research Center, *Employment Insurance Review*, Korea Labor Institute, Spring 1999.

massive unemployment in the process of structural adjustment and for promoting employment of marginal workers.

As shown in Table 3.1, 660 thousand employees benefited from the Employment Adjustment Assistance in 1998. Without this assistance, many workers would have been laid-off and become unemployed. It was estimated that the net employment effect of Employment Adjustment Assistance was 22 percent of the total beneficiaries (Kim, et al., 1999). According to this research, it is estimated that about 145 thousand employees could keep their jobs as a result of Employment Adjustment Assistance.

Most of the Employment Adjustment Assistance was Aid for Employment Maintenance, which comprised 97.1 percent of all cases, 99.2 percent of the pertinent employees, and 92.4 percent of the amount of the Aid for Employment Adjustment. Through Aid for Employment Facilitation, 10,411 employers received 16 billion won as grants for promoting employment out of 121 thousand pertinent employees.

. Job Skill Development Program

1. Program Outline

1.1. Purpose of the Program

Globalization has broken down the economic walls among countries and thus national boundaries not only in the movement of physical resources but also in the movement of human resources. The development of technology and information requires knowledge-based workers. If workers lag behind new information and technology, they lose their competitiveness and employability while their enterprises lose competitiveness in the world market. In order to maintain competitiveness, both employers and employees have to invest in building up their human capital.

The trend of globalization and development of information technology will be accelerated in the 21st century. In the era of globalization and information, competitiveness of a nation and its quality of life would largely depend on human resources armed with information, knowledge and technology. The employability and employment security of a worker would mainly depend on his/her job

skills, which can only be developed through lifelong education and training. Therefore, one of the core strategies for the growth of a nation and enterprise would be to develop an education and training system to produce creative and future-oriented human resources through life-long learning and training. As a result, the world's all countries and enterprises are fiercely competing with each other in a borderless world market for the more competitive labor force. Workers are also faced with unlimited competition not only with other workers in their countries but also workers in other countries.

Rapid changes in know-how and technology would create significant voids in demanded skills, which would result in massive structural unemployment. It will become increasingly important in the 21st century to build up a flexible and efficient life-long education and training system and to implement efficient and effective unemployment policies and programs.

In order to enhance the quality of the labor force, Korea's EIS has a series of programs for supporting vocational education and training in the Job Skill Development Program (JSDP). JSDP is an incentive system to encourage employers' and employees' active participation in lifelong vocational training and education through financial support to vocational education and training. In addition, it is designed to provide opportunities for vocational education and training to new entrants to the labor market and the unemployed to improve the occupational skills of the labor force.

1.2. Reform in the Korean Vocational Training System

In order to improve the quality of human resources, Korea reformed its vocational training system in 1999. From 1976 to 1998, Korea maintained the training levy system based on the Basic Law on Vocational Training. Under the training levy system, enterprises with 150 employees or more had two choices: either (1) to invest a certain percentage of total wages in training their employees and/or new entrants to the labor market, or (2) to pay a training levy to the government instead of training. This system was quite effective in

persuading employers to invest in vocational training during the authoritarian regime in the 1970s. The training levy system forced employers to follow the government's guidelines, which hardly satisfied the training needs of individual firms. If employers did not follow any of the government's training guidelines, they had to pay the levy to the government even if they trained employees or new entrants to the labor market. Since the training needs of firms were not reflected on time in the government's guidelines on vocational training, most employers did not follow the government's training guidelines and preferred paying the levy to training workers. When Korea introduced EIS in 1995, the Employment Insurance Research Commission recommended that the compulsory levy system be changed to an incentive system of voluntary training within the framework of JSDP. However, the Korean government kept the training levy system for firms with 1,000 employees or more, and applied JSDP to firms with less than 1,000 employees.

The experiences from 1995 to 1998 showed that the incentive system through JSDP was more effective in inducing employers to participate in vocational training than the compulsory training levy system. So in 1997, Korea enacted the Vocational Training Promotion Law, which would replace the Basic Law on Vocational Training from January 1, 1999. The basic idea of the Vocational Training Promotion Law is the same as JSDP. Korea changed her vocational training system from a compulsory levy system to an incentive system of voluntary training by switching the Basic Law on Vocational Training to the Vocational Training Promotion Law on January 1, 1999.

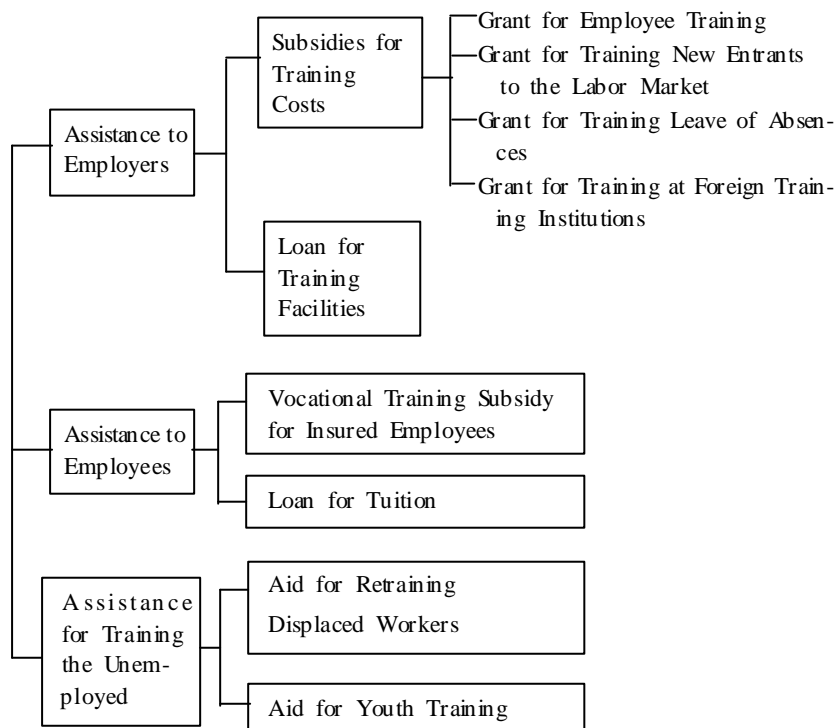
When employers train their workers, they can receive grants from the Employment Insurance Fund for up to 100 percent of training costs. Employers can choose their own training courses and methods using grants from the Employment Insurance Fund. So far, the new system has been much more effective in encouraging employers to participate in training their workers, but continuous evaluation of the new system will be necessary.

1.3. Program Structure

JSDP is composed of three major sub-programs: Assistance to Employers, Assistance to Employees, and Assistance for Training the Unemployed.

Assistance to Employers encourages employers to train their workers by subsidizing training costs. An employer is eligible for the Assistance when he/she trains employees and/or new entrants to the labor market. Assistance to Employers is composed of the Subsidies for Training Costs and Loan for Training Facilities.

Figure 4.1. Structure of the Job Skill Development Program



Assistance to Employees is direct support to employees participating in training programs. Assistance to Employees is composed of Vocational Training Subsidy for Insured Employees and Loan for Tuition.

Assistance for Training the Unemployed provides free training opportunities and training allowances for displaced workers and new entrants to the labor market. Assistance for Training the Unemployed is composed of Aid for Retraining Displaced Workers and Aid for Youth Training.

2. Assistance to Employers

2.1. Subsidies for Training Costs

Subsidies for Training Costs are the most important policy measure encouraging employers to participate in training their employees. Subsidies for Training Costs are composed of four sub-programs: The Grant for Employee Training, Grant for Training New Entrants to the Labor Market, Grant for Training Leave of Absences, and Grant for Training at Foreign Training Institutions.

2.1.1. Grant for Employee Training

Vocational training is classified into institutional training, on-the-job training and telecommunication training. The Grant for Employee Training differs depending on the type of training.

1) Institutional Training

Vocational training in Korea is classified into standard training and non-standard training depending on whether or not training institutes follow the training standards of the Ministry of Labor. A training program following the training standards of the Ministry of Labor is standard training, and a training program that does not follow the

training standards is considered non-standard training. Trainers are free to choose their training methods, but standard training receives a more favorable subsidy.

Institutional training receives total training costs if the training programs meet the training standards. Non-standard training programs receive 60–90 percent of training costs for priority enterprises and 40–70 percent of training costs for large enterprises, depending on the kind of training program.

2) On-the-job Training

When employers give their employees on-the-job training, they are granted total training costs. But the grant cannot exceed 50 percent of total institutional training costs.

3) Telecommunication Training

When employers train their employees through a form of telecommunications such as mail, internet, broadcasting, etc., they are granted 90 percent of training costs for priority enterprises and 70 percent for large enterprises.

2.1.2. Grant for Training New Entrants to the Labor Market

1) Institutional Training

When employers train new entrants to the labor market at training institutes, they are granted total training costs if the training programs are standard training. If the training programs are non-standard, the grant is 50–80 percent of training costs.

2) On-the-job Training

When employers give new entrants to the labor market on-the-job training, they are granted total training costs, but the grant cannot exceed 50 percent of institutional training costs.

2.1.3. Grant for Training Leave of Absences

When employers give a paid leave of absence for training to employees who have been employed for over one year, they may receive total training costs and 50 percent of the payroll for priority enterprises and one-third for large enterprises.

Training courses eligible for paid-leave must exceed 30 days and 120 hours.

2.1.4. Grant for Training at Foreign Training Institutions

When employers train their employees at foreign training institutes for more than three months, they are granted total training costs, except lodging costs and daily expenses.

2.1.5. Limit of Aid for Training Costs

The maximum amount of subsidy for training costs that an employer can receive from the Employment Insurance Fund is 180 percent of the total yearly amount of contribution for JSDP for priority enterprises and 120 percent for large enterprises. If an employer implements standard training, however, the ceiling of the training subsidy expands by another 100 percent of the total amount of contribution of the year for JSDP.

2.2. Loan for Training Facilities

An employer or an association of employers that administers vocational training facilities and equipment or plans to install vocational training facilities and equipment may receive 90 percent of the total investment expenditure for vocational training facilities, equipment and other installations in a Loan for Training Facilities. The ceiling of the loan is one billion won for a single employer and two billion won for an association of employers. Preference is given to priority enterprises. The rate of interest for priority employers or an

association of those employers is one percent per year, and 2.5 percent for large enterprises. The loan must be repaid in five years with a five-year grace period, totaling ten years.

3. Assistance to Employees

3.1. Vocational Training Subsidy for Insured Employees

An insured employee who is going to be laid off or aged 50 or over may receive the Vocational Training Subsidy for Insured Employees if he/she undergoes vocational training for re-employment or starts up a business at his/her own expenses.

The aid amounts to 100 percent of the tuition fee with a ceiling of one million won per person.

3.2. Loan for Tuition

Insured employees admitted to or enrolled at a technical or a junior college or a higher institution of education may take out a low interest loan to finance tuition and other fees each semester to improve their vocational knowledge and skills. Priority is given first to those who receive an award at various skill competitions; second, to the disabled; third, to those whose majors are science or technology; fourth, to employees of small and medium-sized companies; fifth, to those insured for a longer period of time; and sixth, to the elderly.

Tuition aid has an annual interest rate of one percent. The lending program for two-year technical or junior colleges is repayment in two years with a two-year grace period, and repayment in four years with a two-year grace period for four-year colleges or universities.

4. Assistance for Training for the Unemployed

4.1. Aid for Retraining Displaced Workers

In order to assist in the reemployment of displaced workers, the Employment Insurance Fund provides free retraining programs. Insured employees who have become unemployed can obtain free vocational training for reemployment. If eligible for unemployment benefits, the person receives unemployment benefits during the training period. If the claimant is not eligible for unemployment benefits, he/she receives a training allowance during the training period. The maximum amount of training allowance per trainee is 350,000 won per month, but this varies depending on the number of dependants and field of training. Those who enroll in another vocational training program after finishing a vocational training program can receive one-half of the training allowance for the second training program. However, there is no training allowance from the third training program. Those undergoing a training program who were not covered by EIS before unemployment can receive a similar amount of training allowance from the general account, not from the Employment Insurance Fund.

Any educational and training institute such as universities and public and private training institutes can participate in the retraining for displaced workers. If a vocational education and training institute conducts retraining for displaced workers on commission, the institute receives total training costs within the designated amount of training fee per trainee. This amount of training fee per trainee varies depending on the quality of the training programs of the institute, set by the Ministry of Labor every year after evaluating the quality of the training programs of each training institute.

Because the training capacity is limited, priority has been given to the following individuals in the retraining displaced workers program.

- (1) Those whose vocational training is mandated by the public employment office

- (2) Those under 30 years old, eligible for unemployment benefits, and who have passed one-half of his/her eligible days of unemployment benefits
- (3) The disabled
- (4) Those laid off from the industries and regions stipulated in Article 16 of the Executive Order of the Employment Insurance Law designated as high unemployment areas
- (5) Those for whom it has been over 3 months, since registering at the public employment office as a job seeker
- (6) An individual laid-off due to managerial reasons
- (7) Other individuals deemed necessary to receive retraining for displaced workers

4.2. Aid for Youth Training

In order to equip unskilled youth with skills and knowledge for employment, the Employment Insurance Fund provides almost free vocational training to unskilled youth.

Training institutes recruit trainees aged 15 years or older under contracts for youth training with the Minister of Labor. If the training institute conducts training for the youth as contracted, then the Minister of Labor provides training costs to the training institute every month. Trainees can enroll in programs for free or a minimal cost if deemed necessary by the institute.

5. Performance of the Job Skill Development Program

Participation in the Job Skill Development Program is increasing year by year. In 1997, 200 thousand insured employees developed their job skills in 9 thousand firms through the Job Skill Development Program. The number of firms and employees that participated in the Job Skill Development Program increased twice in 1998 compared to 1997. In 1998, 413 thousand employees developed their job skills

with the support of the Job Skill Development Program, and 18 thousand firms received 50 billion won as subsidies for training costs, as shown in Table 4.1. About 12 thousand insured workers studied at technical colleges or universities using the Loan for Tuition. And 163 thousand unemployed people from the covered enterprises received free vocational training and education for new employment. Among the total expenditure for the Job Skill Development Program, 74.1 percent was used as Assistance for Training for the Unemployed, and 19.3 percent was used for the Subsidies for Training Costs to employers.

Table 4.1. Performance of the Job Skill Development Program (1998)

(in cases, persons, million won)

	Firms	Trainees	Amount
Total	18,080 (100.0)	588,006 (100.0)	258,043 (100.0)
1. Assistance to Employers	18,080 (100.0)	412,543 (70.2)	49,898 (19.3)
1) Subsidies for Training Costs	18,080 (100.0)	412,543 (70.2)	49,898 (19.3)
2) Loan for Training Facilities	-	-	-
2. Assistance to Employees	-	175,463 (29.8)	208,145 (80.7)
1) Vocational Training Subsidy for Insured Employees	-	2 (0.0)	1
2) Loan for Tuition	-	12,350 (2.1)	16,949 (6.6)
3. Assistance for Training the Unemployed	-	163,111 (27.7)	191,195 (74.1)

Note : Numbers in parentheses indicate the composition percentage for each column.

Source : Employment Research Center, *Employment Insurance Review*, Korea Labor Institute, Spring 1999.

. Unemployment Benefits

1. Outline of Unemployment Benefits

Unemployment Benefits are intended to alleviate the hardships of the unemployed and facilitate to help their job search activities in the form of cash benefits to the insured unemployed during a certain period of unemployment.

Unemployment Benefits are comprised of the Job-seeking Allowance (JSA) and Employment Promotion Benefits (EPB). The former is the core of the unemployment safety net, designed to stabilize the living conditions of the unemployed and their families during unemployment, thereby facilitating active and unobstructed job-seeking activities. The latter purports to foster and stimulate reemployment of the insured individuals receiving JSA by providing constructive and effective job-search assistance. Hence, EPB is complementary to JSA, and eligibility is restricted to those who qualify for JSA. The amount of the EPB, except for the Early Reemployment Benefit, is rather minimal since it is a reimbursement of actual expenses incurred in specified job-seeking activities. EPB consists of the Early Reemployment Allowance, Vocational Training

Promotion Allowance, Nationwide Job-seeking Allowance and Moving Allowance.

Unemployment benefits may weaken the will and efforts of the claimants in finding employment, lengthen the duration of unemployment, and reduce the supply of labor by encouraging unemployment. Hence, to minimize the possible adverse side effects, the following restrictions apply:

- (1) Eligibility is established only after being insured for 12 months out of an 18 - month base period immediately before the layoff.
- (2) The unemployed must register for work at the public employment office, remain ready and able to work, and seek new employment to the best of their abilities.
- (3) The first 14 days of unemployment are considered a waiting period, and there is no benefits payment for this period.
- (4) Those who voluntarily leave their jobs without good cause or who lose their jobs due to negligence do not qualify for the benefits.
- (5) Payment of benefits is suspended if the claimant refuses the job placement services and/or vocational training recommended by the public employment office.
- (6) In principle, unemployment benefits are awarded for a relatively short period, ranging from 60 to 210 days.
- (7) A claimant is entitled to receive unemployment benefits only within ten months of the first day of being unemployed if there is no special permission from the public employment office.

Since unemployment benefits are instituted to secure the living conditions of the unemployed, the benefits are tax-free and cannot be transferred, confiscated or mortgaged.

2. Job-seeking Allowance (JSA)

2.1. Qualifications for JSA

In order to receive JSA, the claimant must satisfy the prescribed qualifying and eligibility requirements. Qualifying requirements refer to the claimant's prior work experience. Some of the eligibility conditions concern the circumstances of the claimant's job termination, while others constitute requirements to be met during the period JSA is being paid. Claimants may be disqualified from JSA for failing to meet any of the prescribed conditions. The qualifying requirements and eligibility conditions are intended to confine JSA to qualified insured workers, who have been regular members of the labor force and are involuntarily unemployed, as well as to prevent abuse of the unemployment benefit system.

The outline of the qualifying requirements and eligibility conditions for JSA are as follows.

- (1) The claimant's insured employment period should be at least 12 months out of the 18-month base period preceding the day of job separation.
- (2) The claimant must register at the public employment office as a job seeker right after his/her job separation, and request JSA within the ten-month feasible period.
- (3) The claimant is out of work but remains willing to and able to work, and is actively seeking new employment to the best of his/her ability.
- (4) The reasons for job termination should not be of a nature that would disqualify the claimant from receiving unemployment benefits, such as voluntary unemployment without good cause, discharge for misconduct, etc.

2.1.1. Insured Employment Period and Base Period

Unemployment benefits are not for all of the unemployed, but for those who were recently insured employees for at least a certain period of time. Therefore, in every country, entitlement to unemployment benefits is based on the fulfillment of conditions relating to the claimant's qualifying period of insured employment and/or the amount of earnings within a specified covered period. In any case, such insured employment or earnings must have been fulfilled within a prescribed base period or reference period. Meeting such requirements demonstrates that the claimant has recently been a part of the labor force for at least an insured employment period within a base period.

In Korea, the claimant's insured employment period should be at least twelve months out of the 18-month base period preceding the day of job separation. However, after the financial crisis in November 1997, the minimum insured employment period was temporarily amended from twelve months to six months, and the base period from eighteen months to twelve months during the period from March 1, 1998, to June 30, 2000. This temporary relaxation of requirements is to help the unemployed from those enterprises more recently covered by the Employment Insurance System (EIS) to claim unemployment benefits. From March 1, 1998, to June 30, 2000, the unemployed can claim unemployment benefits if they satisfy an insured employment period of at least six months out of the twelve-month base period preceding the day of job separation.

The base period can be extended up to three years when the claimant has not received salaries and wages for more than or equal to 30 continuous days during the last 18 months prior to job separation due to i) disease or injury, ii) workplace closure, iii) a leave of absence due to pregnancy, childbirth or childcare, iv) service abroad at the employer's order, v) labor disputes, vi) a leave of absence for taking care of a spouse or dependants because of an injury or disease, vii) a leave of absence for military service, viii) being dispatched to a workplace not covered by EIS, ix) a leave of

absence for managerial reasons, and x) unfair dismissal.

Those not covered by EIS are disqualified for unemployment benefits. Therefore, employers, the self-employed, and employees who are not covered by EIS cannot claim unemployment benefits.

2.1.2. Registration As Job Seeker and the Feasible Period of JSA

An unemployed person claiming unemployment benefits must register at the public employment office as a job seeker right after his/her job separation and must be recognized as a qualified unemployed person for unemployment benefits. If an unemployed person does not register as a job seeker and does not claim unemployment benefits, he/she cannot receive the benefits even if he/she is qualified for unemployment benefits.

The claim for unemployment benefits should be requested within ten months of the claimant's job separation. The period of ten months for claiming JSA is called a feasible period for unemployment benefits. The feasible period for unemployment benefits is the period within which a qualified unemployed person can claim and receive his/her unemployment benefits. The feasible period for JSA is ten months from the day of claimant's unemployment. Therefore, if a person claims his/her JSA after six months from the day of the layoff, for example, he/she can receive his/her unemployment benefits for only four months even if his/her total duration of benefits is longer than four months. This is because the remaining feasible period for his/her benefits is four months when he/she claims the benefits.

EIS specifies this feasible period for unemployment benefits to encourage the qualified unemployed person to register at the public employment office as a job seeker as soon as possible after his/her job separation, as well as to promote early reemployment through assisted job placement services from the public employment office.

The feasible period can be extended up to three years (1) if the claimant is not able to work for more than 30 days because of i) pregnancy, ii) childbirth, iii) childcare, iv) illness or injury of the insured individual or his/her spouse or immediate family members,

and (2) if the claimant has notified to the public employment office of such a circumstance. Moreover, the feasible period may be extended for the number of days the claimant receives vocational training mandated by the public employment office.

2.1.3. Willing and Able to Work

A claimant for the benefits should be willing, able and available to work. A claimant cannot be regarded as such unless he/she is readily prepared to accept any offer of employment. A claimant must declare that he/she is willing, able, and available to work when registering with the public employment office as an unemployed person and job seeker, every other week.

The public employment offices make decisions on whether a claimant can be regarded as willing, able, and available to work. The following are typical cases in which the claimant is regarded as not being willing, able, and available to work.

- ❖ When a claimant has quit his/her job because of pregnancy, childbirth, childcare, an elderly or disabled family member, household affairs, etc., and still fits one of these descriptions.
- ❖ When a claimant does not want to become a regular worker, but desires a part-time, daily or temporary job, self - employment, subsidiary occupation, etc., which is deemed inappropriate or unreasonable, or for which the claimant lacks experience, without good cause.
- ❖ When a claimant rejects suitable job offers and insists on an overly specific occupation, employment term, and working conditions.
- ❖ When a claimant insists on specific occupations and working conditions that are unavailable considering local labor market conditions.
- ❖ When a claimant cannot work due to senility, disease, injury, childbirth or other mental or physical conditions.
- ❖ When a claimant receives temporary disability benefits from the

workers' compensation system.

- ◆ When a claimant cannot work due to household affairs, school studies or other conditions.
- ◆ When a claimant does not appear on the designated date for job placement services or job guidance services at the public employment offices without good cause.
- ◆ When a claimant has entered an extended feasible period for unemployment benefits due to pregnancy, childbirth, childcare, injury or disease.

2.1.4. Actively Seeking Work

A person claiming unemployment benefits must show that he/she is actively seeking work. Claimants are expected, every other week, to give a report of their reasonable active job search efforts. What are considered reasonable efforts for seeking work will vary considering the previous occupation, skills and knowledge of the claimant. Public employment offices will help claimants in their active job search efforts by providing job-opening information, job guidance and counseling services. A claimant is considered to be inactively seeking work if he/she has never responded to job offers and never accepted job placement or job counseling services of the public employment office.

2.1.5. Restrictions on JSA

A claimant should not be restricted from unemployment benefits because of reasons such as voluntary unemployment without good cause, discharge for serious misconduct, refusal of a suitable job offer, training order or job placement services, and receipt of other types of income.

1) Discharge for Serious Misconduct

A claimant who lost his/her job owing to serious misconduct on the job is disqualified from unemployment benefits. The reason for discharge should be related to the claimant's work situation rather than personal life, and the actions should have been willful and deliberate rather than accidental or unintentional.

The following are typical cases in which the claimant is disqualified from unemployment benefits due to job loss resulting from misconduct.

- ◆ The claimant was in violation of the Criminal Law or work-related laws, or he/she was discharged due to imprisonment or as more severe punishment for illegal labor disputes.
- ◆ The claimant was discharged owing to willful destruction of company facilities or equipment.
- ◆ A claimant was discharged for appropriating, pocketing or embezzling public money for his/her own use, or malfeasance.
- ◆ A personnel management or accounting head was discharged owing to financial damages suffered by the company because of false documents.
- ◆ A claimant was discharged because he/she informed rivals of company secrets, causing it to sustain considerable damages.
- ◆ A claimant was discharged because he/she accepted a bribe and deliberately accepted defective goods, causing a failure in the company's production.
- ◆ A claimant was discharged for stealing or misappropriating company materials or products.

2) Voluntary Leave Without Good Cause

A claimant who voluntarily leaves his/her job without good cause is disqualified from unemployment benefits. "Good cause" implies the reason for quitting was related to health conditions, working conditions, employment terms, the managerial situation of the company or other similar circumstances.

The following are typical cases in which the claimant has good cause for voluntarily leaving a position and do not constitute reason for disqualification from unemployment benefits.

- ❖ Actual wages and hours of work had deteriorated by 20 percent or greater, without good cause, or because working conditions had considerably worsened without good cause.
- ❖ He/she suffered discrimination from colleagues or management for reasons of religion, gender, appearance, etc.
- ❖ Sexual harassment from his/her boss or colleagues.
- ❖ He/she received less than 70 percent of wages or salaries for two consecutive months or longer.
- ❖ His/her workplace had been temporarily closed for five days or longer in a month, or partially closed for 40 hours or longer per month during the last three consecutive months.
- ❖ Valid fears of bankruptcy, business closure, or massive layoffs.
- ❖ The workplace moved to another location, and the daily commute to work became extremely difficult despite measures by the employer to ease the commute. A round trip commuting time of four hours or longer is considered extremely difficult.
- ❖ He/she has to live away from a spouse or dependants after his/her workplace moved.
- ❖ A claimant volunteered to leave his/her job at the employer's request for such volunteers.
- ❖ He/she could not adapt to new technology or new machinery at the workplace.
- ❖ It became too difficult to perform his/her job for physical reasons, such as a lack of physical strength, disability, disease, injury or decline in eyesight or hearing ability.
- ❖ To look after his/her young children or sick dependents, or because he/she moved to a place constituting an extensive commute to the workplace.
- ❖ An employer asked him/her to produce or sell illegal goods and services.
- ❖ His/her leave of absence without any payment due to managerial

reasons lasted for two months or more.

3) Refusal of a Suitable Job Offer or Job Placement Services

If a claimant has without good cause refused to apply for suitable employment or refused job placement services offered by the public employment office, he/she is to be suspended from receiving unemployment benefits for two weeks. In this case, the claimant's total duration of unemployment benefits is not affected.

Good cause for refusing employment is closely related to the job's suitability because the circumstances that make particular employment unsuitable for a claimant automatically give him/her good cause for refusing it.

The following are typical examples of when employment offered is regarded as unsuitable for a claimant. Hence there is good cause to refuse the job offer, and the claimant may continue to receive unemployment benefits.

- ❖ When the offered employment is not appropriate with respect to the claimant's skills, knowledge, age, health, etc.
- ❖ When a claimant has to move his/her residence to accept the offered employment, and he/she is not able to do so.
- ❖ When the proposed wage or salary of the offered employment is much less favorable than what the claimant might reasonably have expected to obtain. When the wage or salary of the offered employment is i) inferior by 20 percent or greater compared to similar employment in the same region, occupation, and skill level, or ii) inferior to the unemployment benefits the claimant would receive, the claimant is considered to have good cause to refuse the offered employment.
- ❖ When the working conditions in the offered employment violate labor related laws such as the Labor Standard Act.
- ❖ When the employer in the offered employment has unpaid wages and has not cleared overdue wages.
- ❖ When the production or sales of the goods and services of the offered employment is illegal or not in good public interest.

- ◆ When a claimant has prospective employment that will be substantial or equivalent to the employment offered and lost by accepting the offer.

4) Refusal of Suitable Training Order

If a claimant has without good cause refused or failed to avail himself of a reasonable opportunity to receive vocational training suggested by the public employment office, unemployment benefits are suspended for four weeks. In this case, the claimant's total duration of unemployment benefits is not affected.

All vocational training programs ordered by the public employment office are intended to enhance the skill level of the claimant and promote normal reemployment as soon as possible. Refusal of such a training order without good cause may cast doubt on his/her willingness to work and availability for work. There is a close relationship between good cause for refusing training and the suitability of the suggested training program, however, because the circumstances which make particular training unsuitable for a claimant automatically give him/her good cause for refusing it.

The following are some legitimate reasons for refusing a training order.

- ◆ When the suggested training program is not appropriate for the claimant considering his/her talents, skill level, etc.
- ◆ When it is very difficult for the claimant to move residence in order to receive the suggested vocational training because there is no lodging facilities in the training institute, it is difficult to rent a house near the training institute, or because he/she has to live separately from family members who require his/her care.

5) Receipt of Other Types of Income

The claimant must report all earnings to the public employment office while he/she receives unemployment benefits. Such earnings include compensation from assisting others' work or any sort of side

job or part-time job that cannot be considered regular employment. Part-time jobs not considered regular employment means working less than 18 hours per week or 80 hours per month.

Depending on the amount of these earnings, the amount of his/her JSA can be reduced. If the sum of the claimant's daily earnings from his/her work during the unemployment benefit period plus the daily amount of JSA is greater than 80 percent of the average wage rate of the last three months immediately preceding his/her layoff, the claimant's daily JSA is reduced by that amount exceeded. If the sum of the daily earnings from his/her work during the unemployment benefit period and daily amount of JSA is not greater than 80 percent of the average wage rate of the last three months immediately preceding the layoff, the claimant's daily JSA is not reduced.

Moreover, if a claimant has received 100 million won or more as a severance payment or leaving allowance from his/her former employer, his/her unemployment benefits are postponed for three months.

If a claimant receives pension by the National Pension Act, his/her daily amount of the pension is deducted from his/her daily JSA.

2.2. Waiting Period

The first two weeks of unemployment are considered a waiting period, and JSA is not paid even to qualified claimants.

The rationale for imposing a waiting period is as follows (Yoo and Lee, 1996). First, short-term unemployment will not gravely affect one's living conditions even without unemployment benefits. Second, there is a need to investigate the statements of the claimants in order to determine whether the claimant is eligible for unemployment benefits or not. Third, there is a need to reduce the frequency of quitting by instituting a waiting period. Fourth, the initial stage of unemployment is often used to rest and identify employment opportunities and thus does not warrant protection under EIS.

2.3. Amount of JSA

Under Korea's EIS, the amount of JSA is based on the individual claimant's previous wage rate rather than a flat amount payable to all claimants. The amount of JSA is 50 percent of the claimant's average wage rate during the last three months immediately preceding the layoff.

The daily amount of JSA is subject to a ceiling and a bottom. If the daily JSA calculated by the claimant's previous average wage rate during the last three months immediately preceding the layoff is greater than 30,000 won, the cap on the daily JSA is set at 30,000 won. If the daily JSA calculated by the claimant's previous average wage rate during the last three months immediately preceding the layoff is less than 70 percent of the minimum daily wage rate at the time of the layoff, 70 percent of the minimum daily wage rate becomes the bottom of the daily JSA.

The ceiling of the daily JSA was 35,000 won until June 30, 1999. As the average wage of Korean workers decreased in 1998 and in 1999 due to the financial crisis of Korea, however, the ceiling of the daily JSA was reduced to 30,000 won from July 1, 1999.

JSA is paid to eligible claimants every two weeks for the number of unemployed days. Hence, even when a claimant registers at the public employment office immediately following his/her layoff, the first payment is made only at the end of four weeks from the registered day, taking into account the two - week waiting period and two-week benefit interval.

2.4. JSA Duration

The duration of unemployment benefits in some countries is uniform for all eligible claimants regardless of their duration of covered employment before the layoff. On the other hand, in other countries, the duration of unemployment benefits varies depending on the duration of the individual claimant's covered employment or age of the claimant.

The rationale for uniform duration is that the risk should be shared by all covered workers in social insurance. The rationale for different durations of unemployment benefits depending on the extent of the previous covered employment or age of claimants is that a significant number of qualified claimants with limited past employment is not regularly attached to the labor market and may not genuinely want to work all the time. Also, it is more difficult to find new employment as claimants become older, while young claimants would be encouraged to engage in active job search activities (Blaustein and Craig, 1977).

In Korea's EIS, the duration of JSA varies depending on the insured employment period and the age of the claimant, ranging between a minimum of 60 days and a maximum of 210 days as shown in Table 5.1.

Since Korea's EIS was implemented on July 1, 1995, the insured employment period of each covered employee cannot exceed five years until June 30, 2000. Thus the actual duration of JSA is 60–150 days until June 30, 2000, depending on the insured employment period and the age of the claimant.

Table 5.1. Duration of JSA

		Insured Employment Period				
		Less than 1 year	1-3 years	3-5 years	5-10 years	10 years or more
Age	Less than 30	60 days	60 days	90 days	120 days	150 days
	30-50	60 days	90 days	120 days	150 days	180 days
	50 or older and disabled	90 days	120 days	150 days	180 days	210 days

2.5. Extended Benefits

JSA is paid to eligible claimants up to 60 to 210 days after the

two-week waiting period within the ten-month feasible period. However, when a claimant receives vocational training by the order of the public employment office (Training Extended Benefits), when the public employment office recognizes that it is extremely difficult for a claimant to be re-employed in a short period of time (Individual Extended Benefits), or when the unemployment rate is very high (Special Extended Benefits), the duration of JSA can be extended.

2.5.1. Training Extended Benefits

When a claimant receives vocational training by the order of the public employment office, the duration of JSA can be extended up to 60 days for the training waiting period and two years for the training period. If a claimant undergoes vocational training on his own, however, he cannot receive the Training Extended Benefits because he did not receive a training order from the public employment office.

The daily amount of the Training Extended Benefits is the same as the JSA, while other extended benefits are 70 percent of JSA.

The purpose of the Training Extended Benefits is to assist in reemployment in stable occupations through vocational training that is not a burden to the livelihood of the unemployed.

2.5.2. Individual Extended Benefits

When the public employment office recognizes that it is extremely difficult for a claimant to be re-employed in a short period of time, and the claimant has difficulties in maintaining his/her livelihood, the duration of JSA can be extended up to 60 days.

The daily amount of Individual Extended Benefits is 70 percent of JSA. If the daily amount of the Individual Extended Benefits is less than 70 percent of the daily minimum wage rate, however, the daily amount of the Individual Extended Benefits will be 70 percent of the daily minimum wage rate.

In order to receive the Individual Extended Benefits, the claimant must satisfy all of the following conditions.

- (1) He/she terminated employment in one of the occupations or regions designated by the Minister of Labor for its serious labor market conditions.
- (2) A claimant remains unemployed until the last day of JSA even though he/she received job placement services from the public employment office three times or more.
- (3) A claimant has a dependant or dependants aged 18 years or younger, or aged 65 or over.
- (4) A claimant's daily wage rate before unemployment was not more than 35,000 won.
- (5) A claimant who could not take or is not taking vocational training.

2.5.3. Special Extended Benefits

The Special Extended Benefits program is applied to all eligible claimants only when the Minister of Labor declares the program to be active because labor conditions nationwide have worsened. A period for Special Extended Benefits is announced if at least one of the following conditions is satisfied during the last three months.

- (1) The ratio of JSA recipients to insured employees is greater than 3.0 percent.
- (2) The ratio of JSA claimants for the first time to insured employees is greater than 1.0 percent.
- (3) The unemployment rate is greater than 6.0 percent.

Once the Minister of Labor announces a period for Special Extended Benefits, the duration of JSA for all claimants is extended for 60 days during the specified period.

The daily amount of the Special Extended Benefits is 70 percent of JSA. If the daily amount of the Special Extended Benefits is less than 70 percent of the daily minimum wage rate, however, the daily amount of the Special Extended Benefits will be 70 percent of the daily minimum wage rate.

The Special Extended Benefits program was introduced in 1998

when the financial crisis hit the Korean labor market. The period for the Special Extended Benefits was set for July 15, 1998, to January 14, 1999, for the first time, and it was extended to December 31, 1999.

2.6. Sickness Benefits

In order to qualify for JSA, a claimant must be able to and willing to work. Therefore, if a claimant cannot work because of injury, sickness or childbirth, the claimant is not eligible for JSA because he/she is not able to work. The livelihood of the unemployed would be threatened if the claimant could not receive JSA due to injury, sickness or childbirth. Thus, EIS has a Sickness Benefits program to cover those unable to receive JSA.

In order to receive Sickness Benefits, the claimant must satisfy both of the following conditions.

- (1) A claimant is not able to work for seven days or longer due to injury, sickness or childbirth after registering at the public employment office as an unemployed person.
- (2) A claimant has not been suspended from JSA for rejecting job placement services, job guidance services or a vocational training order by the public employment office.

The daily amount of Sickness Benefits is equivalent to JSA. Since the Sickness Benefits program is a substitute for JSA, it is limited to the number of days for which JSA is not paid.

3. Employment Promotion Benefits

Unemployment benefits have the primary purpose of assisting those involuntarily laid-off. If claimants do not actively search for work, they are unlikely to attain early reemployment and economic stability. Thus, in order to minimize abuse of unemployment benefits and

promote job search efforts, Korea's EIS has Employment Promotion Benefits. They are composed of the Early Reemployment Allowance, Vocational Training Promotion Allowance, Nationwide Job-seeking Allowance and Moving Allowance.

3.1. Early Reemployment Allowance

The Early Reemployment Allowance (ERA) is an incentive pay structure, created to minimize an individual's duration of unemployment and encourage speedy reemployment at a stable work place. It is awarded when the recipient of JSA obtains stable reemployment before he/she reaches the half - way point of the total benefit period.

In order to receive ERA, claimants must satisfy all of the following requirements.

- (1) Calculated as of the day before a claimant starts at the new workplace, the number of his/her remaining days of JSA must exceed one half of his/her total benefit period. The remaining days of JSA refer to the days of the total benefit period subtracted by the number of days a claimant has received JSA and Sickness Benefits.
- (2) The new employment must be deemed stable and guaranteed for more than one year.
- (3) The new employment must not be with the previous employer or anyone closely related to the previous employer.
- (4) The new employment must not have been offered prior to a claimant's resignation at the previous workplace.
- (5) The claimant must not have received ERA in two years prior to the first day of new employment.

The amount of ERA is one half of the claimant's remaining JSA. If the recipient of ERA is laid-off within the feasible period, he/she may receive JSA for the number of days remaining after subtracting the period of JSA he/she has received and the converted portion of ERA from the total benefits period. The converted portion of ERA is

calculated by the paid amount of ERA divided by the JSA rate.

There is a subsidy for job placement agents who have contributed to shortening the unemployment period of claimants of JSA by facilitating early reemployment through active vocational counseling and job placement services.

3.2. Vocational Training Promotion Allowance

The Vocational Training Promotion Allowance (VTPA) is a supplement to JSA, instituted to facilitate vocational training of qualifying unemployed workers as recommended by the public employment office.

The training must takeplace within the unemployment benefits period. The days of absence and JSA suspension are subtracted from the duration of VTPA. The Minister of Labor determines the level of VTPA based on the expenses that the training necessitates, such as transportation and meal costs. For the 1999 fiscal year, VTPA is set at 5,000 won per day.

3.3. Nationwide Job-seeking Allowance

The Nationwide Job-seeking Allowance (NJSA) is designed to assist extensive job search efforts of qualifying individuals by subsidizing transportation and lodging costs. The search must be initiated at the recommendation of the public employment office, and claimants must satisfy all of the following eligibility requirements.

- (1) The job-seeking activities must commence at the recommendation of the public employment office.
- (2) The waiting period for JSA must have expired prior to the nationwide job search.
- (3) The prospective employer either has no intention of financing the charges incurred, or pays an amount less than the total cost.
- (4) The distance between the insured job-seeker's residence and the prospective employer's business location must exceed 50 kilometers.

The allowance comprises charges for transportation via railroad, automobile and ship, as well as lodging charges. If the prospective employer finances the cost, the insured job seeker must report any such earnings and receives an allowance equivalent to the amount not covered by the prospective employer.

3.4. Moving Allowance

The Moving Allowance subsidizes the moving costs incurred during relocation for new employment or vocational training. To receive the Moving Allowance, i) the period of employment must exceed one year, ii) the waiting period must have expired prior to reemployment or vocational training, and iii) the public employment office approved the necessity to move.

The amount of allowance is equivalent to moving subsidies for government officials. The qualifying applicant must report any subsidy or reimbursement from the prospective employer, and in such cases he/she receives an allowance equivalent to the difference.

4. Unemployment Benefits Payment

Until 1997, the number of recipients and amount of unemployment benefits were relatively small because of the low unemployment rate. The rate of unemployment was 2.6 percent in 1997, but it soared to 6.8 percent in 1998 with the financial crisis in November 1997 and the drastic restructuring of the Korean economy in 1998. Due to the high unemployment in 1998, the total expenditure for unemployment benefits was sharply increased in 1998: from 49 billion won in the second half of 1997 to 271 billion won in the first half of 1998, and 522 billion won in the second half of 1998 (see Table 5.2.). JSA comprised about 98 percent of the expenditure for unemployment benefits. Together with soaring unemployment, implementation of Special Expended Benefits from July 15, 1998, contributed to a sharp

increase in expenditure for unemployment benefits in the second half of 1998.

The number of recipients of unemployment benefits also sharply increased in 1998. The total number of recipients of unemployment benefits increased from 30,273 in the second half of 1997 to 197,299 in the first half of 1998 and 236,900 in the second half of 1998 (see Table 5.2.). The monthly average number of recipients of unemployment benefits was increased from 12,553 in the second half of 1997 to 73,818 in the first half of 1998, and 152,976 in the second half of 1998. So the proportion of monthly recipients of unemployment benefits out of the total unemployed increased from 2.4 percent in the second half of 1997 to 5.5 percent in the first half of 1998, and 9.6 percent in the second half of 1998.

Even in the second half of 1998, only about ten percent of the unemployed received unemployment benefits at any point in time,

Table 5.2. Payment of Unemployment Benefits

(in million won, persons, %)

	1997		1998	
	First Half	Second Half	First Half	Second Half
1. Amount of Benefits	30,036	48,696	270,867	522,080
1) Job-seeking Allowance	28,676	47,267	264,478	512,361
2) Employment Promotion Allowance	1,260	1,317	6,071	9,043
3) Sickness Benefits	100	112	318	676
2. Number of Recipients				
1) Total Number of Recipients	20,039	30,273	197,299	236,900
2) Monthly Average of Recipients	7,961	12,553	73,818	152,976
3) Proportion of Monthly Recipients Out of the Total Covered Employees	0.2	0.3	1.7	3.2
4) Proportion of Monthly Recipients Out of the Unemployed	1.3	2.4	5.5	9.6

Source : Ministry of Labor.

which was a relatively low rate compared to other countries. The major reasons for such a small proportion of the unemployed receiving unemployment benefits are :

- (1) Korea's EIS does not grant unemployment benefits to those who quit their job voluntarily without good reason.
- (2) More than half of those covered employees who left their jobs quit voluntarily.
- (3) The duration of unemployment benefits is relatively short in the Korea's EIS.
- (4) There are still many employees not covered by EIS in Korea.

In most countries, even those who quit their jobs without good reason are entitled to unemployment benefits after a certain restriction period has passed. In Korea's EIS, however, those who quit their jobs voluntarily without good cause are not entitled to unemployment benefits. As shown in Table 5.3, 57.5 percent of those who left their jobs during the period of July 1 to December 31, 1998, in Korea quit voluntarily. So more than half of those employees in covered enterprises who quit are not entitled to unemployment benefits because of the reason for job separation. The proportion of

Table 5.3. Reasons for Job Separation of Covered Employees
(July 1, 1998 – December 31, 1998)

(in thousands, %)

Reasons for Job Separation	Number of People	Composition
Total	753	100.0
Voluntary Leaves	433	57.5
Retirement, Termination of Employment Contract	25	3.3
Layoff	178	23.7
Business Closing, Bankruptcy	47	6.2
Others	70	9.3

Source : Employment Research Center, *Employment Insurance Review*, Korea Labor Institute, Spring 1999.

those who quit due to layoffs, business closure and bankruptcy, retirement, and termination of an employment contract, which are typical cases qualifying for unemployment benefits, is only 33.2 percent.

As mentioned above, the duration of JSA is from 60 days to 210 days depending on the insured employment period and the age of an applicant. Since Korea's EIS was implemented from July 1, 1995, however, the insured employment period of each claimant cannot exceed five years until June 30, 2000. Thus the actual maximum duration of JSA is 60–150 days until June 30, 2000, depending on the insured employment period and the age of the claimant. When considering the 60 days' Special Extended Benefits, implemented from July 15, 1998, to December 31, 1999, the actual maximum duration of JSA is 120–210 days during that period. Table 5.4. shows the average duration of JSA is only 98 days in 1998, which is relatively short compared to most other countries. The average duration of JSA from July 1, 1997, to June 30, 1998, was 74.6 days (Employment Research Center, Employment Insurance Review, Fall 1998, p.73, Korea Labor Institute). Although the average duration of JSA is increasing with the introduction of the Special Extended Benefits and high unemployment rate since 1998, the actual benefits period is relatively short in Korea and partly contributes to the low proportion of recipients of unemployment benefits.

Although all enterprises are covered by EIS from October 1, 1998, there are still many of employees who are excluded from EIS. As of December 1998, the total number of employees in Korea was 12.2 million, and the number of insured employees was 5.3 million, which is 43.2 percent of total employees. More than half of an employees are still excluded from EIS, and most of them are temporary workers, part-time employees, government and private school employees. The low proportion of covered employees is also contributing to the low proportion of recipients of unemployment benefits in Korea.

For those who finished receiving their JSA in 1998, the average amount of JSA per recipient was 2.3 million won for 98.1 days, which corresponds to 24 thousand won per day (see Table 5.4.).

Table 5.4. Average Amount and Duration of JSA (1998)

(in thousand won, days)

		Average Amount of JSA per Recipient	Average Daily Amount of JSA	Average Duration of JSA
Average		2,278	24	98.1
Age of Recipients	Below 30	1,410	21	73.9
	30 39	2,563	27	99.7
	40 49	2,450	26	100.0
	50 or Over	2,826	23	126.0

Source : Employment Research Center, *Analysis of Employment Insurance*,
Korea Labor Institute, Spring 1999.

. Financing

1. Financing Principle

Insured workers get unemployment benefits when they are laid-off, but employers are usually responsible when their workers become unemployed. So the insurance costs for Unemployment Benefits are financed by equal contributions from both covered employees and employers.

Employers get direct benefits from the Employment Stabilization Program and Job Skill Development Program. Therefore, employers are responsible for financing the costs of both the Employment Stabilization Program and Job Skill Development Program, and pay the entire cost of both programs.

The government is responsible for keeping a sound employment situation and developing EIS. So the government finances the administrative costs of EIS.

2. Contribution Rate

Each program in Korea's EIS has its own rate of contribution. The sum of contribution rates in each program cannot exceed 3.0 percent of the total payroll. The contribution rate of each program is determined within the limit of contributions considering the financial situation of the Employment Insurance Fund and the prospects of economic and labor market situations.

When Korea introduced EIS on July 1, 1995, the contribution rate for the Unemployment Benefits was 0.6 percent (0.3 percent from employees and 0.3 percent from employers) of the total payroll, that for the Employment Stabilization Program was 0.2 percent, and the Job Skill Development Program has a differentiated rate based on the size of the firm between 0.1 percent and 0.5 percent.

However, the financial crisis of Korea in November 1997 resulted

Table 6.1. Contribution Rate of Each Program

(in percent out of total payroll)					
		July 1, 1995 - December 31, 1998		January 1, 1999 - Present	
		employees	employers	employees	employers
Unemployment Benefits		0.3	0.3	0.5	0.5
Employment Stabilization Program		-	0.2	-	0.3
Job Skill Development Program	less than 150 employees	-	0.1	-	0.1
	150 or more employees (priority firms)	-	0.3	-	0.3
	150-999 employees (large firms)	-	0.5	-	0.5
	1,000 or more employees	-	0.5	-	0.7

in a high unemployment rate and sharp increase in expenditures for unemployment benefits and active labor market programs. So Korea increased the contribution rate of each program from January 1, 1999. As of 1999, the contribution rate for the Unemployment Benefits is 1.0 percent (0.5 percent from employees and 0.5 percent from employers), that for the Employment Stabilization Program is 0.3 percent. The contribution rate for the Job Skill Development Program is between 0.1 percent and 0.7 percent of the total payroll depending on the size of the firm, as shown in Table 6.1.

3. Employment Insurance Fund

In order to manage a sound EIS, all of the contributions for EIS are deposited into the Employment Insurance Fund (EIF), which is a special account in the Bank of Korea. EIF is managed by the Minister of Labor. EIF has a separate account for each program of EIS: an account for the Employment Stabilization Program, an account for the Job Skill Development Program, and an account for Unemployment Benefits.

Compared to other contingencies of the social insurance programs, unemployment is subject to much greater uncertainty. Economic circumstances can change quickly, severely and often unpredictably in many respects, thereby producing sharp fluctuations in the level of unemployment and, in turn, in the financial situation of EIF. Therefore, EIF should have a sufficient reserve fund in order to pay unemployment benefits and implement active labor market programs in the event of a serious economic downturn and high unemployment rate.

A major difficulty in managing a reserve fund is to maintain it at an optimum level - not so high as to require unnecessarily high contribution rates, yet not so low as to risk depletion of the fund and default on benefit liabilities.

In 1998, the total revenue of EIF was 1.369 trillion won, and the

total expenditure was 1.191 trillion won, resulting in a surplus of 179 billion won (see Table 6.2.) even during very high unemployment. The account for Unemployment Benefits, however, showed a deficit of two billion won.

As of January 1, 1999, the total amount of the EIF reserve was approximately two trillion won. However, several factors led to an increase in contribution rates. First, the unemployment rate was expected to be the highest in the first quarter of 1999, and a relatively high unemployment rate may continue for a couple of years even with Korea's successfully overcoming the financial crisis. Second, the Korean government planned to implement more active labor market policies using the employment insurance mechanism from 1999. Third, those who were newly covered by EIS from October 1, 1998, became eligible for unemployment benefits from April 1, 1999. Fourth, the unemployment spell was rapidly increasing in 1998, and the maximum duration of JSA will be extended by 30 days starting on July 1, 2000. (see Table 5.1.). Considering these factors, the Korean government decided to increase the contribution rates of EIS from January 1, 1999, even though the financial situation of EIF was quite sound.

Table 6.2. Revenue and Expenditure of the Employment Insurance Fund (1998)

(in million won)

	Revenue(A)	Expenditure (B)	(A) - (B)
Total	1,369,465	1,190,709	178,756
Employment Stabilization Program	271,975	111,031	160,944
Job Skill Development Program	290,553	270,768	19,785
Unemployment Benefits	806,937	808,910	1,973

Source : Employment Research Center, *Analysis of Employment Insurance*, Korea Labor Institute, Spring 1999.

. Administration

1. Administrative Agencies

The programs of Korea's EIS are closely related with the employment policies of the government. Hence, the Minister of Labor is in charge of carrying out the programs in EIS. The Bureau of Employment Policy in the Ministry of Labor is in charge of EIS general policy and supervision of implementation of the Employment Insurance programs.

When Korea introduced EIS in July of 1999, 46 local labor offices were in charge of carrying out the Employment Insurance programs. With the expansion of coverage and rapid increase in the unemployment rate after the financial crisis in November 1997, Korea began to set up Employment Stabilization Centers from 1998 and Manpower Banks from 1996 instead of expanding the local labor offices. The Employment Stabilization Centers are special branches of the local labor offices for implementing the Employment Insurance programs. The Manpower Banks are in charge of job placement services only. Both the Employment Stabilization Centers and the Manpower Banks are unique in the sense that they are basically

operated by non-government personnel on a contract basis, and their salaries are determined by individual performance even though they are government organizations.

Since the performance of Employment Stabilization Centers has been much better than that of the local labor offices in the implementation of Employment Insurance programs, the Korean government is separating services for EIS from the local labor offices and specializing in Employment Stabilization Centers as the core public employment offices. As of June 30, 1999, there were 124 public employment offices: 104 Employment Stabilization Centers and 20 Manpower Banks. Another 16 Employment Stabilization Centers have been scheduled to open by the end of 1999.

Information on the labor market, insured employees, covered employers, and recipients of unemployment benefits are collected and distributed by the Central Employment Information Office in the Ministry of Labor.

The local labor offices are also in charge of collecting EIS premiums, part of which is entrusted to the local offices of the Korea Welfare Corporation for Employees. This organization operates the Workers' Compensation Program in Korea.

In order to collect contributions from small enterprises effectively, Korea introduced the Employment Insurance Management Association (EIMA), which has the legal authority to collect premiums for the Employment Insurance programs from enterprises with less than 100 employees, instead of the Minister of Labor. An association of employers or employees and a cooperative body on labor, tax and accounting may become an EIMA by obtaining approval from the Minister of Labor. EIMA receives grants from the Minister of Labor based on its performance.

2. Appeal Process

Anybody who disagrees with the decisions of the public employ-

bent offices on unemployment benefits and other related issues may appeal to the public employment office within 90 days of the announcement of the decision. The public employment office that receives the appeal should send it to a judge in the regional labor office within five days of the appeal. In each regional labor office, there is a judge to examine the decisions of the public employment offices on Employment Insurance. The judge reviews the appeal and makes a decision within 30 days after receiving the appeal, and notifies to both the demurrant and the public employment office which made the original decision. The public employment office must follow the decision of the judge.

If the demurrant still disagrees with the decision of the judge in the regional labor office, he/she may re-appeal to the Employment Insurance Appeal Committee within 90 days of the decision of the judge in the regional labor office. The Committee should review the case and make a decision within 50 days of the second appeal. If the demurrant disagrees with the decision of the Committee, he/she may file a suit with the court.

The number of appeals and second appeals is increasing every year : there were 65 cases in 1996, 176 cases in 1997, and 829 cases in 1998.

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