

# **The Introduction and Development of Employment Insurance (EI) in Korea**

Kil-Sang Yoo  
(Professor, Korea University of Technology and Education)



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Development of Employment  
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KOREA LABOR INSTITUTE  
30, Eunhaeng-ro, Yeongdeungpo-gu,  
Seoul, 150-740, Korea  
<http://www.kli.re.kr>

ISBN: 978-89-7356-875-8 93330

₩5,000

## Foreword

After having endured 35 years of colonial rule (1910-1945) and 3 years of civil war (1950-1953), Korea remained one of the world's poorest countries until the early 1960s. In the three decades that followed, however, Korea was able to attain both economic and democratic development, transforming itself from a recipient of foreign aid to a donor. Korea's social and economic development experience as well as its democratization has been recognized as an invaluable part of global economic development history. The nation is now regarded as an exemplary development model for numerous developing countries in situations similar to that of Korea throughout much of the 20th century.

Korea was able to quickly rise from a nation with a developing economy to an advanced one by fully utilizing the advantages of being a late-runner along with what it derived from the successes and failures of other advanced countries. For developing countries to achieve economic and social development, it is particularly important that they share their successes and experiences with other nations. For most developing countries in today's world, the decades-old Korean development model is probably more useful than the development model of Western nations that advanced a long time ago. It would be particularly relevant for developing countries to learn how Korea was able to realize the *Miracle of the Han River*, including the trials and errors it went through in the process so that developing countries can achieve economic advancement in an even shorter period of time. Likewise, Korea's experience in social development can provide very important insights for developing countries. In particular, the efforts and setbacks experienced by Korea as it introduced employment insurance (EI) can be especially helpful for developing countries facing

difficulties in economic development due to unemployment and low-skilled labor issues. Also instructive would be the modus operandi of the EI scheme and the changes that have been made to it since its introduction.

Korea's EI program differs from the unemployment insurance programs implemented in most other advanced countries in that Korean unemployment benefits and active labor market policies are integrated into a single program under "employment insurance." While Korea's EI was previously modeled on various institutions found in other advanced economies, it has since come to influence the development and introduction of employment insurance programs in countries like Canada, Taiwan, and Thailand. Korea's EI has become a benchmark for many developing countries including the Philippines, Vietnam, and Indonesia.

For the past two decades, most countries around the world have struggled with increasing unemployment and widening socioeconomic disparities. Due to relatively poorer employment both in quality and quantity, workers in developing countries tend to face more difficulties than their counterparts do in advanced economies. Similarly, in both the 1997 and the 2009 financial crises, Korea experienced a surge in unemployment, but thanks to the previously introduced employment insurance program, Korea was able to provide unemployment benefits to stabilize the livelihoods of the unemployed and implement massive vocational training, thus turning a crisis into a valuable opportunity for vocational competency development.

The author of this report, Professor Kil-Sang Yoo, has played a central part in the introduction and development of EI in Korea. As a civil servant with the Economic Planning Board in 1982, Professor Yoo was the first to propose using the term employment insurance rather than unemployment insurance. Further, as a research fellow with the Korea Labor Institute from 1990, he convinced leaders of various social sectors of the need to introduce an EI program. As the head of research for the Employment Insurance Research Taskforce

from 1992 to 1995, Professor Yoo worked to design Korea's EI scheme, and since its implementation in 1995, he has engaged in research and teaching on the evaluation and improvement of EI and labor market policies. Therefore, Professor Yoo is perhaps the most qualified person to provide an overview of Korea's experience in introducing and developing employment insurance.

Dr. Jai-Joon Hur of the Korea Labor Institute has also contributed to the final stages of this report by providing insightful commentary that furthers its quality and provides more useful information for developing countries. He has the experience of providing policy guidance central to expanding the scope of EI and implementing major improvements immediately after the foreign exchange crisis.

As a result, this report has been created through the collaboration of two of the most knowledgeable experts on the introduction and development of EI in Korea. It is hoped that the information contained in the report can be utilized by other developing countries as they seek to resolve the issues of unemployment and polarization and endeavor to advance their policies for lifelong vocational competency development.

November 2011

Sung-teak Kim  
Acting President  
Korea Labor Institute



# CONTENTS

<b>Chapter 1. Introduction of EI: Socioeconomic Conditions in Korea.....</b>	<b>1</b>
1. The Korean Economy.....	1
2. The Labor Market.....	6
<b>Chapter 2. The Korean EI System.....</b>	<b>12</b>
1. Characteristics.....	12
2. Coverage .....	14
3. Programs .....	17
4. EI Premium Rates and EI Finances.....	54
5. EI Administration System.....	58
<b>Chapter 3. The EI Introduction Process .....</b>	<b>59</b>
1. The Informal Discussions to Introduce Unemployment Insurance in the 1960s to 1970s .....	59
2. The Discussions of EI in the 1980s .....	60
3. Establishment of the 7 <sup>th</sup> 5-Year Plan for Economic and Social Development, the New Economy 5-Year Plan, and the Decision to Introduce EI.....	61
4. Launch of the EI Research Task Force and the Development of EI Models .....	62
5. Legislation of EI Statutes.....	63

<b>Chapter 4. Evaluation .....</b>	65
1. Positive Aspects .....	65
2. Deficient Aspects .....	67
<b>Chapter 5. Implications .....</b>	70
<b>References.....</b>	72

## LIST OF TABLES

Table 1. Major Economic Indicators (1987-1997).....	5
Table 2. Major Industrial Relation Indicators.....	7
Table 3. Trend of Wage Increase Rate.....	8
Table 4. Enrollment Rates.....	9
Table 5. Proportion of Employed Persons in Major Groups of Industry.....	10
Table 6. Distribution of Employed Persons by Employment Status.....	11
Table 7. Mandatory EI Coverage: Firm Size .....	15
Table 8. Eligibility and Amounts in the Initial Employment Adjustment Assistance Program .....	20
Table 9. Eligibility and Amounts in the Initial Employment Promotion Support Program.....	22
Table 10. Maximum Duration of Job-seeking Benefits.....	48
Table 11. Yearly EI Funds by Program .....	56
Table 12. EI Premium Rates by Program and by Payer .....	57



## Summary

On July 1, 1995, Employment Insurance (EI) system was introduced in Korea. In that period, the country had reached full employment as a result of the successful development of its economy beginning in the 1960s. Another factor was that the people of Korea had begun to advocate for stronger welfare in step with the increase in levels of income and education and the democratization of the nation. Unlike most other countries in which unemployment insurance system focuses mainly on providing unemployment benefits to secure the livelihood of persons who become unemployed, the Korean EI system was instituted to prevent unemployment and to support the early reemployment of jobless persons through active labor market policies central to the EI framework. Such a policy is the reason that the Korean system is called *employment insurance* rather than *unemployment insurance*.

Korea's EI system does not passively seek to stabilize the lives of unemployed persons. Instead, EI is being implemented as part of Korea's proactive employment policy to resolve the state of unemployment by actively preventing unemployment and promoting reemployment. Accordingly, Korea's EI system consists of the active labor market policies of employment stabilization, vocational competency development, maternity benefits, and the passive labor market policy of unemployment benefits.

The general framework for the Korean EI system was established upon an EI model designed by the Employment Insurance Research Task Force formed within the Korea Labor Institute, the government-funded public research institute.

Opinions on this framework were collected from various sectors of society before the Employment Insurance Act was brought before the National Assembly. Quite unexpectedly, the Act was passed unanimously with barely any debate.

Since going into force on July 1, 1995, the Korean EI system has been subject to both positive and negative reactions. Possibly the most positive effect of EI thus far was the Korean EI system played a key role in overcoming high unemployment in the aftermath of the 1997 Asian financial crisis and the 2008 world financial crisis. The unemployment benefits that stabilized the lives of the many persons who became jobless and the large-scale implementation of reemployment training through the EI vocational competency development program contributed considerably to overcoming high unemployment during these periods. These crises also served as opportunities for Korea to revamp its system for lifelong vocational competency development and to secure EI infrastructure. At the same time, critics have continuously raised doubts about the effectiveness of some employment stabilization program components. They have also noted that support is lacking in terms of vocational competency development for SME (small and medium enterprises) workers. The introduction and implementation of EI in Korea provides the following lessons for developing countries around the world.

First, for a better response to sudden high unemployment and to promote the reemployment of unemployment benefit recipients, it is more effective to link active labor market policies and unemployment benefits within a single institutional framework for EI than to rely upon a traditional system centered solely on unemployment benefits.

Second, EI should be introduced in developing countries when socio-economic conditions are somewhat mature. More specifically, to ensure the sound and robust implementation of EI, the economy

must be developed sufficiently so that the underemployed and informal sectors are not too large, while the vocational training systems and public employment service should be expanded.

Third, even when conditions are mature enough for the introduction of EI, care must be taken to persuade the people and the related organizations of the need for EI, to design an EI system that is compatible with national labor market conditions, and to secure a group of researchers who are competent to evaluate and improve the EI system. It is particularly important for developing countries as they seek to introduce EI systems that nurture researchers who specialize in labor market analysis and employment policies.

Fourth, it is very important that countries foster social dialogue among social partners as they seek to introduce EI. Not only government bodies, but union leaders, business leaders, scholars, journalists, and other opinion leaders in society should engage in frequent dialogue on the vision and strategy for future labor market and social security programs in order to share information and create a greater consensus for the future direction of the nation.



## Chapter 1

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# Introduction of EI : Socioeconomic Conditions in Korea

## 1. The Korean Economy

With weak domestic consumption and a dearth of endowed resources, Korea embarked in 1962 on an export-led economic development strategy focused on building a foundation of growth based on exporting processed raw materials that were previously imported from overseas markets. By the early 1990s, Korea succeeded in becoming a leading developing country. Per capita income in Korea increased from 82 USD in 1962 to 6,147 USD in 1990, while unemployment fell from 8.1% to a full employment level of 2.4% in 1990. Although it was one of the world's poorest countries in the 1960s, Korea became a frontrunner among developing countries in just twenty years. With unshakable confidence, Korea went on to host the 1986 Asian Games and the 1988 Summer Olympics successfully, demonstrating to the world how well its economy was flourishing.

Along with economic development came significant strides in higher education and a greater yearning for democracy. Such social transformation led to heightened demands for democratization, culminating in the June 1987 national movement for direct presidential elections and the *June 29 Declaration* on democratization by the ruling party. As a result, the authoritarian rule that had been in place since 1961 finally came to an end, and in accordance with the new constitutional amendment, Korea democratically elected its president in December 1987 for the launch of a new more open government in

February 1988.

Soon, the oil producing countries reduced production, causing a rise in oil prices from 17.3 USD per barrel in 1988 to 21.8 USD in 1989. International interest rates rose as countries around the world strengthened their austerity policies to suppress inflationary pressures stemming from rising oil prices, and the US dollar started to regain strength in 1989. At the same time, domestically, the long-suppressed labor movement took off with the June 29 Declaration, leading to a mass eruption of labor disputes. Workers demanded the reinstatement of labor rights that had been repressed by the dictatorship during the process of development, and rather excessive demands were made for higher wages. Such changes in the overseas and domestic economic environment led to the drop in 1989 of the economic growth rate to 6.7% from 10.6% in 1988. At the same time, consumer prices increased 7.1% in 1988, and continued to rise more than 5% each year until 1993.

Amidst a domestic and global economic environment that started to worsen in 1989 with a global economic recession, inflation, labor disputes and high wage increases, Korea started to draft its 7<sup>th</sup> 5-Year Plan for Economic and Social Development, the basic goal of which was to secure growth potential through the innovation of technology and management in order to continuously heighten competitiveness; to enhance the quality of life for the people, promoting equality and welfare; to internationalize the socioeconomic system in step with the greater trend of globalization; and to efficiently reestablish the roles of the public and the private sectors to increase societal and economic efficiency.

Even though the 7<sup>th</sup> 5-Year Plan was actually finalized in 1991, with the launch of the Kim Young Sam administration in February 1993 following the December 1992 presidential election, it was inevitable that the plan would be partially revised in line with the direction of the economic policies of the new administration. Because the Kim Young Sam administration was particularly keen on stressing that it was the first non-military administration since 1961 and a

*Civilian Government*, as it called itself, the new administration sought to implement an economic and social development strategy befitting a civilian government, the result of which was the *New Economy 5-Year Plan* (1993-1997). This plan set forth a blueprint for economic and social development during the five years of the Kim Young Sam administration.

The concept of the *new economy* stood in contrast with past decades of economic development that were dependent upon government directives and control, and symbolized the government's determination to change the mindset in managing the economy from the perspective that past management methods were neither desirable nor efficient in the new age of democracy. Instead, the new administration sought to construct a *new Korean economy*, or a *new economy*, based on the participation and creativity of the private sector. Thus, efforts were made to ensure fair competition and autonomy in fiscal, financial, and administrative institutions and implement bold reforms aimed at realizing economic justice, while the old economic mindset was undergoing reform. The new economy focused on the three major tasks of strengthening growth potential, enhancing the international status of the Korean economy, and improving the living conditions of the Korean people. To strengthen growth potential, efforts were made to maintain the actual growth rate within the scope of potential growth. Also, to enhance the international status of the Korean economy, the government worked to internationalize institutions and practices related to managing the economy and participating actively in global efforts to shape the international trade order.

The New Economy 5-Year Plan was instituted to shift the high-cost low-efficiency economic structure ingrained in the Korean economy during the development decades to a low-cost but highly efficient one. To this end, the government pursued the economic reform tasks of enhancing productivity and transparency in the government budget; heightening equity in taxes; correcting the

distortion of resource allocation; strengthening the function of income taxes; rationalizing tax rates; strengthening tax administration as a science; increasing financial efficiency and enhancing competitiveness in the financial industry; liberalizing interest rates; ensuring the autonomy of financial institutions; relaxing foreign exchange regulations by weakening the foreign exchange concentration system and expanding the range of exchange rate fluctuation; phasing in the liberalization of capital transactions; and implementing the real-name financial transaction requirement. These institutional reforms were aimed at establishing a free and fair economic order, realizing economic justice that guarantees results for efforts, and building a solid economy that encourages voluntary participation and proactive creativity by the people. By successfully realizing such goals, the government sought to maintain annual average economic growth at 6.9%, reach a per capita income of 14,000 USD, record a current account surplus of 5 billion USD or 0.8% of GNP, and stabilize inflation at an annual average of 3.7% in order to secure a solid economic foundation for a unified Korean Peninsula.

Meanwhile, at the conclusion on December 15, 1993 of the Uruguay Round of multilateral trade negotiations, the GATT system that had governed the global economic order for the 50 years since the end of the Second World War was replaced by the WTO system of market opening and unlimited competition. In step with the birth of this new global economic order, the Kim Jong Sam administration adopted globalization as its new national vision and worked accordingly to correct structural contradictions in the Korean Economy and respond to the demands of the new global economic order by internationalizing economic institutions and practices. While the original New Economy 5-Year Plan was instituted to achieve appropriate growth within the range of the potential growth rate, the New Economy 100-Day Plan called for an excessively higher rate of growth. The new plan resulted in a much higher than anticipated 7.7% average annual economic growth rate from 1993 to 1996 compared to

the original goal of 6.9% growth, which led to Korea's first foray into the world of a per capita income level exceeding 10,000 USD with an income level in 1995 of 11,432 USD. Nonetheless, inflation was also much higher at 5.1% from 1993 to 1996 than the original goal of 3.7%, and the current account balance deviated substantially from the plan of maintaining a robust surplus. In fact, there was a 35.8 billion USD deficit from 1994 to 1996 and a record 23.1 billion USD deficit in 1996 as seen in Table 1, which ultimately triggered a financial crisis in 1997.

As the major macroeconomic indicators diverged far from the original goals of the New Economy 5-Year Plan and the economy spiraled into high growth, high inflation, and a worsening international balance of accounts, the New Economy Plan soon went awry.<sup>1</sup> It was unfortunate that the government failed to adhere to the original New

Table 1. *Major Economic Indicators (1987-1997)*

Year	GDP growth rate (%)	Per capita GNI (USD)	Inflation (%)	Exports (million USD)	Imports (million USD)	Current account balance (million USD)	Exchange rate (KRW/USD)
1987	11.1	3,321	3.1	47,281	41,020	10,058	822
1988	10.6	4,435	7.1	60,696	51,811	14,505	731
1989	6.7	5,418	5.6	62,377	61,465	5,344	671
1990	9.2	6,147	8.6	65,016	69,844	-2,014	708
1991	9.4	7,105	9.4	71,870	81,525	-8,417	734
1992	5.9	7,527	6.3	76,632	81,775	-4,095	781
1993	6.1	8,177	4.8	82,236	83,800	821	803
1994	8.5	9,459	6.3	96,013	102,348	-4,024	804
1995	9.2	11,432	4.4	125,058	135,119	-8,665	771
1996	7.0	12,197	5.0	129,715	150,339	-23,120	805
1997	4.7	11,176	4.4	136,164	144,616	-8,287	951

Note. Exchange rate data are the average KRW/USD (basic exchange rate) figure for each year. From 2006 *KLI Labor Statistics*, by Korea Labor Institute, 2006.

<sup>1</sup> Park, C. (2000), *40 Years of the Korean Economy within the Global Economy*, Pakyoungsa, pp. 212-214.

Economy 5-Year Plan, while foreign-debt financed excessive investments and the high-cost low-efficiency economy of the 1960s worsened with much higher wages and increasing external debt after 1987. The original plan had called for the management of the macro economy in a sound manner involving the reform of the economic management system and the financial and corporate structures that would have enabled the economy to respond robustly to the demands of the new global economic order brought in by the WTO. The consequence of this deviation was the financial crisis that hit Korea in November 1997.

## 2. The Labor Market

The late 1980s and the early 1990s were a time of major transition for the Korean labor market in the following ways:

First, democratization brought about more active labor unions, which led to an explosive increase in labor disputes. From the 1960s, Korea had sacrificed democracy to some degree while concentrating all of its energy on economic development. Such development was successfully achieved in the shortest timeframe in world history on the basis of the comparative advantage attained through long work hours and low wages. However, the increase in income and education that accompanied this economic development led to increasing demands for democracy among the people, culminating in the June 1987 Struggle for Democracy which brought forth the June 29 Declaration on democratization. From late 1987, the labor movement, which had been suppressed along with democratization, regained energy. Unionization movements rose considerably. The unions embarked on a rather militant path and resorted to labor strikes as their first line of defense, leading to major shocks in Korea's industrial relations (Lee Won Duck ed., 2003). As shown in Table 2, labor disputes skyrocketed from 276 instances in 1986 to 3,749 in 1987. From 1987 to 1989, the Korean economy was severely handicapped by frequent labor disputes and the consequent loss of production. The time had come when the

Table 2. Major Industrial Relation Indicators

Year	Labor unions			Labor disputes			
	Members (1,000 persons)	Unionization rate (%)	Incidents (#)	Participants (1,000 persons)	Days lost (1,000 man- days)	Strike rate (days/1,000 persons)	Length (days)
1986	1,036	12.3	276	47	72	8.5	-
1987	1,267	13.8	3,749	1,262	6,947	755.8	-
1988	1,707	17.8	1,873	293	5,401	562.0	-
1989	1,932	18.6	1,616	409	6,351	611.4	-
1990	1,887	17.2	322	134	4,487	409.8	19.1
1991	1,803	15.4	234	175	3,271	279.6	18.2
1992	1,735	14.6	235	105	1,528	128.3	20.1
1993	1,667	14.0	144	109	1,308	109.5	19.9
1994	1,659	13.3	121	104	1,484	118.9	21.6
1995	1,615	12.5	88	50	393	30.8	22.6
1996	1,599	12.1	85	79	893	67.6	28.6
1997	1,484	11.1	78	44	445	33.6	22.7

Note. From 2006 KLI Labor Statistics, by Korea Labor Institute, 2006.

government and firms could no longer demand the sacrifice of workers in the labor market for the sake of economic development.

Second, the revitalization of the labor movement and the frequent strikes calling for wage increases led to a substantial increase in wages from 1987, as seen in Table 3. From 1987 to 1996, the average wage increase rate for all industries exceeded 10%, and in manufacturing, the 3-year average nominal wage increase rate from 1988 to 1990 was 21.6%, which led to a steep decline in the competitiveness of Korean manufacturing (Lee Won Duck ed., 2003). For a long time, the Korean economy had maintained price competitiveness on the basis of low wages, but this stability was no longer possible after 1987. The continuous increase in wages after 1987 and the ensuing loss of international competitiveness in the assembly and fabrication industries

Table 3. *Trend of Wage Increase Rate*

(Unit: %)

Year	All industries except agriculture		Manufacturing	
	Nominal	Real	Nominal	Real
1986	8.2	5.3	9.2	6.3
1987	10.1	6.9	11.6	8.3
1988	15.6	7.8	19.6	11.6
1989	21.2	14.6	25.1	18.3
1990	18.8	9.4	20.2	10.7
1991	17.5	7.5	16.9	6.9
1992	15.2	8.4	15.7	8.9
1993	12.2	7.0	10.9	5.8
1994	12.7	6.1	15.5	8.7
1995	11.2	6.4	9.9	5.2
1996	11.9	6.6	12.2	6.9
1997	7.0	2.5	5.2	0.7

Note. From 2006 KLI Labor Statistics, by Korea Labor Institute, 2006.

pushed companies to expand intrapreneuring and subcontracting; avoid labor market rigidity by increasing the employment of contractual workers and dispatch workers; pursue labor-saving technological development; or move manufacturing facilities to China and Southeast Asia in search of cheaper labor. To overcome the shock of labor disputes and high wages, companies became very prudent about employing new workers, which led to the weakening of the job creation potential in the Korean economy from the late 1990s on.

Third, the increase in income led to an increase in the pursuit of learning, which brought about much higher levels of educational attainment in the general population. Table. 4 demonstrates that enrollment from middle school into high school surpassed 90% in the late 1980s to reach 99% in 1997. Meanwhile, by 1997, enrollment in post-secondary educational institutions exceeded 60%. This rapid increase in the level of attained education led to greater expectations about the workplace among new labor market entrants, particularly

Table 4. *Enrollment Rates*

	(Unit: %)										
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Middle School →											
High School	91.9	93.5	94.6	95.7	97.5	98.6	98.2	98.8	98.5	98.9	99.4
High School →	36.7	35.0	35.2	33.2	33.2	34.3	38.4	45.3	51.4	54.9	60.1
University/College											

*Note.* From *Statistical Yearbook of Education*, by Korean Ministry of Education, each year.

for the new generation of youths who grew up enjoying the comforts of economic development. Manufacturing blue-collar jobs suffered from labor shortages, while highly-educated young people avoided such jobs, which led to an increase in the youth unemployment rate despite the realization of almost full employment during the ten years from 1988 to 1997 in which overall unemployment remained stable at around 2%. The new stigma led to a serious labor shortage in blue-collar occupations, which was resolved in part through the large-scale influx of foreign workers that started in 1987 (Yoo Kil-Sang & Lee Kyu-Yong, 2003). The higher level of attained education also served to decrease rapidly the number of middle-school graduates seeking vocational training entering the labor market instead of enrolling in high school, and therefore creating pressure to change the paradigm of vocational training.

Fourth, the economy rapidly became service-centric. As the proportion of employment in manufacturing and agriculture, forestry and fishing fell steeply, employment in services increased sharply. Beginning in the late 1980s, the Korean economy witnessed the start of full-fledged deindustrialization with a rapid decrease in the number and proportion of people employed in manufacturing. As can be seen in Table 5, the proportion of people employed in manufacturing peaked at 27.8% in 1989 and then started to drop rapidly to below 20% in 1998. The number of people employed in manufacturing reached 5.156 million in 1991, started to decrease in 1992, and fell to 3.917 million in

Table 5. *Proportion of Employed Persons in Major Groups of Industry*

Year	Agriculture, forestry, and fisheries	Manufacturing	Electricity, gas, and water supply	(Unit: 1,000 persons, %)	
				Construction	Services
1987	3,580 (21.9)*	4,416 (27.0)	44 (0.3)	920 (5.6)	7,207 (44.1)
1988	3,483 (20.6)	4,667 (27.7)	52 (0.3)	1,024 (6.1)	7,503 (44.5)
1989	3,438 (19.6)	4,882 (27.8)	59 (0.3)	1,143 (6.5)	7,949 (45.3)
1990	3,237 (17.9)	4,911 (27.2)	70 (0.4)	1,346 (7.4)	8,441 (46.7)
1991	2,725 (14.6)	5,156 (27.6)	67 (0.4)	1,580 (8.5)	9,057 (48.6)
1992	2,667 (14.0)	4,986 (26.2)	67 (0.4)	1,688 (8.9)	9,546 (50.2)
1993	2,592 (13.5)	4,720 (24.5)	66 (0.3)	1,706 (8.9)	10,099 (52.5)
1994	2,491 (12.6)	4,758 (24.0)	72 (0.4)	1,805 (9.1)	10,681 (53.8)
1995	2,403 (11.8)	4,818 (23.6)	70 (0.3)	1,913 (9.4)	11,185 (54.8)
1996	2,323 (11.1)	4,725 (22.7)	75 (0.4)	1,983 (9.5)	11,723 (56.2)
1997	2,285 (10.8)	4,537 (21.4)	78 (0.4)	2,027 (9.6)	12,261 (57.8)
1998	2,397 (12.0)	3,917 (19.6)	61 (0.3)	1,580 (7.9)	11,961 (60.0)

Note. Figures in parentheses denote proportion. From 2009 *KLI Labor Statistics*, by Korea Labor Institute, 2009.

1998. In the agriculture, forestry, and fishing industries, the proportion of employment fell below 20% for the first time in 1989 at 19.6% and continued to fall to 12.0% in 1998. Meanwhile, the level of employment in the service sector was 44.1% in 1987, increasing to 60.0% in 1998.

Fifth, the proportion of wage workers increased continuously. As shown in Table 6 concerning the worker status of employed persons, the proportion of self-employed and unpaid family workers was 68.5% in 1963, while the proportion of wage workers was only 31.5%, reflecting the underdeveloped employment structure in place in Korea at the time. Along with economic development, however, the proportion of wage workers continued to increase, and by 1990 only 39.4% of the workers in Korea were self-employed or unpaid family workers, while 60.6% were wage workers.

Table 6. *Distribution of Employed Persons by Employment Status*<sup>2</sup>

Year	Total	Self-employed	Unpaid family workers	Regular workers	Temporary workers	(Unit: 1,000 persons, %)
						Daily workers
1963	7,563	2,817 (37.3)*	2,361 (31.2)	1,420 (18.8)		963 (12.7)
1970	9,618	3,286 (34.2)	2,586 (26.9)	2,728 (28.3)		1,018 (10.6)
1980	13,683	4,651 (33.9)	2,569 (18.8)	5,164 (37.7)		1,300 (9.5)
1989	17,560	5,051 (28.8)	2,119 (12.1)	5,690 (32.4)	2,973 (16.9)	1,727 (9.8)
1990	18,085	5,068 (28.0)	2,067 (11.4)	5,938 (32.9)	3,171 (17.5)	1,840 (10.2)
1991	18,649	4,977 (26.7)	1,974 (10.6)	6,497 (34.8)	3,361 (18.0)	1,840 (9.9)
1992	19,009	5,171 (27.2)	1,928 (10.1)	6,838 (36.0)	2,973 (15.6)	1,772 (9.3)
1993	19,234	5,258 (27.3)	2,032 (10.6)	7,033 (36.6)	3,171 (16.5)	1,718 (8.9)
1994	19,848	5,376 (27.1)	1,994 (10.0)	7,225 (36.4)	3,475 (17.5)	1,779 (9.0)
1995	20,414	5,569 (27.3)	1,946 (9.5)	7,499 (36.7)	3,300 (16.2)	1,802 (8.8)
1996	20,853	5,710 (27.4)	1,943 (9.3)	7,499 (36.0)	3,907 (18.7)	1,794 (8.6)
1997	21,214	5,901 (27.8)	1,908 (9.0)	7,282 (34.3)	3,475 (16.4)	1,886 (8.9)

Note. Figures in parentheses denote proportion. From *Annual Report on the Economically Active Population Survey*, by Statistics Korea, each year.

With an increase in wage workers to over 60% of total employment and the drop in those employed in agriculture, forestry and fishing to lower than 20% as shown in Table 5, Korea's employment structure became more advanced, and labor market conditions in Korea were mature enough to consider introducing an EI system in the Korean economy.

<sup>2</sup> Self-employed refers to one-person businesses with no paid employees, farm owners, store owners, or persons independently managing a professional business. Unpaid family workers are people who do not gain any direct income but work at least 18 hours per week to increase the income of the farm or business managed by their household. Regular workers are workers with indefinite contract periods or contracts for at least 1 year, temporary workers are those with contracts of at least 1 month but shorter than 1 year, and daily workers are those with work contracts shorter than 1 month; they are paid for work performed at various workplaces but have no regular workplace.

## Chapter 2

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# The Korean EI System

### 1. Characteristics

The Korean EI system differs from unemployment insurance systems of other countries for two reasons (Yoo Kil-Sang, 2000): First, while traditional unemployment insurance systems are designed mainly to provide unemployment benefits that guarantee the livelihood of people after they become jobless, a key component of Korea's EI system is its active labor market policies aimed at preventing unemployment and supporting reemployment as soon as possible, which is the reason this approach is referred to as *employment insurance* instead of *unemployment insurance*.

Second, Korea's EI system has stronger institutional mechanisms for minimizing the negative effects on the labor market that can result from weakened efforts to actively seek jobs. Benefits are paid out to unemployed workers to stabilize their livelihoods for a certain period after unemployment and to foster job-seeking activities in order to encourage early reemployment. The major drawback is that such benefits can negatively affect the motivation of the unemployed to actively seek new positions and thus prolong the unemployment period. Intentional unemployment may also be promoted by these benefits, which in turn can lead to a decrease in the labor supply. Therefore, the payment of unemployment benefits can lead to some degree of moral hazard among the recipients. Therefore, countries utilize various institutional mechanisms to minimize the negative labor market effects of unemployment benefits. As a late-runner in terms of

EI introduction, Korea looked to the examples of other advanced nations and was able to incorporate the following institutional mechanisms to minimize the negative effects of unemployment benefits:

- To be eligible for unemployment benefits, workers must have worked for at least 180 insured days within the past 18 months.
- To prevent the repeated payment of unemployment benefits, recipients of job-seeking benefits must work for at least 180 insured days to be eligible to reapply for unemployment benefits.
- Unemployed workers are required to maintain their capability and availability for employment and make strong efforts to find a new job. Immediately after job loss, they must report their unemployment to a public employment office without delay and register as a job-seeker; furthermore, in order to be recognized as unemployed, they must report once or more for every 1 to 4 weeks to the public employment office .
- To prevent intentional voluntary unemployment with an agenda of receiving benefit payments, unemployment benefits are not paid out for voluntary unemployment or unemployment due to a serious fault of the unemployed person.
- Unemployment benefits are paid after a 7-day waiting period from the date that a job loss is reported. To ensure the stability of EI finances, for very short periods of unemployment, workers are required to maintain their own livelihoods.<sup>3</sup>
- Unemployment benefit payments are suspended from 2 to 4 weeks if the unemployed person refuses appropriate job placements or rejects participation in prescribed vocational competency training.
- Unemployment benefits are, in principle, paid only for a set coverage period from the day after job loss up to 12 months from job loss. As

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<sup>3</sup> The waiting period was originally 14 days, but was reduced to 7 days on January 1, 2004.

soon as they are unemployed, workers are immediately registered with a public employment service organization to receive employment support services and are encouraged to gain early reemployment.

- The set coverage period is relatively shorter than in advanced countries at 90 to 240 days to minimize the negative effects of long-term unemployment benefit payments and to stabilize the finances of EI.
- The employment promotion allowance encourages unemployment benefit recipients to gain early reemployment.
- Participation in training programs is encouraged by extending the job-seeking benefit coverage period for up to 2 years for recipients participating in vocational training prescribed by the head of the employment stabilization organization.

## 2. Coverage

When EI was introduced on July 1, 1995, it was recognized that small businesses might find it difficult to embrace EI immediately. For this reason, the coverage of the employment stabilization and vocational competency development programs was made mandatory only for firms with 70 or more full-time workers, while unemployment benefits were applied to firms with 30 or more full-time workers and to construction companies with total contracts exceeding 4 billion KRW. Nonetheless, the EI Act stipulated in an addendum that unemployment benefits would be expanded to workplaces with 10 or more full-time workers starting on January 1, 1998. At the same time, mandatory coverage of the employment stabilization and vocational competency developing programs would be expanded to firms with 50 or more full-time workers.

With the financial crisis that hit Korea in late 1997, mass unemployment occurred in the Korean economy by 1998. In response to this new state of high unemployment, Korea quickly revised the EI

Act several times to expand coverage for unemployment benefits to firms with five or more workers on March 1, 1998 and widen coverage for employment stabilization and vocational competency development to firms with five or more workers on July 1, 1998. Also, on October 1, 1998, in a move that served to establish a basic social safety net to protect all workers from unemployment, including vulnerable workers in very small businesses, all firms with one or more persons were now required to participate in all three EI programs. EI in Korea was expanded in phases during the implementation process. Table 7 describes the trend of EI coverage expansion by firm size.

EI was introduced in Korea as one of a number of social insurance programs. Some others were industrial accident insurance (1964), health insurance (1977), and the national pension (1988). Yet, as Korea worked to deal with the high unemployment rates caused by the financial crisis, EI became the first social insurance to be applied to all

Table 7. *Mandatory EI Coverage: Firm Size*

	Size of Firms Required to be Covered by EI						
	Jul. 1955- Dec. 1996	Jan. 1997- Dec. 1997	Jan. 1998- Feb. 1998	Mar. 1998- June 1998	Jul. 1998- Sep. 1998	Oct. 1998- Dec. 2003	Jan. 2004 -present
Unemployment benefits	30 or more persons	30 or more persons	10 or more persons	5 or more persons	5 or more persons	1 or more persons	1 or more persons
Employment stabilization and vocational competency development programs	70 or more persons	70 or more persons	50 or more persons	50 or more persons	5 or more persons	1 or more persons	1 or more persons
(Total construction contract amount)	(4 billion KRW or more)	(4.4 billion KRW or more)	(3.4 billion KRW or more)	(3.4 billion KRW or more)	(340 million KRW or more)	(340 million KRW or more)	(20 million KRW or more)

*Note.* For construction, contracts exceeding the listed amounts require participation in all three EI programs (unemployment benefits, employment stabilization program, vocational competency development program).

workplaces, starting in October 1998. It soon became a catalyst for the full application of other social insurance programs to all workplaces (Hur Jai-Joon, 2001). EI is mandated for all businesses with workers, with the exception of workplaces in which applying EI is difficult in administrative terms. To explain further, exceptions are made when considering the characteristics and size of each industry such as domestic services and unincorporated businesses in agriculture, forestry, fishing, and hunting with four or fewer full-time workers. Other exceptions are construction works that are not executed by construction firms involving contracts of less than 20 million KRW; building construction projects not exceeding 100 square meters in total floor area; or building renovations not exceeding 200 square meters in total floor area.

Meanwhile, even in workplaces that are required to be covered by EI, there is no need to apply it to individual workers for whom no real benefit exists such as workers who are at least 65 years old (a group that still receives coverage for employment stabilization and vocational competency development); workers who work less than 60 hours per month or less than 15 hours per week; civil servants (special service civil servants and contractual civil servants were allowed voluntary participation as of September 22, 2008); persons covered by the Private School Teachers and Staff Pension Act; and special service postal workers. Self-employed persons may voluntarily insure themselves under EI (employment stabilization and vocational competency development programs only).

Several aspects of expanding EI coverage in Korea are noteworthy for other developing countries.

First, in the early stages of EI, Korea chose to exclude businesses smaller than a given size from mandatory EI participation, in recognition of the administrative limitations of including all workers in mandatory EI coverage. Even though workers in small workplaces are actually exposed to higher risks of unemployment and require more support from active labor market policies, Korea recognized that it

would be difficult to implement EI properly if all workplaces were forced into the EI system from the very beginning. It was decided to exclude these smaller businesses initially and instead work to rapidly expand EI coverage once the infrastructure was in place. In developing countries that have large informal labor markets and many small businesses, a realistic approach would be to set initial EI coverage in an administratively manageable range and then phase in the expansion of the scope of coverage.

Second, Korea recognized the absence of accurate wage and employment records for small business workers and daily workers in the informal sector, and set a *standard wage* by identifying through government surveys the average wage of small business workers and daily workers. This standard wage was used as a basis for collecting EI premium payments and paying out unemployment benefits in cases in which wage and employment information were not accurately reported. Such an approach could be referred to by developing countries that lack accurate data on wages and employment due to the existence of a large informal sector.

Third, with respect to the fact that employers often intentionally fail to provide EI coverage to informal labor market participants such as small business workers, daily workers, and part-time workers, Korea was able to increase EI coverage by allowing workers to request EI coverage directly from the government in the case of employer inaction. This policy is a reminder that when a new system is introduced, it must be designed with an incentive for workers themselves to actively seek coverage through the social insurance program (Hur, 2004). The increase in EI coverage in Korea's informal sector led to a secondary effect of enhanced management transparency for that sector.

### **3. Programs**

Korea's EI has not been established simply to stabilize the

livelihoods of unemployed persons. Rather, it is a major tool of an active employment policy for preventing unemployment and promoting reemployment to resolve joblessness. Accordingly, the EI system in Korea is comprised of active labor market policies involving employment stabilization and vocational competency development programs; maternity protection benefits; and the passive labor market policy of unemployment benefits.

In the employment stabilization program, vocational competency development program, and maternity protection benefit program, SMEs with fewer workers than at a level set by presidential decree receive preferential treatment in terms of various subsidies and grants. Recognizing that smaller companies may not find it easy to utilize EI programs, the government is determined to strengthen the benefits of vocational training and labor market policies for these companies by providing them with preferential levels of subsidies and grants.

When first legislated, the EI Act stipulated that preferential treatment would be provided to SMEs as defined in the SME Act. Nevertheless, difficulties arose in administering such preferential treatment because the SME Act defines SMEs by both the number of workers in a firm and total assets. Accordingly, through the March 9, 1996 revision of the EI enforcement decree, SMEs eligible to receive preferential support in the employment stabilization program and the vocational competency development program were determined not by the basis of the SME definition in the SME Act but instead by *the number of full-time workers*. The May 8, 1997 revision of the EI enforcement decree refers to firms receiving preferential treatment as *priority support firms*. It limits the size of such firms for each industry along these lines on the basis of the number of full-time workers (a) up to 300 workers for mining; (b) up to 500 workers for manufacturing; (c) up to 300 workers for construction; (d) up to 300 workers for transport, warehousing, and telecommunications; and (e) up to 100 workers for other industries.

### 3.1. Employment Stabilization Program

#### 3.1.1. Original employment stabilization program

Korea's EI system provides for an employment stabilization program founded to create employment, retain employment, promote reemployment, prevent unemployment, and stabilize employment when employment is unstable due to a shortage of labor or employment opportunities in times of domestic and overseas fluctuations in the economy, changes to the industrial structure, and changes in the economy. At the outset, the employment stabilization program consisted of employment adjustment assistance and employment promotion assistance, in which employment adjustment assistance was provided by temporary shutdown allowance subsidies, job transfer training subsidies, personnel reassignment subsidies, and regional employment promotion grants. Employment promotion assistance consisted of the senior employment promotion grant, the childcare leave grant, and the employment promotion facility subsidy.

Employment adjustment assistance was launched with the aim of providing support for the continued employment retention of workers and support for the flexible reassignment of excess personnel. To this end, the government instituted the payment allowance subsidy for temporary shutdowns, a job transfer training subsidy for employers conducting vocational training for their transferred workers, and a personnel reassignment subsidy for employers who reassign employees. Furthermore, employers launching or expanding operations in regions designated as warranting regional employment development were supported with a regional employment promotion grant.

At the same time that the temporary shutdown allowance subsidy was provided mostly to support the continued employment retention of workers, the personnel reassignment subsidy was provided to support the minimized costs involved in moving the business from an old to a new industry. The regional employment promotion grant was instituted to improve the regional employment situation by securing

and expanding employment opportunities in certain regions in which employment was set to inevitably decrease with the restructuring of industries that were concentrated in those regions like coal, apparel, and shoes. Details on eligibility and support amounts for the original employment adjustment support measures are outlined in Table 8.

*Table 8. Eligibility and Amounts in the Initial Employment Adjustment Assistance Program*

	Eligibility	Support amount
Employment adjustment assistance	Employers who shut down operations for 4 or more hours per day and retain employment by paying a shutdown allowance	One third of the shutdown allowance amount (1/2 for SMEs) Support provided for up to 6 months assuming that the shutdown is implemented for all workers for all hours.
	Employers who conduct job transfer training for workers planning to move to a different job and retain the employment of these workers during training with the payment of wages at least at the level of ordinary wages	One third of the wages paid during the training period (1/2 for SMEs) and all training costs for 1 year.
	Employers who retain employment of workers by reassigning personnel during business conversion	One third of wages paid to reassigned personnel (1/2 for SMEs) for 1 year.
Regional employment promotion grant	Employers who open or expand their business within a region designated by the Framework Act on Employment Policy as needing regional employment development and who employ individuals who have lived in the region for at least 6 months as regular workers	One half of the wage amount paid to workers employed during the designated period (1/3 for large companies) provided for 1 year from the operations start date.

Meanwhile, employment promotion assistance was established to support employment in certain regions, to promote employment for persons finding it difficult to gain employment, to encourage the establishment and operation of employment promotion facilities, and to fund a portion of the related costs. When the EI Act was legislated, two programs were introduced to promote the employment of groups that found it difficult to gain employment. One program was the *senior employment promotion grant* that provided support in the form of a portion of the wages paid to employed seniors age 55 and older. The other was the *childcare leave grant* that provided for the payment of a set amount to employers when workers take childcare leave to encourage workers to use this leave. Also introduced to promote employment were a subsidy for workplace childcare facility operation costs and a subsidy for organizations that are entrusted or commissioned to establish and operate employment promotion facilities. Table 9 details the eligibility and support amounts for the original employment promotion support measures.

### **3.1.2 Changes to the employment stabilization program and the current employment stabilization program**

In terms of effectiveness, wage subsidy programs like those provided through the employment stabilization program have been controversial in advanced countries. Their inclusion was also heavily debated during the design of Korea's EI system. Changes to the labor market situation, such as the financial crises, also led to the introduction of various new programs. The programs were often assessed in the long term to have little effect and consequently were merged or eliminated, only to be revived again in the form of similar programs. As such, among all programs in the Korean EI system, the employment stabilization program has been through the largest number of changes. The eligibility requirements and procedures for subsidies and grants have changed frequently, while detailed programs

**Table 9. Eligibility and Amounts in the Initial Employment Promotion Support Program**

	Eligibility	Support amount
Senior employment promotion grant	Employers who employ more seniors 55 years of age and older than the ratio set by Ministry of Labor decree (6%).	Quarterly payments of 90,000 KRW per senior workers employed in excess of the ratio stipulated in the Ministry decree.
Childcare leave grant	Employers who grant childcare leave for 30 days or longer separate from maternity leave and who continue to employ the workers for 30 days or more after the end of childcare leave.	Monthly payments of 120,000 KRW (80,000 for large companies) per workers per month.
Employment promotion assistance	Employers who establish and operate workplace childcare facilities and who employ childcare educators.	400,000 KRW per childcare educator per month Long-term low-interest rate loans at 3% for workplace childcare facility establishment costs.
Employment promotion facility subsidy	Support for organizations that are entrusted or commissioned to establish and operate employment promotion facilities.	Partial support for establishment and operation costs for organizations entrusted or commissioned to establish and operate employment promotion facilities.

have often been newly created, merged, or eliminated. Changes to the employment stabilization program have been all the more frequent from the time of the foreign exchange crisis.

In the following description of the employment stabilization

program as of 2011, an overview is provided of related programs that have changed throughout the years. As of 2011, the employment stabilization program is comprised of employment creation assistance and employment adjustment assistance along with assistance for the promotion and stabilization of employment for seniors and other vulnerable groups along with other forms of employment stabilization assistance.

### 3.1.2.1. Employment creation assistance

Employment creation assistance was introduced on February 10, 2004 to support job creation by businesses as part of the *Social Pact for Job Creation* agreed upon by labor, management, and government in response to the economic downturn and employment insecurity that continued even after Korea had overcome the foreign exchange crisis. At the time, employment creation was centered on the following five programs. First, the SME working hour reduction subsidy was founded for the early establishment of a 40-hour work week in SMEs in support of creating new jobs. Second, the shift work transformation subsidy was created to support the financial burden stemming from initial labor costs related to converting a shift work system into a job-sharing scenario. Third, the SME employment environment improvement subsidy was founded to support the improvement of the employment environment in SMEs in order to encourage the inflow of personnel to SMEs and thus create jobs and secure SME personnel. Fourth, the SME professional worker employment grant was started for SMEs employing necessary professionals or utilizing similar support from large companies in order to strengthen competitiveness and expand employment opportunities. Finally, the SME new business start-up subsidy aimed to attract more workers to SMEs by providing support for SMEs in manufacturing and some knowledge-based services entering into new business areas. Unfortunately, these employment creation assistance programs were not found to have achieved their stated purpose (Yoo Kil-sang et al., 2008), so accordingly,

the Korean government started to revise the employment stabilization program in 2009, which has been implementing the following five employment creation assistance programs since 2011: a) a job creation subsidy; b) an employment environment improvement subsidy; c) a part-time job creation subsidy; d) a promising venture company employment subsidy; and e) a professional workers recruitment subsidy.

#### a) Job creation subsidy

The job creation subsidy combines the previous SME working hour reduction subsidy and the shift work transformation subsidy, encouraging job sharing to support company employment creation. This subsidy is provided to business owners when the number of employees in their firm increases with the employment of jobless people in positions newly created through job rotations, shift work, or a real reduction in working hours. Regarding employee increases, the monthly average number of employees for 6 months from the month after the introduction of the job creation measure must be higher than the monthly average for the 6 months immediately preceding the introduction of the measure.

As for the subsidy duration and amount, companies are paid 3.6 million KRW for each additional worker 6 months after the introduction of job rotation, shift work, or a real reduction in working hours, and can receive an additional 3.6 million KRW if this increased employment is retained another 6 months. The subsidy is provided for up to 30% of the monthly average number of workers before the introduction of job rotation, shift work, or a real reduction in working hours.

#### b) Employment environment improvement subsidy

The employment environment improvement subsidy is paid to owners of priority support firms who engage in manufacturing or knowledge-based services that improve the employment environment and who hire unemployed persons to increase the number of workers in their firm. The monthly average number of employees in the month

when environmental improvement is completed and in the following 2 months must be higher than the monthly average for the 3 months immediately preceding the month when the improvement plan is submitted.

Employers are paid 50% of the amount invested to improve the employment environment (up to 50 million KRW) and 1.2 million KRW to hire any unemployed person to increase the number of workers (up to 30 people). The investment subsidy amount is paid up to a limit of 10 million KRW to employ anybody who increases the total number of workers in the firm.

c) Part-time job creation subsidy

The part-time job creation subsidy was started in 2011 to support the creation of good part-time jobs to expand employment. This subsidy is provided when business owners hire unemployed individuals as part-time workers with indefinite work contracts for new jobs created through job-sharing, transformation of the work system, or the development of new part-time job tasks as needed in the process of conducting business. In terms of the subsidy duration and amount, employers are paid 50% (up to a limit of 400,000 KRW per month) of the wages for each newly employed part-time worker for up to two 6-month periods. Support is limited to 10% of the number of people insured by EI in the firm as of the last day of the month in which business plans are submitted.

d) Promising venture company employment subsidy

The promising venture company employment subsidy is provided from 2011 to expand employment by supporting the creation of jobs through business start-ups. This subsidy is provided to owners of start-ups (that were launched within the past 6 months to 2 years) with fewer than 10 full-time workers in the new and renewable energy or contents/software industries. In terms of the amount of the subsidy and its duration, employers are paid 2.88 million KRW per worker after 6 months of employment and another 4.32 million KRW after an

additional 6 months up to a limit of 75% of wages, in which one employer can receive subsidies for up to two workers.

e) Professional worker recruitment subsidy

The professional worker recruitment subsidy is provided to owners of priority support firms in manufacturing or knowledge-based services that employ unemployed professionals or use professionals provided to them by large companies. As for the subsidy duration and amount, 4.32 million KRW is provided per person upon 6 months of employment (used) and another 6.48 million KRW is provided after an additional 6 months up to a limit of 75% of wages, in which one employer can receive subsidies for up to three professionals. However, when professionals who are 50 years of age or older are employed (used), the firm can receive support for one additional person.

### 3.1.2.2. Employment adjustment assistance.

The purpose of employment adjustment assistance is to stabilize employment by providing business owners with subsidies that cover some of the costs involved in efforts to minimize lay-offs in the course of employment adjustment.

The employment retention subsidy was launched in Korea together with EI, yet it is the employment stabilization program that has changed the least throughout the years. Along with the rapid increase in joblessness following employment adjustment in the aftermath of the Korean financial crisis, a reemployment grant was soon introduced. The grant helped to stabilize livelihoods and promote the reemployment of workers who were displaced because of employment adjustment measures such as lay-offs for managerial reasons. Reemployment grants were paid to individuals who were reemployed either by the owner of the business for which they originally worked or by the new owner for whom they originally worked after a merger or acquisition. The grant was provided to business owners who reemployed persons jobless for over 6 months

who registered as job-seekers after losing their job and for whom a reemployment grant was not provided in the past 2 years. The business owner in this case had not displaced workers for employment adjustment reasons in the 3 months preceding and 3 months following reemployment. Business owners received reemployment grants in the amount set each year according to firm size by the Minister of Labor multiplied by the number of reemployed workers. Furthermore, beginning on July 7, 2001, when job transfer support services were provided to foster the speedy reemployment of insured persons facing or having experienced displacement, a new job transfer support grant paid for 1/2 (or 1/3 for large companies) of the cost.

Nevertheless, the reemployment grant and the job transfer support grant were eliminated in 2009, when it was deemed that the grants did not have any substantial effects. As of 2011, therefore, employment adjustment assistance consists only of the employment retention subsidy. At the same time, the employment retention subsidy is provided to business owners who retain their workers through such measures as shutdowns, leaves, training, and personnel reassignment despite inevitable employment adjustment when revenue or production falls 15% or more year-on-year due to business fluctuations or industrial restructuring. However, support is not provided for employment adjustment due to seasonal factors. The requirements for support for shutdowns, leave, training, and personnel reassignment are as follows.

- Shutdowns: Operations are shut down for more than 20/100 of the prescribed monthly work days and shutdown allowances are paid to workers
- Leaves: Workers are granted paid/unpaid leaves of 1 month or more
- Training: Training suitable for employment retention is conducted
- Personnel reassignment: 50% or more of the workers who worked in the previous business are reassigned to the new business after business conversion

Regarding the subsidy amount, business owners are paid 2/3 (1/2 for large firms) of the shutdown and leave allowances paid to workers during the period in which employment retention measures are implemented, 3/4 (2/3 for large firms) of paid wages when employment is retained because of training programs, and 200,000 KRW per person for unpaid leaves. When training is conducted during the unpaid leave, the subsidy also covers all costs and allowances. For personnel reassignment, business owners are paid 3/4 (2/3 for large firms) of the paid wage.

This subsidy is provided for up to 180 days (1 year for personnel reassignment) in total for shutdowns, leaves, and training combined. When training is conducted after employment retention measures have been implemented for 180 days, the support is extended by 90 days, yet this additional support is limited to 40,000 KRW per day per worker (aside from training costs).

### 3.1.2.3. Assistance for the promotion and stabilization of employment for seniors and other vulnerable groups

Assistance for promoting and stabilizing employment for seniors and other vulnerable groups is comprised of the senior employment extension subsidy, the employment promotion subsidy, and the employment stabilization subsidy for pregnant women and new mothers.

#### a) Senior employment extension subsidy

In the early stages of EI, firms were encouraged to employ more seniors and other vulnerable groups through a senior employment promotion grant to business owners of 90,000 KRW per quarter for each senior employed in excess of 6% of their workforce. Still, the employment ratio for seniors differs widely according to industry characteristics. In this case, employment requirements were set between 4% and 44% in accordance with the characteristics of each industry in which business owners employed more seniors than the set

ratio for the industry. Owners were provided with a grant in the amount of 180,000 KRW per quarter for each senior in excess of the set requirement within a limit of 15% of the total number of workers in the firm (10% for large companies) and up to a period of 5 years.

On July 1, 1999, the existing senior employment promotion grant was changed into the multiple senior employment promotion grant at the same time that a senior new employment promotion grant was introduced to support business owners who were beginning to employ one or more senior in a month with 1/3 (1/4 for large firms) of wages paid in the quarter to the newly employed senior. Both grants were soon deemed ineffective for employing seniors (Keum Jae Ho et al., 2002; Yoo Kil-Sang et al., 2008) and eliminated by 2011.

In the 1990s, Korea was already experiencing a steep decline in birthrates and the aging of its society. A wave of employment adjustments following the foreign exchange crisis led to the early retirement of middle-aged and older adults; thus, employment instability emerged as a major social issue. To encourage firms to extend the retirement age of their workers, the retirement age extension grant was introduced in 2004. This grant provided support for firms extending their retirement age to at least 1 year beyond age 56, in which seniors employed for 18 months or more continued to be employed with the extension of the retirement age. Business owners were paid 300,000 KRW per month for each such senior worker for one half of the period for which retirement was extended.

The retired person employment continuation grant was also newly established to provide 300,000 KRW for 6 months for each senior who had worked for at least 18 months in a workplace with a retirement age of at least 57 years but is retained after reaching retirement age or is reemployed within 3 months of retirement. From 2011, existing programs to promote and stabilize senior employment have been streamlined into the senior employment extension subsidy, which comprises a retirement age extension subsidy and a retired person reemployment subsidy.

The retirement age extension subsidy provides business owners who have eliminated a retirement age or have extended the retirement age at least 1 year beyond 56 years of age. Every month for one year, 300,000 KRW is paid for each individual who has worked in the workplace for at least 18 months and then continues to work because of the elimination or extension of the retirement age. Nevertheless, this subsidy is only provided for workers who continue to work after having reached the previous retirement age within 5 years of the extension or elimination of the retirement age. Meanwhile, the retired person reemployment subsidy provides 300,000 KRW per month per senior for 6 months (12 months for manufacturing companies with 500 or fewer workers) to business owners of workplaces with a retirement age of 57 years or more that do not retire workers who have worked for more than 18 months and have reached retirement age or that reemploy retired people within 3 months of their retirement.

b) The employment promotion subsidy.

The employment promotion subsidy is to promote the employment of seniors, disabled persons, unemployed female heads of household, the long-term unemployed, long-term unemployed youths, and other vulnerable groups within the labor market who face difficulties in gaining employment.

After the Korean financial crisis, the issues of early retirement, long-term unemployment of vulnerable persons, and long-term unemployment of youths continued to loom in Korean society. In response to this situation, the unemployed female head of household employment promotion grant, the senior employment promotion grant, the youth employment promotion grant, the disabled persons employment promotion grant, the severely disabled persons employment promotion grant, the long-term unemployed recruitment grant, and the new employment promotion grant were introduced in succession. All of these grants provided business owners newly employing the respective vulnerable workers with 1/2 (1/3 for large

firms) the wages paid to the newly employed vulnerable workers or with a set amount for 6 months.

Even though the aforementioned employment promotion grants may have been politically correct, they attracted criticism in that the dead-weight loss and substitution effect of these wage subsidies created a very small net employment effect (Kim Dong-Heon et al., 1999; Kim Dong-Heon & Park Euikyung, 2000; Yoo Kil-Sang et al., 2000; Yoo Kil-Sang, 2007). The problematic nature of wage subsidies can also be seen in similar cases in advanced countries (Kim Dong-heon, 2002). Numerous studies have shown that wage subsidies have had almost no effect on national employment creation. Moreover, the issues of dead-weight loss and the substitution effect plagued the employment promotion grants that promoted employment only for unemployed persons covered by the EI fund. These issues prompted the Korean government in 2011 to integrate employment promotion grants for vulnerable groups into a single employment promotion subsidy and to work to minimize dead-weight loss and the substitution effect by strengthening eligibility requirements, which include only those business owners who employ people who have participated in an employment support program recognized by the Minister of Employment and Labor and who are registered as job-seekers with public employment service organizations. The subsidy is not provided to employ fixed-term contract workers when they are the spouse of the owner, relatives who are first cousins or closer, or persons for whom the subsidy would normally be paid but are reemployed within 1 year of voluntarily leaving the firm.

To prevent firms from dismissing workers for whom the subsidy has already been paid in order to recruit a new worker who is newly eligible for subsidy payments, 2.60 million KRW (3.4 million for preferential support workers) is paid upon 6 months of employment and 3.9 million KRW (5.2 million KRW for preferential support workers) is paid for 6 months later up to a limit of 75% of wages. Preferential support is provided for the employment of severely

disabled persons and recipients of National Basic Livelihood Security benefits with a monthly wage of at least 1.5 million KRW in order to prioritize the employment of the poor.

c) Employment stabilization subsidy for pregnant women and new mothers

Business owners falling under any of the following categories are eligible to receive the employment stabilization subsidy for pregnant women and new mothers.

- Those who grant workers 30 or more days (excluding maternity leave) of childcare leave (or reducing working hours for childcare) and who continue to employ the workers for 30 or more days after the end of the leave
- Those who employ replacement workers 30 days before the start of the worker's leave (or period of reduction of working hours) for childcare (30 days before the start of maternity leave when childcare leave commences immediately after maternity leave) and continue to employ replacement workers for at least 30 days, while also continuing to employ workers who use childcare leave (or reducing working hours) for at least 30 days after the end of the leave
- Those who conclude work contracts of at least 1 year immediately after the end of the contract period or within 1 year of childbirth for workers whose contract period or dispatch period expires during maternity leave (for birth, miscarriage, and still birth) or during pregnancy (preferential support is provided for indefinite work contracts)

The amount and period of support is as follows:

- 200,000 KRW per month per person for the duration of childcare leave (or working hour reduction for childcare), where 50% is paid to the business owner once employment has continued for at least 30 days after the end of the leave and the remaining 50% is paid when

employment continues for 6 months

- 300,000 KRW (200,000 KRW for large firms) per month per person employed as a replacement worker during childcare leave (or duration of working hour reduction for childcare) of a worker (including for the maternity leave period when childcare leave immediately follows maternity leave)
- 400,000 KRW per month for 6 months for business owners who conclude work contracts that are at least 1 year long
- 300,000 KRW per month for the first 6 months and 600,000 KRW for the next 6 months for business owners who conclude indefinite work contracts

#### 3.1.2.4. Other forms of employment stabilization assistance

##### a) Wage-peak system subsidy

Early retirement emerged as a serious social issue because of the rapid aging of Korean society that accompanied continued employment adjustment following the Korean financial crisis. To respond to this issue of early retirement caused by the rigidity of the labor market, the government launched the wage-peak system subsidy in 2006 to introduce wage flexibility in order to stabilize employment through the expansion of the wage-peak system. The wage-peak system is implemented through retirement age extension, reemployment or working hour reduction. Also, the system subsidy is distinguished, accordingly, into a retirement age extension wage-peak system subsidy, a reemployment wage-peak system subsidy, and a working hour reduction wage-peak system subsidy.

The retirement age extension wage-peak system subsidy is provided to workers who have worked for at least 18 months in workplaces that have extended the retirement age to 56 years or beyond with the agreement of the worker representatives and whose wage was reduced at some point after the worker turned 50. When wages fall below 80% of the worker's previous peak wages, the subsidy

covers the difference from the day of the wage reduction up to 10 years within a 6 million KRW annual limit.

The reemployment wage-peak system subsidy is provided to those who have worked for at least 18 months in workplaces with a retirement age of at least 57 years who continue to be employed after retirement or who are reemployed within 3 months of retirement at a reduced wage. Workers whose wages were reduced before their retirement age (but after 55 years of age) receive a subsidy for any reduction of wages further than 80% of their peak wage while those whose wages were reduced after retirement receive a subsidy for the reduction of wages more than 70% of their peak wage. Subsidies are paid from the day of reemployment up to 5 years within a 6 million KRW annual limit.

Meanwhile, the working hour reduction wage-peak system subsidy is provided to workers whose retirement age has been extended or who have been reemployed and whose prescribed working hours are fewer than 50% of the hours they worked when they earned a peak wage. The subsidy covers any reduction of wages further than 50% of the worker's peak wage and is provided from the date of wage reduction for up to 10 years in the case of retirement age extension and for up to 5 years in the case of reemployment. The annual subsidy limit is 3 million KRW.

b) Employment environment improvement for seniors and other vulnerable groups

Support for improving the employment environment for seniors and other vulnerable groups is provided in the form of (1) employment environment improvement loans for seniors, (2) employment environment improvement loans for people with disabilities, and (3) employment environment improvement loans for women. These loans cover some of the costs with which business owners are burdened as they seek to install or improve facilities or equipment that can promote stable employment for insured seniors, women, or disabled persons.

Employment environment improvement loans for seniors provides business owners seeking to install, improve, replace, or purchase senior-friendly facilities or equipment with loans of up to 1 billion KRW at an annual interest rate of 3% (repayment through 5-year equal monthly payments after a 5-year grace period). The employment environment improvement loan for people with disabilities provides business owners seeking to install convenience facilities, work facilities, or auxiliary facilities for such employees with loans of up to 50 million KRW per worker up to 1.5 billion KRW per workplace at an annual interest rate of 3% (repayment through 5-year equal monthly payments after a 5-year grace period). The employment environment improvement loan for women provides business owners seeking to install female-friendly facilities (women's break rooms, nursing rooms, dormitories etc.) with loans of up to 500 million KRW at an annual interest rate of 3% (repayment through 5-year equal monthly payments after a 5-year grace period).

c) Subsidy for the creation and operation of workplace-based childcare facilities

The subsidy for the creation and operation of workplace-based childcare facilities provides business owners seeking to establish and operate childcare facilities solely or jointly with 800,000 KRW per month in labor costs for the head of the childcare facility as well as for teachers and kitchen staff. Workplace-based childcare facilities in SMEs are also provided with 1.2–4.8 million KRW per month for operational costs. Business owners who establish childcare facilities by themselves or with other companies are also provided with up to 700 million KRW in loans (at interest rates of 1-2% that can be repaid in 5-year equal monthly installments after a 5-year grace period), and those who convert existing facilities at the workplace into childcare facilities are provided with subsidies to cover the conversion of these facilities (up to 200 million KRW, or 500 million KRW for employer groups) as well as to cover the cost of educational supplies (up to 50 million KRW).

#### d) Construction worker EI management subsidy

Starting in 2004, Korea applied unemployment benefits to daily workers, which raises the issue of how EI could be efficiently applied in the construction industry with its high concentration of daily workers. Such employees tend to seek work at various construction sites and may therefore end up working under different employers every day, which makes it difficult to manage the insured individuals or collect EI premiums. To facilitate the management of EI for daily construction workers, business owners in the construction industry are required to designate a person responsible for employment management who is in charge of reporting EI eligibility for daily workers (and confirms work performed) and other EI-related administrative duties. Business owners who electronically fulfill reporting requirements before the statutory deadline (by EDI or the Construction EI Card) then receive the construction worker EI management subsidy. This subsidy provides business owners with 200,000 KRW per month for firms with 50-99 employees to 500,000 KRW per month for firms with 700 or more employees according to the status of the reports on EI eligibility. An additional 200,000 KRW per month is received by firms with 50-99 employees, and an additional 500,000 KRW per month is received by firms with 400 or more employees for reports using the Construction EI Card.

### **3.2. Vocational competency development program**

The vocational competency development program was founded to nurture lifelong learning so that workers can adjust well to the knowledge and information age. The program also promotes such learning so that firms can become high-performance workplaces in which unemployment can be prevented and competitiveness enhanced. As an institutional mechanism that was instituted to establish a consumer-oriented, voluntary lifelong vocational competency development plan in response to the advent of the knowledge and

information age, the vocational competency development program enables productive growth in firms while providing an unemployment prevention effect for workers through enhanced vocational competency. This program clearly demonstrates that EI in Korea is indeed being implemented as an active labor market policy. Separate vocational competency development programs have been established for business owners and for workers.

### **3.2.1. Support for business owners**

#### **3.2.1.1. Mandatory vocational training obligations for employers before the introduction of EI.**

In many advanced countries, business owners or owner groups have traditionally shouldered the burden of employer-led training for workers and the unemployed. Conversely, Korea has not had such a tradition. In the course of its economic development, the government established public vocational training organizations from the late 1960s to implement government-led vocational training. At the time, the Korean government anticipated that firms would join in once the government started off vocational training efforts, but the Korean firms did not meet government expectations. To change the passive attitude of firms toward training, the Korean government obligated them to provide vocational training, and introduced vocational training contributions that were forcibly levied on those firms that did not implement training. Beginning in 1975, workplaces with 500 or more full-time workers in six industries including manufacturing and construction were required to implement vocational training with the introduction of mandatory workplace training, and a vocational training contribution plan was introduced in 1977 to force the payment of vocational training contributions when training requirements were not met. The funds accumulated through the vocational training contributions plan were used by the government to establish and operate public training institutions, develop vocational training

material, and provide support for the implementation of vocational training.

With the introduction of this mandatory vocational training plan, about 80% of all firms required to implement vocation training actually did so in 1979. As the industrial structure became more advanced and workers began to acquire more post-secondary education in the late 1980s, limits to the government's ability to force firms to implement the required vocational training became noticeable. Consequently, the businesses eventually requested that the government eliminate the mandatory workplace training plan.

The mandatory workplace training plan required firms to implement general training, and it did contribute to imparting the importance of vocational training to firms. Nonetheless, amidst the rapidly changing business environment in a world of globalization and information, the existing training plan that was centered on manufacturing and one-time initial training for youths without a college education became limited in its effectiveness. In order to encourage vocational training in this situation, it was noted that it would be better to enable firms to implement firm-specific training befitting their individual needs.

In the course of introducing EI in Korea, the general view was that the mandatory workplace training plan should be eliminated. At the same time, support should be provided from the EI fund for training cost burdens on firms engaging voluntarily in training that suited their own circumstances (Yoo Kil-Sang & Uh Soo Bong, 1993). Still, the government was seriously concerned that eliminating the mandatory workplace training plan would undermine vocational training in firms. Accordingly, at the outset of EI implementation, among workplaces with 150 or more full-time employees included in the mandatory workplace training scheme, workplaces with 1,000 employees or more were required to continue providing mandatory workplace training, while workplaces with fewer than 1,000 employees were only required to participate in the EI vocational competency development program.

From July 1995 to 1997, vocational training increased greatly in workplaces required to participate in the EI vocational competency development program. Satisfied with these results, the Korean government eliminated the mandatory workplace training program in 1998 and turned instead to consumer-oriented voluntary vocational training plans.

### 3.2.1.2. Vocational training support for employers under EI

#### a) Subsidy for vocational competency development training

The subsidy provided to business owners for vocational competency development training encourages business owners to implement such training for employees. A subsidy is provided for the owners covering all or some of the costs of implementing either in-house or commissioned training courses that have been recognized by the head of a public employment service organization. Support is provided for off-the-job training, on-the-job training, remote training, and blended training. Regarding subsidy amounts, off-the-job training is provided with unit training cost by occupation times adjustment factor times training hours times number of trainees who completed the course times 80% (but at 100% for priority support firms). The on-the-job training subsidy is 40% of the off-the-job training subsidy, while business owners receive a subsidy amounting to 80% (100% for priority support firms) of training costs for internet training and mail correspondence training.

When business owners implement vocational competency development training for fixed-term contract workers, part-time workers, dispatched workers, daily workers, and other irregular workers, they receive support not only for training costs but also for wages paid during the training period. The support amount for wages paid in such instances is the minimum wage (120/100 of the minimum wage for priority support firms). The combined limit for the subsidy for vocational competency development training and the subsidy for

paid leave training described next is set at 240% (100% for large firms) of the employment stabilization and vocational competency development insurance premiums paid by the business owner in the same year.

b) Paid leave training subsidy

The paid leave training subsidy encourages business owners to support vocational competency development by granting workers paid leaves to participate in training. This subsidy is provided when firms with 150 or fewer workers or priority support firms grant paid leaves of 7 or more days for 30 or more hours of training, or when other firms grant workers who have worked at the firm for 1 year or more with at least 60 days of leave for at least 180 hours of training. The subsidy amount provided is the sum of prescribed training hours times the minimum wage per hour according to the Minimum Wage Act for wages and training costs (of which 120/100 of the minimum wage is for priority support firms) determined according to the same criteria as for the off-the-job training subsidy.

When firms with not more than 150 workers or priority support firms grant paid leaves of 30 or more days for 120 or more hours of training and newly recruit workers to fill the position in the meanwhile, an additional subsidy amounting to prescribed working hours times minimum wage per hour as per the Minimum Wage Act is provided to support substitute workers' wages.

c) Support program for national human resources development consortiums

The support program for national human resources development consortiums provides assistance to business owners, owner groups, universities, and other organizations that join with SMEs to support vocational competency development for SME workers and to organizations designated by the Minister of Employment and Labor in accordance with government policy to implement vocational competency development training to enhance job skills for workers in

specialty areas. This program was piloted in 2001 and is currently being implemented throughout the country to facilitate vocational training for SME workers who lack training opportunities due to the difficulties that most SMEs face in securing training facilities and training expertise for their workers.

Known as the SME Training Consortium Program from 2001 to 2010, the program was initially launched to provide support to SMEs in the consortium for training costs; training facility and equipment costs; and operational costs related to the initial training of SME field workers. The program also provided training to enhance the job skills of incumbent SME workers utilizing quality training facilities and equipment possessed by firms, owner groups, and universities. A training organization in the SME training consortium program is categorized as a large company type organization when big companies provide training for workers in SME partnerships, owner group organizations when these groups provide training for their member SME workers, and *university type* organizations when universities or vocational training organizations form consortiums with SMEs in the vicinity to provide training for workers in participating SMEs.

Since 2007, the program has evolved further with universities forming consortiums with large companies nearby and their SME partners, within which universities provide facilities and equipment. Large companies provide universities with cutting-edge equipment used on site, and universities and large companies together provide instructors for the training of incumbent workers in both SMEs and large companies. Through such consortiums, universities bring together large companies and SMEs to participate jointly in human resources development.

The SME training consortium program was extremely effective in vitalizing vocational training in SMEs that find it difficult to implement training by themselves (Lee Young Min et al., 2009). Based on the success of the consortium program, the Korean government brought together vocational competency development programs

administered by government bodies other than the Ministry of Employment and Labor to develop job skills in specialty areas and integrated them with the SME training consortium program to launch the new Support Program for National Human Resources Development consortiums.

- d) Loans for vocational competency development facilities and equipment

Business owners, owner groups, worker groups, corporate training bodies, and the Ministry of Employment and Labor designated training facilities can access loans for vocational training facilities and equipment for up to 90% of the costs within a 6 billion KRW limit. The annual interest rate for the loans is 1% for priority support firms, 1% for large companies participating in the support program for national human resources development consortiums, 2.5% for other large companies, and 4% for vocational competency development training corporate bodies.

### **3.2.2. Support for workers**

Subsidies for vocational training costs shouldered by business owners aim to encourage business owners and owner groups to implement vocational training for their workers, and these subsidies are often quite effective in encouraging large companies that already recognize the need for training to actually implement training. SMEs, on the other hand, often find it difficult to implement vocational training, and therefore the rate of implementation for vocational training is relatively lower for SMEs than for large companies. Accordingly, SME workers have a relatively lower participation rate in EI-supported vocational training, and there is substantial concern that SME workers may not have sufficient opportunities to participate in vocational training.<sup>4</sup> To overcome these limitations, support can be

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<sup>4</sup> In 2009, the average participation rate for vocational competency development training provided by firms was 46.1% for all EI-insured persons. By firm size, the

provided directly to the individual SME worker or unemployed person for costs incurred when participating in vocational training.

Such direct support for workers is provided through the subsidy for courses taken by workers, the subsidy for courses provided through the vocational training card system, tuition and training fee loans, the training subsidy for national key strategic industry occupations, the employment training subsidy for unemployed people with previous work experience, and the training fee subsidy provided through the Learning for Tomorrow card system.

a) Subsidy for course taken by workers

The subsidy for courses taken by workers promotes self-led learning for priority support firm workers, workers who are facing displacement during training or within 90 days of completing training, and voluntary EI-participant self-employed persons who pay for vocational training (and attend 80% or more of the classes). Workers are provided with 80% (50% for food services, other services, and foreign language classes) of the course fee within a limit of 100% of the unit training cost for each occupation. One million KRW is the annual limit (3 million for 5 years of tenure) for each worker.

b) Subsidy for courses provided through the vocational training card system

The subsidy for courses provided through the vocational training card system involves giving vocational training cards<sup>5</sup> to fixed-term contract workers, part-time workers, dispatched workers, and daily workers. The system pays the training organization for each worker's participation in training courses recognized by the Minister of

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average participation rate was 13.3% for firms with fewer than 50 workers, 33.9% for firms with 50-149 workers, 53.5% for firms with 150-299 workers, 56.7% for firms with 300-499 workers, 59.9% for firms with 500-999 workers, and 145.9% for firms with 1,000 or more workers. The rate of participation in vocational competency development training was higher in larger companies (Korea Employment Information Service, 2010).

<sup>5</sup> Cards are valid for 1 year from the date of issuance.

Employment and Labor upon completion of the course. In so doing, this subsidy promotes self-led learning for irregular workers who find it relatively more difficult to participate in training. The subsidy amount covers the total cost of the actual training fee, with the exception of food services, other services, and foreign languages for which the subsidy covers 80% of the training fee. The per person annual limit for this subsidy and the aforementioned subsidy for courses taken by workers is 1 million KRW (3 million for 5 consecutive years of service).

c) Tuition and training fee loans

For the purpose of developing competency, tuition and training fee loans are provided to insured people who are newly registered or enrolled in a polytechnic college, cyber university, or an educational institution at least at the technical college level. The full tuition amount (enrollment fee, credit fee, student fee, etc.) can be loaned to be repaid in 4 years after a 1-year grace period upon graduation from a 2-year or 4-year post-secondary educational institution. This loan provides insured persons who missed the chance to go to college earlier with an opportunity to continue learning. The annual interest rate for the loan is 1.0% during the grace period and 3.0% during the repayment period.

d) Training subsidy for national key strategic industry occupations

A training subsidy was created to provide vocational training for unemployed people who are 15 years of age and older and for youth who have not enrolled in college yet are registered with job stabilization organizations. The subsidy seeks to facilitate the supply of workers to national key strategic industry occupations, while also seeking to alleviate youth unemployment by employing jobless people in stable occupations. Training organizations that provide training for national key strategic industry occupations receive the full amount for training through the subsidy, while trainees (who attend 80/100 of the classes) receive 200,000 KRW per month as a training allowance and 50,000 KRW for transportation, 212,500 per month for dormitory fees, and 66,000 KRW per month for meals.

- e) Employment training subsidy for unemployed persons with previous work experience.

The employment training subsidy for unemployed persons with previous work experience is provided to unemployed persons registered as job-seekers with an employment stabilization organization who were previously EI-insured and wish to participate in vocational training. Actual training fees are covered to a limit of 2 million KRW per person, and those who attend training courses lasting 5 hours or more per day also receive 2,500 KRW for transportation each day they attend classes (up to 50,000 KRW per month) and 3,300 KRW per day for meals (up to 66,000 KRW per month).

- f) Training fee subsidy through the *Learning for Tomorrow Card System*

Existing training programs for unemployed people were the target of criticism in that the government selected a limited number of training bodies and assigned a specific number of trainees to each body, leading to a disconnection between the training programs and the demands of industry and of the trainees along with low performance in terms of employment. In an effort to change the programs into consumer-oriented programs that provide direct support to trainees, the Korean government piloted the Vocational Competency Development Account System in September 2008 to fully launch the system in 2010.

As of July 2011, Vocational Competency Development Account System will be known as the Learning for Tomorrow Card System. This system expands training choices for trainees, vitalizes the training market, and enhances the quality of training by lowering entry barriers and weakening regulations. By strengthening linkages to employment services such as in-depth counseling and information services, the government seeks to improve training performance and heighten efficiency in resource allocation within a consumer-oriented training framework.

In the Learning for Tomorrow Card System, support that used to

be provided to training organizations is provided directly to trainees in the form of a card that is issued to those who would like to have wider choices in self-led training. This system seeks to reduce entry barriers and regulations in the training market to allow for the development of a wide variety of training courses and to raise the quality of training through greater competition, as well as to strengthen links with employment services to increase training performance and resource allocation efficiency so that the training market is energized and stronger in terms of international competitiveness. While existing training for jobless people was provided in the form of direct payment to the training organizations for their costs, the Learning for Tomorrow Card System issues credit cards with a 2 million KRW limit to unemployed people selected through counseling at employment centers so that these people can pay directly for training costs; moreover, 20% of the training costs and 40% for baking, hairstyling, and some other occupations, must be shouldered by each unemployed individual.

### **3.3. Unemployment benefits**

#### **3.3.1. Outline**

Unemployment benefits refer to the cash benefits that are provided for a certain period of time to EI-insured persons who have become jobless due to inevitable circumstances. Those benefits are to be used to maintain their livelihood and to foster their job-seeking activities. Therefore, unemployed people who were not previously insured by EI cannot receive unemployment benefits. Even those who were insured are only eligible to receive unemployment benefits when they were employed for at least a certain period of time in workplaces covered by EI and when they have been formally recognized as being unemployed by registering immediately as a job-seeker with a public employment office. Furthermore, they must actively engage in job-

seeking activities. Unemployment benefits consist of job-seeking benefits and employment promotion allowances.

Job-seeking benefits form the core of unemployment benefits, and if the unemployed person fails to gain employment before the job-seeking benefits run out, extended benefits are paid for not more than 60 days if the recipients meet certain criteria. When people eligible for job-seeking benefits cannot seek employment after applying for job-seeking benefits due to illness, injury, or childbirth, sickness benefits are provided instead. Meanwhile, employment promotion allowances encourage the reemployment of job-seeking benefit recipients, and they are comprised of the early reemployment allowance, the vocational competency development allowance, the wide-area job-seeking allowance, and moving allowance.

### **3.3.2. Job-seeking benefits**

#### **3.3.2.1. Eligibility**

Applicants must meet all of the following requirements to be eligible for job-seeking benefits:

First, applicants must have had a unit period of insurance of at least 180 days in the 18 months preceding their displacement from a workplace that covered by EI, and they must be displaced due to involuntary reasons such as those related to the management situation of the firm. Second, the reason for displacement must not be due to severe negligence on the part of the applicant or to personal circumstances that lack legitimate reasons for displacement. Unemployment benefits are not available when workers resign from their jobs because of personal circumstances without good causes or when workers are dismissed due to severe negligence on their own part. Third, upon unemployment, applicants must register as job-seekers with a public employment office and must engage actively in reemployment efforts with the intention and ability to work. Daily workers must also have worked fewer than 10 days in the month

preceding application for unemployment benefits. They also must have worked for at least 90 days as a daily worker to be eligible for these benefits.

The 7-day period from the date on which unemployment is reported is a waiting period during which unemployment is formally recognized and job-seeking benefits are not provided. Should an eligible applicant fail to gain unemployment recognition after applying for benefits due to an illness or an injury that lasts longer than 7 days, the same benefit amount is provided as sickness benefits rather than job-seeking benefits.

### 3.3.2.2. Maximum duration of benefit

While an excessively lengthy duration for job-seeking benefits can prolong unemployment and weaken the motivation to work, the maximum duration of benefits must still be provided for a period of time that allows stable job-seeking activities until reemployment while ensuring that the livelihood of the recipient is not threatened. With this in mind, the maximum duration of job-seeking benefits is designed to be longer for those who have been insured for a longer period of time in order to prevent the receipt of unemployment benefits through frequent job quits and to encourage experience in skilled labor through long-term service. The maximum duration of job-seeking benefits is therefore longer for older persons who have been insured for a longer

Table 10. *Maximum duration of Job-seeking benefits*

		Insured period				
		Less than 1 year	1-3 years	3-5 years	5-10 years	10 or more years
Less than 30	90 days	90 days	120 days	150 days	180 days	
Age at date of employment	30-50	90 days	120 days	150 days	180 days	210 days
termination	50 or more and disabled people	90 days	150 days	180 days	210 days	240 days

period of time. As shown in Table 10, in accordance with the age of the worker at the time of job displacement and the insured period, in principle, eligible people receive job-seeking benefits from 90 to 240 days for the days they are recognized as being unemployed within a 12-month timeframe from the day after job displacement.

### 3.3.2.3. Benefit levels

Job-seeking benefits are paid at 50% of the average wage in the 3 months preceding unemployment. To ensure that the calculated job-seeking benefit amount is not too low or too high, the minimum is set at 90% of minimum wage and the maximum is set at 40,000 KRW per day.

### 3.3.2.4. Extensions

While job-seeking benefits are paid for the duration of a coverage period that lasts from 90 to 240 days, this coverage period can be extended under special circumstances, and the payments consist of extended benefits for training, individual extended benefits, and special extended benefits. Extended benefits for training are provided when vocational competency development training is particularly needed for reemployment in consideration of the age and experience of the eligible person. In this case, job-seeking benefits can be extended for a maximum of 2 years to support the vocational training of the jobless person and therefore promote training to facilitate reemployment in a stable job. When all the following criteria are fulfilled, benefit recipients can receive extended benefits for training for up to 2 years at the same level as job-seeking benefits:

- It is recognized that reemployment would be easier with vocational competency development training
- The recipient does not have any national technical certifications, or demand for the certifications possessed by the recipient has dropped sharply

- The recipient has not received any vocational competency development training in the past year
- The recipient has responded to 3 or more job placements but has failed to gain employment

Individual extended benefits are provided for up to 60 days at 70% of the job-seeking benefit amount (or at the minimum job-seeking benefit level or 90% of minimum wage when this amount is lower than the minimum job-seeking benefit amount) to individuals facing particularly serious difficulties gaining employment and living in difficult life circumstances. They must meet all of the following criteria.

- The recipient has responded to 3 or more job placements but has failed to gain employment
- The recipient is younger than 18 or older than 65, or has dependents who are disabled or require long-term care for 1 month or longer
- The recipient needs vocational competency development training for reemployment but has either not been able to attend or is not receiving training
- The recipient's basic daily base for wages and the total assets of the recipient and spouse do not exceed the amount<sup>6</sup> set by the Minister of Labor

Special extended benefits are provided through an announcement of the Minister of Labor in times of high unemployment when the ratio of job-seeking benefit recipients among all EI-insured persons exceeds 3% for 3 consecutive months, the job-seeking benefit application rate exceeds 1% for 3 consecutive months, or the unemployment rate exceeds 6% for 3 consecutive months. These

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<sup>6</sup> As of 2011, the set amount is 70,000 KRW in combined property tax amounts if the recipient and spouse own any residential properties or buildings, and 100 million KRW in total assets if the recipient and spouse do not own any residential property or buildings.

payments are provided to all of those eligible for job-seeking benefits during the period prescribed in the Minister's announcement at a level of 70% of the normal job-seeking benefit amount. The extension of benefits is implemented in consideration of the difficulties unemployed people face in gaining reemployment at times of high joblessness.

### 3.3.2.5. Suspension of benefits

To ensure that job-seeking benefit recipients actively engage in efforts to gain reemployment, unemployed people may be required to respond to job guidance and job placements. They may also be instructed to participate in vocational competency development training when gaining employment becomes difficult due to the lack of any special skills. If recipients refuse such measures without good causes, job-seeking benefits can be suspended for 2 weeks following the refusal of job guidance and job placements and for 4 weeks following refusal to participate in training. The period during which benefits are suspended is deducted from the total coverage period. This suspension of job-seeking benefit payments for those who refuse job guidance, job placements, and training differs from the restriction of benefit eligibility based on the reason for job displacement, in that individuals who have already been deemed eligible for benefits and who have been receiving benefits experience a temporary suspension of payments. This measure seeks to prevent benefit recipients from relying only on job-seeking benefits during the coverage period while foregoing all efforts to gain early reemployment.

Job-seeking benefits may not be suspended, however, when job guidance, job placement, and training are refused because the occupational category of the job placement or training is inappropriate for the skills of the recipient, when the new job or training requires a move to a different region and the recipient is not in a position to move, when the wage level of the new job is unfairly lower than that for similar jobs in the same region or the wage that is normally provided for the skill in similar occupational categories, or when there

is a good cause for the refusal. The main purpose of unemployment benefit payments is to stabilize the lives of unemployed people and their families for a certain period of time and to promote their reemployment. Thus, it is necessary to restrict the payment of benefits for a certain period of time for those who receive large amounts of money and are able to maintain their livelihood for some time without many concerns. Job-seeking benefit payments are then delayed for 3 months for eligible persons who receive or are sure to receive 100 million KRW or more in retirement allowance or retirement compensation.

### **3.3.3. Employment promotion allowances**

#### **3.3.3.1. Early reemployment allowance**

The early reemployment allowance is an incentive for minimizing the duration of unemployment and encourages early reemployment in stable jobs by providing an allowance to eligible people who gain and maintain employment (or engage in business activities) in a stable job for 6 months or more after the waiting period for benefits (7 days from the date that unemployment is reported) and who have more than 30 days left in their remaining coverage period (individuals with businesses must gain recognition of unemployment through at least 1 self-employment preparatory activity). This allowance is paid to recipients after 6 months have passed since the date of reemployment or business launch and is calculated by multiplying one half of the remaining days of coverage to the job-seeking benefit amount (two thirds of the remaining days is multiplied for persons 55 years of age or older at reemployment or for disabled persons).

#### **3.3.3.2. Vocational competency development allowance**

The vocational competency development allowance provides 5,000 KRW per day in addition to job-seeking benefits for each day a recipient actually participates in vocational competency development

training as instructed by the head of an employment center in order to encourage active participation in such training by job-seeking benefit recipients. The allowance is not provided when the benefit recipient is also participating in training for unemployed people within the vocational competency development program.

#### 3.3.3.3. Wide-area job-seeking allowance

The wide-area job-seeking allowance supports early reemployment by encouraging job-seekers to look beyond their area of residence and engage in job-seeking activities in all regions of the country. When benefit recipients engage in job-seeking activities in areas that are at least 50 km away from their area of residence upon arrangement by the employment center, they are compensated for accommodations (up to 40,000 KRW per day) and transportation (mid-level amount for each mode of transportation) in line with Government Employee Travel Compensation Rules.

#### 3.3.3.4. Moving allowance

When eligible people change residency to gain employment or participate in vocational competency development training prescribed by the head of the public employment office, they receive compensation for the actual moving allowance (80% of actual costs for moves that involve cargo exceeding one 2.5-ton cargo truck, up to a limit of 5 tons) to alleviate the burden of moving costs related to employment.

### 3.4. Maternity protection benefits

Maternity protection benefits were created to aid work-life balance by providing protection and assistance to parents for childcare leave through the socialization of costs related to childbirth and raising children.

### **3.4.1. Childcare leave benefits**

Childcare leave benefits are provided to insured people with a unit period of insurance of at least 180 days from the start date of childcare leave who have been granted at least 30 days of leave, to promote the use of such leave. Forty percent of the prior normal wage (up to 1 million KRW and at least 500,000 KRW; 500,000 KRW when net monthly pay is less than 500,000 KRW) is paid to insured people taking this leave, in which a portion of the benefits (15%) can be paid in a lump sum 6 months after a return to work by insured individuals in order to encourage their reemployment.

### **3.4.2. Maternity leave benefits**

Maternity leave benefits are to protect mothers by paying benefits that amount to wages for 90 days for those working in priority support firms and wages for 30 days for those in other firms (maximum: 1.35 million KRW; minimum: minimum wage) when people who have been insured by EI for at least 180 days take leave immediately before or after childbirth or take leave after miscarriage or stillbirth. Maternity leave for working women was granted for 60 days until 2001, and business owners were fully responsible for all wages during the leave. From November 2001, however, maternity leave was extended to 90 days, and EI pays for wages during the additional 30 days.

## **4. EI Premium Rates and EI Finances**

EI premiums refer to amounts collected from business owners subscribing to EI and the insured workers in order to secure funds required for EI programs, in which EI premiums are distinguished into those allocated for the employment stabilization /vocational competency development program and the unemployment benefits /maternity benefits program. Labor and management each shoulder one half of the premium for unemployment benefits /maternity

benefits, while business owners are fully responsible for premiums that go toward the employment stabilization /vocational competency development programs.

The EI premium rate is determined by presidential decree within 3.0% of total wages in consideration of insurance balance trends and economic circumstances. When EI was first launched in 1995, unemployment was at the 2% level in an economy with full employment, and the unemployment benefits premium rate was thus set at 0.6% (with labor and management each responsible for one half) while the employment stabilization premium rate was 0.2% (paid by business owners) and the vocational competency development premium rate was 0.1%–0.5% (paid by business owners) according to firm size.

With unemployment rising above 7% in the wake of the financial crisis that hit Korea at the end of 1997, however, the number of unemployment benefit recipients skyrocketed along with payment amounts for the employment stabilization /vocational competency development program. In response to this increased expenditure, the unemployment benefits premium rate rose to 1.0% (0.5% for workers, 0.5% for business owners) of total wages, while the employment stabilization premium rate was pushed up to 0.3% (paid by business owners) and the vocational competency development premium rate was increased to 0.1%–0.7% (paid by business owners).

By the end of 2002, the unemployment rate had settled back down at the 3% level. Accordingly, EI premium rates were adjusted downward with the unemployment benefits premium rate falling from 1.0% (0.5% for workers, 0.5% for business owners) of total wages to 0.9% (0.45% for workers, 0.45% for business owners), and the employment stabilization premium rate fell from 0.3% (paid by business owners) to 0.15% (paid by business owners).

Beginning on January 1, 2006, to increase flexibility in fund operations and enhance efficiency in policy implementation, the employment stabilization program and the vocational competency

development program have been operated as the integrated employment stabilization /vocational competency development program (with a premium rate of 0.25%–0.85%).

To prepare against mass unemployment and employment instability, the EI Act provides for reserve funds to be maintained at adequate levels, in which the adequate level for year-end emergency funds in the unemployment benefits account is set at 1.5 times or more to less than 2.0 times the year's expenditure amount, at the same time that the level for the employment stabilization/vocational competency development program account is 1.0 times to 1.5 times the year's expenditure amount.

Korea has operated EI funds in a very stable way, yet with unemployment remaining at the 3% level instead of returning to previous levels along with the global financial crisis that spread from the United States throughout the world in September 2008, EI expenditures increased exponentially, leading to a decrease in

Table 11. *Yearly EI Funds by Program*

		(Unit: 10 billion KRW, multiplier)						
		2004	2005	2006	2007	2008	2009	2010
Total	Year-end accumulated funds	84,486	91,197	93,635	87,871	82,173	62,583	52,117
	Multiplier	3.5	3.1	2.4	1.9	1.6	0.9	0.9
Employment stabilization/ Vocational competency development	Year-end accumulated funds	35,057	38,368	38,238	33,543	31,506	27,272	25,995
	Multiplier	4.4	3.7	2.4	1.7	1.7	1.2	1.3
Unemployment benefits	Year-end accumulated funds	49,429	52,829	55,397	54,328	50,667	35,311	26,122
	Multiplier	3.1	2.8	2.4	2.0	1.6	0.8	0.7

*Note.* From Ministry of Employment and Labor

accumulated emergency funds from 2007, as can be seen in Table 11, in which the accumulated amount fell to 5.2117 trillion KRW as of the end of 2010. Regarding each separate account as of the end of 2010, while the multiplier for year-end adequate emergency funds for the employment stabilization/vocational competency development program account is 1.3 and therefore within the desired range of 1.0 to 1.5, the multiplier for the unemployment benefits account is only 0.7 in which the prescribed range is 1.5 to 2.0, a warning of instability in EI

Table 12. *EI Premium Rates by Program and by Payer*

	Jul. 1995-Dec. 1998		Jan. 1999-Dec. 2002		Jan. 2003-Mar. 2011		Apr. 2011-present	
	Worker	Em- ployer	Worker	Em- ployer	Worker	Em- ployer	Worker	Em- ployer
Unemployment benefits	0.3%	0.3%	0.5%	0.5%	0.45%	0.45%	0.55%	0.55%
Employment stabilization	-	0.2%	-	0.3%	-	0.15%	-	0.15%
Firms with less than 150 persons	-	0.1%	-	0.1%	-	0.1%	-	0.1%
Priority support firms with 150 or more persons	-	0.3%	-	0.3%	-	0.3%	-	0.3%
Vocational competency development	Firms with 150 or more less than 1,000 persons	-	0.5%	-	0.5%	-	0.5%	-
	Firms with 1,000 or more persons	-	0.5%	-	0.7%	-	0.5%	-

Note. Rates by size are combined after January 1, 2006 with the integration of the employment stabilization and vocational competency development accounts.

funds.

To overcome this funding crisis, beginning in January 2011, EI premium rates are applied not to total wages but to the total pay of all insured persons, enabling EI premiums to be levied on performance-related pay. Meanwhile, from April 1, 2011, the unemployment benefits premium rate was increased from 0.9% to 1.1% (0.55% for workers and 0.55% for business owners) of total pay. Table 12 summarizes these changes to Korea's EI premium rates.

## 5. EI Administration System

EI is administered by the Minister of Employment and Labor. The Employment Insurance Commission is chaired by the Vice-Minister of Employment and Labor. The Commission is equally represented by labor, management, government, and public interest representatives and deliberates upon major policies related to EI. EI programs are executed by the Ministry of Employment and Labor's 79 job centers responsible for arranging employment and implementing the employment stabilization / vocational competency development programs, unemployment benefits, maternity benefits, and other labor market policies.

Beginning in January 2011, EI premiums were to be collected together with other social insurance premiums by the National Health Insurance Corporation that is responsible for health insurance administration. Remedies for measures related to EI benefits are dealt with by EI appeal officers in the 6 regional employment and labor offices and a central EI Appeal Committee that together work to find remedies for objections to EI-related actions.

## Chapter 3

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# The EI Introduction Process

### 1. The Informal Discussions to Introduce Unemployment Insurance in the 1960s to 1970s

Discussions on the introduction of unemployment insurance (UI) in Korea first began in the 1960s, when Article 2 of the Employment Security Act (Statute No. 807) legislated and promulgated by the military government on December 6, 1961 included implementation of UI programs within the scope of works of the public employment offices. Although this Act did include implementation of UI programs as a category of works of the public employment offices, the government was not able to introduce UI because the level of economic development at the time was not sufficiently mature.

At the governmental level in the 1970s, the Labor Office compiled several review reports on the need to introduce UI that were then brought before the head of the Labor Office.<sup>7</sup> Nonetheless, the system that was reviewed for possible introduction was not true employment insurance in the contemporary sense but closer to unemployment assistance or an insurance system providing only for unemployment benefits. This strictly confidential review was discussed only in the Labor Office, and no consultations were held with other government bodies on this topic (Yoo Kil-Sang & Uh Soo Bong, 1993).

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<sup>7</sup> Two documents, each titled “Review on the introduction of unemployment insurance,” thought to be compiled in 1974 and 1978 were submitted to and signed by the head of the Labor Office at the time, but were classified as confidential and not shared with any other government bodies or the public.

## 2. The Discussions of EI in the 1980s

The political instability and economic recession in late 1979 and 1980 led to a high unemployment rate in the early 1980s with the non-farm unemployment rate reaching 5.6% in 1979, 7.5% in 1980, and 6.5% in 1981. Work on the 5<sup>th</sup> 5-Year Plan for Economic and Social Development was begun in late 1980 to be finalized in early 1981 against the backdrop of a very difficult domestic and international economic and social environment. The global and domestic economic situation started to improve in late 1981, and the government accordingly started work in 1982 to revise this 5<sup>th</sup> 5-Year Plan for Economic and Social Development. During this process, the Labor Office, which had since been upgraded to the Ministry of Labor, officially request that the Economic Planning Board to introduce unemployment insurance system that had so far been kept confidential within the Ministry of Labor. With this request, a formal review of the introduction of unemployment insurance was launched by the Economic Planning Board and the Ministry of Labor within the context of revising the 5<sup>th</sup> 5-Year Plan for Economic and Social Development. However, because of concerns over possible negative effects, the burden on businesses, and the immature industrial structure, along with strong objections from businesses, government bodies other than the Ministry of Labor, and even the presidential office, it was deemed too early for unemployment insurance to be introduced in Korea. Therefore, plans for its introduction were set aside.

Discussions in the early 1980s on introducing unemployment insurance during the process of revising the 5<sup>th</sup> 5-Year Plan for Economic and Social Development did, however, build consensus that traditional unemployment insurance systems that simply provide unemployment benefits after the fact of job loss cannot ensure a stable livelihood for workers, and that it was more important to prevent unemployment, improve the employment structure, and enhance the vocational competency of workers in a system that combines

traditional unemployment insurance with vocational training and employment stabilization programs. To distinguish such a system from unemployment insurance, it was decided that this proactive system should be called *employment insurance*. Based on such consensus, from the early 1980s, employment insurance (EI) was used apart from unemployment insurance in government circles.

In formulating the 6<sup>th</sup> 5-Year Plan for Economic and Social Development from late 1985 to early 1986, the Ministry of Labor attempted once again to introduce employment insurance in Korea, but after much debate the Plan stated only that “the introduction of EI shall be actively reviewed.” In reality, however, no discussions ensued on introducing EI during the period covered by the 6<sup>th</sup> 5-Year Plan for Economic and Social Development.

The June 29 Declaration on Democratization in 1987 served to activate the formerly oppressed labor movement in Korea, and labor started to actively express their views on major labor-related policies. In 1989, the Federation of Korean Trade Unions (FKTU) petitioned the Korean National Assembly to introduce EI and submitted a formal proposal on this topic to the Ministry of Labor.

### **3. Establishment of the 7<sup>th</sup> 5-Year Plan for Economic and Social Development, the New Economy 5-Year Plan, and the Decision to Introduce EI**

In establishing the 7<sup>th</sup> 5-Year Plan for Economic and Social Development, the Korean government started to actively review the introduction of EI. Up until early 1991, negative opinions on the introduction of EI were widespread within the government. On March 37, 1991, however, Dr. Yoo Kil-Sang of the Korea Labor Institute (KLI) spoke before high officials from the Economic Planning Board and the Ministry of Labor on *The Need to Introduce EI and Directions for its Introduction*, and it was agreed upon at the working level in

ensuing discussions that EI would be introduced within the period of the 7<sup>th</sup> 5-Year Plan for Economic and Social Development. Based on such consensus built within the Economic Planning Board on the need to introduce EI, the Economic Ministers' Meeting of August 23, 1991 finalized the decision that EI would be introduced in the latter half of the period covered by the 7<sup>th</sup> 5-Year Plan for Economic and Social Development. This decision officially declared that EI would be introduced within the timeframe of the 7<sup>th</sup> 5-Year Plan for Economic and Social Development, and went on to be reflected in the text of this plan.

In the 1992 general elections and presidential election, the three major political parties: the Democratic Justice Party, the Democratic Party, and the Unification National Party all adopted the implementation of EI in 1995 as a campaign pledge. In its delegates' assembly on February 25, 1993, the FKTU adopted a *Resolution for the Introduction of EI* and submitted its opinion to the government in March 1993 on the establishment of a New Economy 5-Year Plan in which it proposed the implementation of EI. After its launch on February 25, 1993, the Kim Young Sam administration clearly stated in its *New Economy 5-Year Plan* for Korea that EI would be implemented in 1995 during the president's term in office.

#### **4. Launch of the EI Research Task Force and the Development of EI Models**

With its decision to introduce EI, the Korea government sought to develop an EI model suiting the particular circumstances of the Korean economy and established the EI Research Task Force within KLI in March 1992 to research EI models. The KLI launched the EI Research Task Force on May 18, 1992, and 30 scholars participated. The task force analyzed the characteristics of the Korean labor market and the structure of unemployment in Korea, and engaged in comparative analyses of the unemployment insurance system and labor market

programs in major countries to develop an EI model suitable for the situation in Korea. Upon its launch on May 18, 1992, the task force met 40 or so times within a year to discuss major issues that were dealt with in about 20 different in-depth studies, the results of which were compiled into *A Proposed EI System for Korea* and submitted it to the government on May 18, 1993.

## 5. Legislation of EI Statutes

Based upon the *A Proposed EI System for Korea* document compiled by the task force, the Ministry of Labor proceeded to draft an EI Bill. Opinions on the results of the task force's research were collected from academia, labor, and management. Consultations were held with other related government bodies in the drafting of the bill for which a preliminary announcement on legislation was made by the government on July 30, 1993. On August 3, 1993, the government held a public hearing on the EI Bill with participation from labor and management groups and other stakeholders to collect more opinions on the bill, and after the resolution of the Economic Ministers' Meeting on September 24, 1993 and deliberations by the Cabinet on October 21, 1993, the EI Bill was submitted to the National Assembly on October 28, 1993.

The EI Bill was then unanimously passed by the plenary of the National Assembly on December 1, 1993 and promulgated as Statute No. 4,644 on December 27 in the same year. On April 21, 1994, the government newly established the EI Division within the Employment Security Bureau of the Ministry of Labor to prepare for the implementation of EI. On April 6, 1995, the EI Act Enforcement Decree was promulgated, and on June 12, 1995, the EI Act Enforcement Rules were legislated. At the same time, the government worked to legislate rules, regulations, guidelines, and notices needed for the compilation and implementation of an EI work manual, to revamp the organization, to hire personnel, and to conduct preliminary

training for regional labor offices responsible for frontline EI operations as well as to develop and test computer programs to support the collection of EI premiums, the management of insured persons, and the payment of unemployment benefits.

Although the EI Act was legislated and promulgated in December 1993, due to difficulties in coordinating different opinions among relevant government bodies and stakeholders on the scope of insured persons, enforcement organizations, and the budget needed to establish infrastructure for EI implementation, the EI Act Enforcement Decree was not promulgated until April 4, 1995, just 2 months before EI went into effect, while the Enforcement Rules were promulgated with less than one month to go on June 12, 1995. Various problems including those involving a faulty EI network in the early days of implementation arose because there simply was not enough time available for thorough preparations before EI went into effect on July 1, 1995.

## Chapter 4

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# Evaluation

Since going into effect on July 1, 1995, Korea's EI has received both positive and negative reviews.<sup>8</sup>

## 1. Positive Aspects

### 1.1. Resolving high unemployment after the financial crisis

In the face of high unemployment following the Asian financial crisis of late 1997, EI contributed to overcoming such high unemployment by stabilizing the lives of the unemployed through the payment of unemployment benefits and with the mass implementation of reemployment training through the vocational competency development program. While there was stiff opposition when EI was initially introduced in Korea, with high unemployment after the November 1997 crisis, EI and the unemployment benefits and active labor market policies that utilized the EI fund were recognized for their substantial

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<sup>8</sup> Major studies evaluating Korea's EI system include: Yoo Kil-Sang (2007), "Evaluation of EI", material for presentation at the Tripartite Commission EI Development Committee; Yoo Kil-Sang, Keum Jae Ho, Hur Jai-Joon, Kim Dong-Heon, Hwang Duck-Soon, Lee Byung Hee, Kim Mi Ran, Park Eui-Kyung (2000), *Evaluation and directions for development of EI*, KLI; Yoo Kil-Sang, Kim Dong-Heon, Seong Jae Min, Park Hyuck (2005), *Evaluation of the efficiency of the early reemployment allowance*, KLI; Yoo Kil-Sang (2003), "Analysis of the policy effect of EI in Korea: Focusing of an analysis of policy beneficiaries", *Korean Policy Studies Review*, Vol.12, No.4, Korean Association for Policy Studies; Lee Byung-Hee, Kim Mi Ran (2000), *Evaluation and policy tasks for the vocational competency development program*, KLI; Keum Jae Ho, Kim Dong-Heon, Kim Bok-Soon, Kim Jung-Woo, Lee Kyu-Yong, Chang Ji-Yeon (2002), *Evaluation of the efficiency of the employment stabilization program*, KLI; Kim Jooseop, Lee Byung-Hee, Park Sungjae (2004), *Evaluation and analysis of the efficiency of the vocational competency development program*, KLI.

contribution in overcoming the foreign exchange crisis with much less shock to Korean society than has been originally anticipated.

## **1.2. Systemizing lifelong vocational competency development system**

With the implementation of EI, the existing vocational training system that focused on initial training for skilled workers in manufacturing was converted into a lifelong vocational competency development system. Under the system of the Basic Act on Vocational Training that existed before EI was introduced, vocational training was provided mostly to nurture skills needed in the manufacturing sector in non-enrolled youths. Under this system, the government focused on initial training for skilled workers, while businesses were required to conduct vocational training under Mandatory Workplace Training.

Mandatory Workplace Training was the object of criticism, however, for rather than encouraging businesses to conduct vocational training, the government regulations were in fact detrimental to the vitalization of vocational training. The EI Act allows for businesses to conduct workplace vocational training voluntarily and provides support to businesses to promote such training. With the implementation of the vocational competency development program, many more businesses are participating in vocational training than when Mandatory Workplace Training was in effect. This program has therefore served to vitalize vocational competency development and establish a foundation for a lifelong vocational competency development system.

## **1.3. Developing EI infrastructure**

The implementation of EI and the accompanying need to administer the payment of unemployment benefits and coordinate employment have also served to greatly improve the infrastructure for

the provision of employment services. Employment centers have been established across the nation to administer EI-related operations and employment coordination operations and the internet-based labor market information system Work-Net has been launched as part of such efforts. Before EI was introduced, Korea's infra-structure for coordinating employment and providing information on the labor market was very weak, but the implementation of EI has enabled Korea to equip itself with facilities for employment insurance services and employment coordination services that are on par with those in advanced countries.

## 2. Deficient Aspects

### 2.1. Lax operation of EI programs

While EI programs were very strictly operated before the Financial crisis, the crisis led to a more lax review of eligibility for unemployment benefits, while other EI programs were also somewhat loosely administered, threatening the fiscal soundness of the EI fund (Yoo Kil-Sang, 2007). On the other hand, one feature that is special to Korea's EI system is not being utilized fully, extended benefits for training designed to promote the reemployment of job-seeking benefit recipients. Extended benefits for training are provided when those eligible for job-seeking benefits who face particular difficulties in gaining reemployment are ordered to participate in training. During the training period, this plan provides an extension of up to 2 years for job-seeking benefits in order to support the reemployment of such people in stable jobs. However, as the number of people who receive extended benefits for training remains only in the double digits each year.

## **2.2. Insufficient vocational competency development support for SME workers**

At the heart of the vocational competency development program lie the subsidies for vocational competency development training costs. When the EI Research Task Force originally designed this program, discussions centered on providing subsidies for SME workers, middle-aged and senior workers, disabled persons and other workers who face difficulties in gaining training because of market failure in the training market. At the same time, coverage was perhaps excluded for workers in their 40s or younger who formed the core group of workers in large companies capable of conducting their own training (Yoo Kil-Sang & Uh Soo Bong, 1993). During the legislative process, however, the government revamped the vocational competency development program on the basis of Mandatory Workplace Training programs based in large firms. As such, despite policies that seek to provide preferential treatment for SME workers, regular workers in large firms benefit more from this program in relative terms, leading to questions about its fairness (Lee Byung-Hee & Kim Mi-Ran, 2000; Yoo Kil-Sang, 2003).

## **2.3. Lackluster effects of the vocational competency development program**

Many studies have focused on the performance of vocational competency development programs upon the vitalization of such programs, including those implemented within the framework of EI. The analysis of Kim Jooseop et al. (2004) revealed that vocational competency development programs have a positive effect on employment stabilization and productivity enhancement in incumbent workers. Yoo Gyeongjoon et al. (2007) claimed that vocational training for unemployed persons shortens the duration of unemployment and increases the job finding rate. Ra Young-Sun et al. (2008) found that

training for unemployed persons has a statistically significant positive effect on employability and finding a regular job. Meanwhile, Chae Chang-Kyun & Kim Mi Ran (2004), Chae Chang-Kyun (2008), and Chae Chang-Kyun et al. (2008) found that vocational training for unemployed persons increases employability and the rate of escape from unemployment, while also increasing employability in regular jobs and the probability of moving from irregular to regular work, but they did note that such training does not have a significant effect on the employment retention rate after gaining employment. As for the effect of training for unemployed persons on wage and income, Yoo Gyeongjoon et al. (2007), Ra Young-Sun et al. (2008), Chae Chang-Kyun & Kim Mi Ran (2004), Chae Chang-Kyun (2008), and Chae Chang-Kyun et al. (2008) all found that training for unemployed persons does not have the effect of increasing wages or income after training.

The results of such studies tell us that training for unemployed persons increases employability, but such training has limited effectiveness in its role of supporting unemployed people to escape from the trap of low skills and providing a ladder with which workers can access stable incomes in the labor market. These data imply that the current training for unemployed persons does not provide them with sufficient support to gain steady employment with a stable income, but focuses more on achieving high job-finding rates; therefore, training is limited in terms of supporting higher-quality instruction and escaping from poverty.

## Chapter 5

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### Implications

Korea's experience in introducing and implementing EI provides a number of lessons for developing countries around the world.

First, countries can respond more effectively and efficiently to sudden high unemployment and promote the reemployment of unemployment benefit recipients when active labor market policy programs and unemployment benefits are linked in a single institutional framework for EI than when the system relies mainly on traditional unemployment benefits found in advanced economies. While monies needed to implement active labor market policies are usually secured through a general fund, this system can be problematic in that funds needed for labor market policy measures in response to future crises cannot be accumulated beforehand. Moreover, a considerable period of time is needed to obtain funds for labor market policies instituted to overcome the crisis. It was because Korea was able to maintain its EI fund steadily that the nation was able to respond effectively to the 1997 Korea foreign exchange crisis and the 2008 global financial crisis.

Second, economic and social conditions must be somewhat mature for developing countries to introduce EI. The introduction of EI was reviewed in Korea from the 1960s by the Labor Office and unemployment insurance was actively pursued by the Ministry of Labor in the 1980s, but these efforts did not come to fruition because conditions in the Korean economy were not mature enough at the time. To introduce EI and ensure the stability of EI finances, the economy must first develop sufficiently for labor and management to have the economic capacity to shoulder EI premiums, while the

industrial structure must advance enough so that mass unemployment does not occur on a regular basis.

Third, even when conditions are ripe for introducing EI, the countries must have an expert group capable of persuading stakeholders of the need to introduce EI and must be able to design a suitable EI model. Korea faced strong public opposition to the introduction of EI all the way up to the early 1990s, but EI and labor market policy experts used sound logic to persuade the government and other stakeholders of the need for EI. They designed an EI system befitting the Korean situation while minimizing the adverse effects on the labor market that were the focus of concern surrounding its introduction.

Fourth, it is also important for social partners to engage in social dialogue on the introduction of EI. Labor, management, government bodies, academia, and NGOs must engage in serious dialogue and research on the validity of introducing an EI system and on directions for designing the system in order to create a forum for building consensus. Such social dialogue and partnerships will become an extremely valuable social asset, for it will help minimize the social strife surrounding the introduction of EI. It will also enable the soft landing of the EI system.

Care must be taken, however, to steer the social dialogue away from populism. Looking at the examples of other developing countries and their experience with introducing EI, when well-centered government organizations and experts take the lead, social dialogue on EI and other social security plans have had positive effects. However, when unions or political groups calling for excessively generous EI systems take the lead, social dialogue can actually be harmful, especially when taking the irrevocability of the EI system into consideration. Therefore, it is of utmost importance that countries think carefully about their future as they pursue rational social dialogue that befits the situation of the individual nations. An EI system should be based on objective and scientific research on the various effects that such a new system can inflict upon the labor market and the lives of the people.

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