



KLI Working Paper

June 30, 2020

For Inquiry: KLI International Cooperation &
Information Office

Address: 370, Sicheong-daero, Sejong-si, 30147, Korea
www.kli.re.kr/kli_eng

Author(s): Byung-Hee Lee

Suggestions on Employment Policies in Response to COVID-19*

Byung-Hee Lee**

I. Reduced Income of Vulnerable Workers in the Labor Market

Less than one month on March 11th, when the WHO declared COVID-19 a pandemic, fears of an economic crisis is spreading globally. The first to react was the labor market. In the third week of March, there were 3,340,000 unemployment claims in the U.S., which prompted the New York Times to show a graph that almost ran the entire length of its front page. But in the subsequent two weeks, the number increased to 13,470,000, surprising many observers. In the short term, the relationship between epidemic control and the economic growth are contradictory, however the large-scale increase in unemployment is likely a result from businesses' anxiety that COVID-19 is not going to be short lived. Even the ILO, following its March outlook where an additional 24.7 mil-

lion job losses were projected from COVID-19, offered an analysis that around 81% of all jobs in the world are being affected, either in the form of reduced working hours or job displacement.

In the case of Korea, it is unlikely that mass unemployment will transpire like the countries that are implementing widespread lock-down measures. The questions is whether the impact of COVID-19 will be prolonged. Although it is difficult to tell how large and continuous the economic impact from COVID-19 will be, it depends on the policy response of not only Korea but also other countries. Concerns have been raised that if the global demand shock continues, a financial crisis in newly developing countries takes place suddenly, or if there is a second surge of the pandemic in the winter it is inevitable that there will be a long term economic recession.

The immediate problem that should be addressed is

* This working paper was originally written and published in Korean, on April 14th, 2020 in the KLI Employment and Labor Brief (2020-02).

** Research Fellow (lbh@kli.re.kr).

the shock from reduced income. In directly impacted industries such as tourism, transport, accommodation and performances, employment restructuring through unpaid leave and forced resignation of temporary workers and part-time workers are taking place. Contracts with dispatched workers, contract workers, in-house subcontracted workers and fixed-term workers are being terminated. Especially for workers whom the distinction between employed and unemployed are ambiguous, such as dependent contractors, have seen a prominent decrease in income. Depending on employment status in the labor market, the impact of COVID-19 has had a differential impact on workers, vulnerable workers that are unprotected by the employment safety net are more likely to have reduced income as a result.

Retaining jobs and supporting income for those that have inevitably lost jobs are also a part of epidemic control policies. This is because threats to livelihood hinder space for social distancing. It is essential that employment and domestic demand is maintained, in cases when the crisis is extended in the long-term when recovery of the Korean economy through exports becomes difficult. In the future for a quick and strong economic recovery, maintaining jobs and supporting income for the unemployed are also necessary measures. This paper aims to seek for appropriate employment policies during the coronavirus crisis by reviewing bold policies announced by different countries as the crisis continues to spread.

II. Job Retention

The primary policy objective should be to maintain employment. Employment retention through work hour reduction or paid leave will not only help businesses retain competitiveness and skill levels of workers, but also be less costly than providing support for the unemployed. Furthermore, it will also be a driver for rapid and strong

recovery when economic situations improve. This is why European countries like France and the UK, which previously experienced mass unemployment during the 2008 global financial crisis are now following the German experience and carrying out large-scale employment retention policies. The fact that employment adjustment by transferring risks to vulnerable workers in Korea during the 1997 financial crisis has led to unbalanced growth with low growth and wealth gap signifies the importance of social efforts for employment stability

The Korean government is also speedily coming up with policies to ensure employment security. It is reducing businesses' burden by easing the eligibility requirement and expanding support for the Employment Retention Subsidy the Employment Insurance. But limitations remain in the fact that the Employment Retention Subsidy mainly benefits only regular workers in firms that are covered under Employment Insurance, and that businesses rely more on unpaid leave, forced resignation and contract termination than on paid leave.

First, more financial support should be provided in order to retain employment. The Employment Retention Subsidy was increased to 90% of the Benefits of Suspension of Work, but labor costs are not the only fixed cost in a company. The German short-work subsidy scheme covers 100% of the employer's social insurance contributions. The U.S. introduced a Paycheck Protection Program, where SMEs can receive loans to pay for labor cost, rents, mortgage and loan payments - these loans will be redeemed if they maintain employment until the end of June. Given that moral hazard over employment support are less of a concern in a crisis, it is recommended to generously increase incentives for employment retention.

Second, employment of indirectly-employed workers should be retained. Dispatched workers, contractors and in-house subcontractors are the first to suffer from damage, and this time there will be no exception. Because indirectly hiring companies are volatile in the number

of workers employed, a majority of them are ineligible to receive Employment Retention Subsidies. France and Germany continue employment support for dispatched and temporary workers until the expiration of the workers' contract. It is also necessary for Korea to support employment at least until the contract of these workers expire. Furthermore, reviewing the employment retention requirements of indirect hiring companies and changing it to be more specific to the end employer is advised.

Third, in order to retain employment, timely support is necessary. The U.S. announced a 350 billion dollar package to support employment in SMEs, but received criticism that the overly long time taken in the process of evaluating eligibility and approving the loans in effect was not able to prevent dismissal. However in the case of Switzerland, applicants of loans were easily granted the loans within 30 minutes after spending 1-2 minutes filling out a one-page application,¹⁾ demonstrating that despite failing to contain and control the epidemic, a country can succeed in saving business and retain employment.

III. Emergency Income Support for the Unemployed

Each country is trying to provide social protection to those that are not covered under the existing employment safety net, such as dependent contractors and self-employment. The U.S introduced a Pandemic Unemployment Assistance that provides a fixed benefit to all unemployed workers up to 39 weeks, including self-employed, dependent contractors and platform workers and part-time workers who were previously ineligible to receive unemployment benefits. Canada also introduced a temporary Canada Emergency Response Benefit, which provides

2,000 Canadian dollars for 4 months as benefits. These benefit programs include and provides those that previously were ineligible to receive employment insurance such as self-employed workers and dependent contractors. Also support is provided for those unemployed, ill, in quarantine and those who, care for patients or children due to school shutdowns. Ireland has also introduced a temporary Pandemic Unemployment Payment that provides a fixed amount of disaster unemployment assistance to those unemployed and self-employed for 6 weeks. Spain, through ERTE(expediente de regulación temporal de empleo), offers unemployment allowance to all unemployed who cannot pay their social security contributions.

In Korea, the unemployment benefit under Employment Insurance is the only income support for the unemployed. However as illustrated in Table 1, 49.4% of all those employed have employment insurance in August, 2019. Even after adding civil servants and school employees who have a relatively higher job security and protection by special occupational pensions, the number of those protected by employment safety net falls short by half the number of all employed. Given that those who are uncovered by Employment Insurance tend to be vulnerable groups with higher risks of unemployment, it can easily be assumed that undercoverage of unemployment benefits will be larger than that of employment insurance.

First, it is necessary to introduce an emergency unemployment assistance. Income support is needed for dependent self-employed contractors, freelancers, platform workers, and self-employed workers in response to the job and income loss.

Second, given the frequency of unpaid leave, it is necessary to consider partial unemployment benefits for workers without any income. The U.S. and Canada recognize unpaid leave as partial unemployment and directly pay out unemployment benefits. The Korean government is

1) Financial Times(2020), "Swiss lead way with crisis loans to small businesses", 2020.4.5.

<Table 1> Employment Safety Net Undercoverage (Aug. 2019)
(Unit: 1,000, %)

| Non- wage workers | Employed | | | |
|-------------------------|--|--|--|--|
| | Wage workers | | | |
| | Exempt from Employment Insurance ¹⁾ | Unregistered in Employment Insurance | Civil servants, etc. ²⁾ | Registered in Employment Insurance |
| 6,799 | 1,781 | 3,781 | 1,469 | 13,528 |
| (24.9) | (6.5) | (13.8) | (5.4) | (49.4) |
| Legal undercoverage | | De facto undercoverage | | |

Notes : 1) Agriculture, forestry or fishery business with less than 5 employees; domestic service workers; 65 or older; average weekly working hours are less than 15, work duration is less than 3 months, not daily employment; dependent contractors.

2) Registered under special occupational pension such as civil servants, private school faculty and staff, and Special Post Office employees.

Source : Statistics Korea, *Supplementary Survey by Employment Type to the Economically Active Population Survey*, Aug. 2019.

also working towards extending employment insurance coverage to short-hours part-time workers with multiple jobs as well as dependent workers. Considering that multiple enrollments in employment insurance will make it difficult to receive partial unemployment benefits, it is also necessary to consider providing unemployment benefits by recognizing unpaid leave as one of eligibility of partial unemployment benefit.

Third, if the employment crisis is to be protracted, further consideration should be given on extending the unemployment benefit. The U.S has provided extended unemployment insurance benefits at times of major employment crisis. Since there is little risk of moral hazard during times of crisis in expending the unemployment benefits, in cases when received wages are short and an absence of unemployment assistance, extended unemployment benefits are known to be appropriate. Therefore, it is necessary to ease the requirements for extended unemployment insurance benefits.

IV. Towards a Universal Employment Safety Net

COVID-19 revealed vulnerabilities in the structure of the Korean labor market and employment safety net. Low-wage workers providing essential services such as delivery workers and cleaning service workers are exposed to higher risks of both COVID-19 and income loss. Signs of hope can be found amidst the crisis in policy efforts that are trying to support vulnerable labor market groups along with epidemic control and prevention measures based on transparency and trust. These efforts should be continued to establish a universal employment safety net.

First, providing employment insurance coverage to dependent contractors should no longer be delayed. Despite over a decade of discussion, the lack of legislation is now magnifying the weakness of employment insurance in times of crisis.

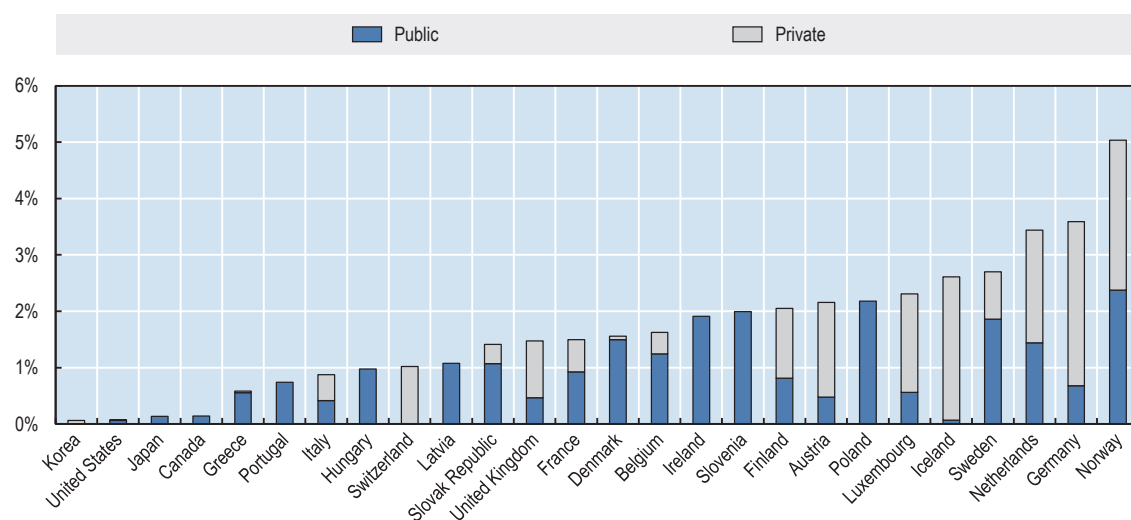
Second, the unemployment assistance scheme should be legislated for the low-income unemployed who risk both the threat of unemployment and poverty. It should be highlighted that it will be more effective when income support is combined with employment services.

Third, social protection for self-employed workers should not be delayed. Financial support for social insurance should be provided to workers in low-income families, by linking Earned Income Tax Credit to social insurance premium subsidy policies.

Fourth, regardless of employment status in order to apply universal employment insurance reforms, a collection system of social insurance by way of integrating collection of taxes and social insurance premiums should be made.

Fifth, most countries are addressing the epidemic crisis by providing paid sick leave by enterprises and sickness benefit schemes supported by social insurance. As summarized in Figure 1, Korea does not guarantee sick leave by law and with the absence of the sickness benefit

[Figure 1] Public and Private Spending on Sick Leave Compensation, as a Percentage of Employees' Compensation (2017)



Source : OECD(2020), "Supporting people and companies to deal with the COVID-19 virus: Options for an immediate employment and social-policy response".

scheme in social insurance, related expenses are near to the lowest among the OECD countries. There should be

active discussions on institutionalizing sickness leave and sickness benefit schemes.