



## KLI Working Paper

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## COVID-19: Scale of Those Excluded from Social Protection and Alternative Policy Directions\*

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### I. Government's COVID-19 Scale of Support and Employment Measures

Since the WHO's March 11<sup>th</sup> declaration of COVID-19 as a pandemic, it has relentlessly spread throughout the world, infecting over 2.24 million people and killing over 150,000 in Europe, the US and Japan among others. The crisis was met by government announcements and plans for large-scale fiscal policies to address the ensuing economic downturn and livelihood insecurity, and not only infection control. The Korean government also announced an emergency package of up to 244.8 trillion Korean won to provide financial support (see <Table 1>). However out of the total amount for financial support, 192.6 trillion won is for financial support to small merchants and businesses (low-interest loans, broader guarantees, etc.), while 52.2 trillion

<Table 1> Main Fiscal Policies of The Korean Government against COVID-19

Policy	Date	Summary
Emergency Budget Allocation 1, 2	2020.02.28	Epidemic control, family care leave, financial injection (20 trillion won)
Approval of Supplementary Budget	2020.03.17	Compensation for medical institutions (2.3 trillion), SME/small merchant support (2.4 trillion), livelihood/employment security (3.0 trillion), local economic recovery (0.8 trillion), revised tax revenue (3.2 trillion); total 11.7 trillion
1st Emergency Economic Meeting	2020.03.18	Emergency financial support for businesses and small merchants (50 trillion)
2nd Emergency Economic Meeting	2020.03.23	Business support for financial market stabilization (100 trillion)
3rd Emergency Economic Meeting	2020.03.30	Emergency disaster relief for bottom 70% income households (7.1 trillion)
4th Emergency Economic Meeting	2020.04.08	Promoting domestic demand and export, supporting tech companies (56 trillion)

Source: Written by the author.

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won is allocated for the government's fiscal policy.

Among the government's fiscal policies, employment related measures are as follows. First, is the Family Care Leave System. The government pays 50,000 Korean won daily for one person up to 500,000 won for workers who had to take time off work to care for family members. Until recently, 120,000 households applied which paid out 529 trillion won from the total budget. The second is the Employment Retention Subsidy. The government supports up to 70% of business suspension allowance for companies to retain workers instead of dismissing them. In the case of the Employment Retention Subsidy, coverage and amount for support was expanded. A total of 500.8 billion won was secured for this purpose. Third is the designation of industries for special employment support. Initially, travel, tourism/hotel, aviation/transport and performance industries were designated as special employment support industries and various support measures such as providing benefits for both employers and works, deferral of insurance premium payments and provision of job training were provided. Fourth, through the supplementary budget, 0.6 trillion won was secured for expansion of additional employment incentives for youth, employment success package and support for social insurance. Fifth, financial support of 500,000 won was provided to workers in special employment for up to 2 months (total budget of 200 billion won). In total, they come to nearly 1.35 trillion won, or around 2.3% of the government's direct fiscal support against COVID-19.

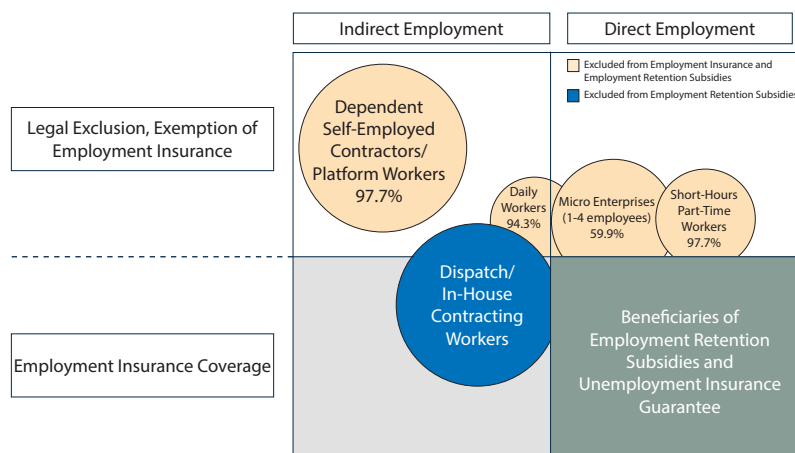
Despite the swift action taken by the government, employment measures still need improvement largely in two aspects. First, the scale of employment related support should be expanded. For example, although the Employment Retention Subsidy increased to 500.8 billion won, it remains questionable whether there are sufficient funds to the subsidy, enough to cover applications from small workplaces. Although there are 4 industries designated for special employment support, there are increasing

demands to designate more industries for support. Moreover, the government announced a policy to support 500,000 won per worker in special employment over a time period of 2 months. The total supporting budget is around 200 billion won, which when providing support of 1,000,000 won to a maximum of 200,000 workers, among the total of 2,200,000 dependent self-employed contractors, only 9% are beneficiaries. Therefore, given the urgency in the labor market to retain jobs, the government's employment measures are still insufficient.

Second, there must be a review of government policy coverage gaps. Despite employment measures, the solidified dual structure in the labor market is creating policy gaps. Following COVID-19, jobs in the service industry are decreasing due to the fact that the industry is comprised of short-term, daily, small enterprise, workers in special employment, dispatch and contract workers. Also, if the COVID-19 is prolonged, sub-contractors and dispatched workers in large companies will be one of the first jobs to disappear so it is expected that employment of these workers will be unstable. The main problem is that if short-hours part-time, daily, micro enterprise employees, dependent self-employed contractors, dispatched contractors lose their jobs, the social insurance system to support these workers will be insufficient.

For example, dependent self-employed contractors are not subject to mandatory enrollment in employment insurance, which means that in reality they are not entitled to receive Employment Retention Subsidies or Unemployment Benefits. For daily workers, most employers do not report their employment contracts so these workers are not part of employment insurance. In addition, in the case of short-hours part-time workers that work less than 15 hours per week, their enrollment to employment insurance has been made mandatory since 2018, however a few are actually covered. In order to receive these benefits, employees need to work for at least 180 days over 2 years in order to receive eligibility. Likewise workers at micro

[Figure 1] De Jure and De Facto Exclusion of Employment Insurance by Employment Type



Source: Written by the author.

enterprises are rarely covered by employment insurance, which makes them insufficiently protected against unemployment after dismissal. On one hand, contract and dispatch workers are covered under employment insurance, however employers often choose unpaid leave or forced resignation in times of employment crisis instead of resorting to measures such as the Employment Retention Subsidy. The explanation on the relationship between government measures and exclusion from social protection are summarized in <Figure 1>.

## II. Excluded from Social Protection: Status and Scale

### 1. Short-hours part-time workers (less than 15 hours)

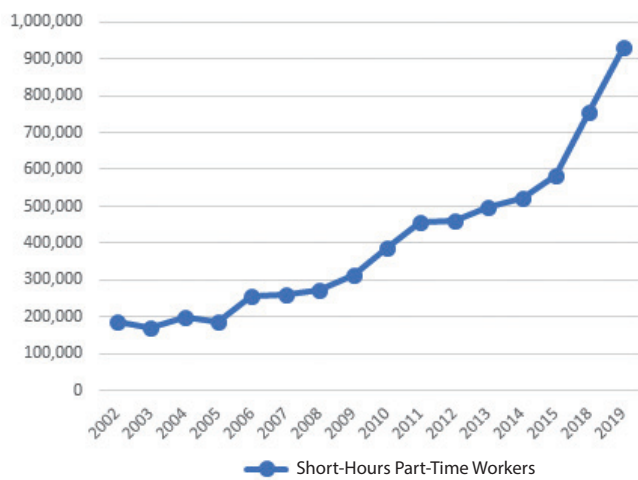
Short-hours part-time workers work for less than 15 hours a week on average for 4 weeks. Employment of short-hours part-time workers has increased (see <Figure 2>), due to employment incentives offered to employers, such as lower labor costs (i.e., no obligations of retirement pay, paid leave and weekly paid holidays). According to a research conducted by the National Human Rights Commission in 2016, some employers abuse such legal exemption of short-hours part-time workers by splitting

an 8-hour job into several short-hours part-time jobs. With the recent increase in short-hours part-time workers in a crisis such as COVID-19, jobs are disappearing and furthermore, these workers are likely to be excluded from social protection. Through legal amendments in the employment insurance law in 2018, short-hours part-time workers are eligible to receive employment insurance, and by fulfilling certain requirements are eligible to receive unemployment insurance. However, in actuality those are actually covered by employment insurance are found to be low. For example, the 2019 Supplementary Economically Active Population Survey shows that only 2.3% of short-hours part-time workers are covered by employment insurance.

According to the Supplementary Economically Active Population Survey in 2019 August, there were 9,320,000 short-hours part-time workers with 57.4% of them distributed across healthcare and social services (28.5%), hotels/restaurants (17.3%) and education services (13.8%). Incidentally, these are the sectors that are mostly likely to be impacted by COVID-19, leaving many short-hours part-time workers at risk of losing their jobs. In fact according to an employment insurance data in March, a year-on-year slowdown of job growth in hotels/restaurants, healthcare/welfare and education services indicate upcoming employment insecurity in these industries. In

[Figure 2] Short-Hours Part-Time Workers: Scale by Year

(Unit: persons)



Source: Written by the author.

addition, short-hours part-time workers are more unlikely to benefit from social protection measures such as unemployment insurance due to low join rate in employment insurance.

&lt;Table 2&gt; Distribution of Short-time Workers in Major Industries

(Unit: %)

	Percentage
Healthcare, Social Services	28.5
Public Administration, National Defense	17.3
Hotels, Restaurants	15.1
Education Services	13.8
Wholesale, Retail	6.5
Association, Organization, Personal Services	4.0
Art, Sports, Leisure	3.8
Facility Management	2.8
Construction	1.7
Manufacturing	1.7

Source: Written by the author.

## 2. Daily Workers and Micro Enterprise Employees

Daily (short-term) work takes place whenever the need arises, without continuity or regularity of employment. Daily workers are more or less like informal workers, mostly because employers tend to not report their em-

ployment contracts. Therefore, in most cases they are not covered by social protection measures such as employment insurance and when in unemployment, will face difficulties in their livelihood. According to the Supplementary Economically Active Population Survey, there are 748,000 daily workers and among those only 5.7% have are covered under employment insurance.

Meanwhile, workers in micro enterprises with fewer than 5 employees (1-4 employees) are also likely to be excluded from employment measures. These workers cannot file for legal protection even when faced with dismissal, and it is highly probable that they will be placed in unpaid leave or forced resignation in disaster situations like COVID-19. According to the August 2019 Supplementary Economically Active Population Survey, there are a total of 3.783 million wage workers at micro enterprises (18.4%), with 2.26 million of them (59.9%) without employment insurance.

## 3. Dependent Self-Employed Contractors

Measures on ways to protect dependent self-employed contractors who have previously been excluded from social protection, have long been discussed however only 9 industrial accident compensation insurance have been allowed with no additional measures in relation to employment protection. Single-Owner businesses are eligible to join employment insurance, however in actuality insurance join rates are low that it cannot be seen as a social safety net. For example, according to a research conducted by the Ministry of Employment and Labor (2017) it shows that there was an only 3.4% employment insurance enrollment rate among the 7 major dependent self-employed contracting jobs. Especially with COVID-19, among designated drivers who are more susceptible to changes, only 2.3% had employment insurance.

According to a 2018 joint research conducted by the Korea Labor Institute and Ministry of Employment and

Labor, there are around 2.21 million workers in special employment, out of whom 550,000 are platform workers. <Table 4> shows the regional distribution of dependent self-employed contractors and platform workers. As expected, a majority of dependent self-employed contractors work in large cities. Therefore, there should be active consideration of employment measures for dependent self-employed contractors based in metropolitan areas. Recently the government decided to provide 500,000 won to dependent self-employed contractors for up to 2

months in order to overcome the crisis from the regional level. There should be an expansion of these measures and an inclusion of additional support for different employment types.

#### 4. Indirect Employment Workers (dispatch, in-house contract, etc.)

Dispatch and in-house contract workers are the most common form of indirect employment. Most workers are

<Table 3> Employment Insurance Coverage of Dependent Self-Employed Contractors

(Unit : %)

	Insurance Agent	Cargo Truck Driver	Quick Delivery Man	Remicon Truck Driver	Dump Truck Driver	Designated Driver	Delivery Driver	Total
Coverage Rate	2.2	4.8	1.2	17.5	6.4	2.3	0.9	3.4

Source: Heungjun Jung et al. (2017), "Labor Conditions of Dependent Self-Employed Contractors and Recommendations for Legal Protection," Ministry of Employment and Labor.

<Table 4> Regional Distribution of Dependent Self-Employed Contractors and Platform Workers

(Unit: persons, %)

Region	Platform Labor	Total Dependent Self-Employed Contractors	Platform Workers Percentage (%)	Total Proportion of Dependent Self-Employed Contractors (%)
Seoul	87,019	388,766	15.8	17.6
Busan	33,140	146,697	6.0	6.6
Daegu	25,995	121,460	4.7	5.5
Incheon	27,514	108,298	5.0	4.9
Gwangju	12,624	61,138	2.3	2.8
Daejeon	13,027	62,922	2.4	2.8
Ulsan	14,090	32,453	2.6	1.5
Sejong	955	2,661	0.2	0.1
Gyeonggi	133,406	542,544	24.2	24.6
Gangwon	21,429	66,310	3.9	3.0
Chungbuk	19,389	75,667	3.5	3.4
Chungnam	44,573	125,317	8.1	5.7
Jeonbuk	16,963	79,869	3.1	3.6
Jeonnam	19,733	83,384	3.6	3.8
Gyeongbuk	24,870	105,035	4.5	4.8
Gyeongnam	48,054	171,604	8.7	7.8
Jeju	7,915	35,220	1.4	1.6
Total	550,335	2,209,343	100.0	100.0

Source: Heungjun Jung (2018), "A Basic Research for Estimating the Number of Dependent Self-employed Contractors," Korea Labor Institute.

covered under social insurance, however given the nature of indirect employment, it is rare for an employer to apply for Employment Retention Subsidies. An example would be GM Korea. Until the company shut down the Gunsan plant, the company applied for Employment Retention Subsidy, upon which the government provided part of the business suspension allowance. Even then, the in-house subcontractors in the same plant did not do the same, but forced their employees to resign. This is because these in-house subcontractors, who are mostly micro-enterprises, would choose to shut down when faced with business downturn, rather than pay for part of the business suspension allowance when applying for Employment Retention Subsidies. In fact, some partner companies of aircraft ground handling companies have carried out forced resignation during COVID-19 without applying for Employment Retention Subsidies.

Dispatching agencies are also structurally challenged from receiving Employment Retention Subsidy. These agencies dispatch their workers to different sectors, and even if these businesses shutdown, these businesses are ineligible to receive Employment Retention Subsidies. This is because the subsidies are provided to companies on whole, and in the case of dispatch agencies the whole company must go into business shutdown in order to be eligible for support. One recent example is the aviation industry, where there is a sizeable number of dispatched workers and partner companies, but their recent attempt to apply for Employment Retention Subsidies, but are facing difficulties due to the current system (see <Table 6>). Although this is only one example, it illustrates the limitations of the Employment Retention Subsidy in reaching workers in indirect employment such as in-house subcontracting and dispatch workers and indicates the need for alternative solutions.

The scale of dispatch/in-house contract workers can also be estimated through the Supplementary Survey to the Economically Active Population Survey. For workplac-

<Table 5> Current Status of Dispatch Agencies to Aircraft Ground Handling Company (Example)

	EK Manpower	K-Tech Manpower	World Unitech	Fedex Korea
Total Workforce in Dispatch	3,700	11,000	2,000	1,300
Dispatch to Airport	360	308	110	100

Source: Federation of Korean United Workers' Unions under the Federation of Korean Trade Unions.

es with over 300 employees, a more accurate estimation can be gained using the publicly available information on employment types. Therefore taking into consideration of reliability, this paper used 2019 public data on employment types (99.9% disclosure rate) for companies with over 300 employees. For smaller companies, the August 2019 Supplementary Economically Active Population Survey was used. It revealed that there were 774,000 dispatch/in-house contract workers at smaller companies with fewer than 300 employees, and 881,000 workers at larger companies, with a total of 1.655 million dispatch/in-house contract workers (see <Table 2>).

<Table 6> Scale of Dispatch and In-house Contract Workers  
(Unit: persons)

Company Size	Dispatch	In-house Contract	Total
1-4 Employees	46,996	141,212	188,208
5-9	33,237	153,959	187,196
10-29	42,742	184,869	227,611
30-99	36,607	96,115	132,722
100-299	13,241	25,472	38,713
300 or more	881,000		881,000
Total	1,655,450		

Note: 1) August 2019 Supplementary Economically Active Population Survey for company size of fewer than 300 employees.

2) Ministry of Employment and Labor, 2019 data on employment types for company size of 300 or more employees.

Source: Written by the author.

<Table 7> provides a summary of analysis. There are at least 7.28 million workers who face risk of income loss due to the employment crisis such as dismissal or work reduc-

tion from COVID-19. Out of these workers, an estimated 4.59 million are not covered by employment insurance.

<Table 7> The Scale of Workers that are Vulnerable to Employment Measures

(Unit: 10,000 persons)

Employment Measures Undercoverage <sup>1)</sup>	Total	Vulnerable Groups (no employment insurance coverage <sup>3)</sup> )
① Short-Time Workers	93.2	91.1
② Daily(short-term) Workers	74.8	70.5
③ Micro Enterprise (1-4 employees)	378.3	226.6
④ Dispatch/In-house Contract Workers	165.5	-
⑤ Dependent Self-Employed Contractor	220.9	199.9
⑥ Total	932.7	588.1
⑦ Actual Vulnerable Workers (excluding redundancy) <sup>2)</sup>	727.5	458.7

Note: 1) 2019 Supplementary Economically Active Population Survey, public data on employment types, Korea Labor Institute data, etc.

2) Redundancy rate of 22% was applied among short-time, daily, micro enterprise and dispatch/in-house contract/special employment workers.

3) Employment insurance non-registration was estimated using data from Supplementary Economically Active Population Survey.

Source: Written by the author.

### III. The Need for Support Programs Specific to Vulnerable Workers

Social calamities like COVID-19 show how vulnerable workers in a polarized labor market are excluded from social protection. Currently there are two challenges that workers face. The first is financial stress from unemployment or unpaid leave and the other is exclusion from social protection policies provided for the purpose of overcoming loss of income.

This study has found that approximately 7.28 million workers are at risk of unemployment, 4.59 million of whom are inadequately prepared against loss of income. Therefore, the government should design measures to fill

in the gaps in social protection arising from the limits in the labor market structure and diversity in employment types. This requires designing a social safety net that is customized for vulnerable workers.

First, there should be employment measures for workers such as micro enterprise workers, daily workers, short-hours part-time workers that need and require employment insurance but in reality are not covered by insurance. In addition, among those uncovered by employment insurance, those who are currently experiencing income cuts from unemployment should be identified and provided with temporary support to overcome unemployment and income loss. Also, based on this crisis, it is also necessary to review how to drastically improve employment insurance coverage for workers that remain excluded today.

Second, there should be measures for dependent self-employed contract workers, that are currently classified as self-employed. Although most of these workers are economically active, few are covered under employment insurance which leaves them unprotected from unemployment from the COVID-19 crisis. The current main government measures aim to support dependent self-employed contractors, however small number of these workers makes it difficult to actually measure the number of these workers. For those who have been at least temporarily economically active and are looking for employment, there should be a minimum of 6 months of unemployment benefits to be provided from the government's general account. At the same time, there should be movements to provide employment insurance to dependent self-employed contractors.

Third, there should be employment measures for indirect employment workers like on-call, dispatch and in-house contract workers. Micro employers (in-house subcontractors, etc.) often play a large role in managing the workforce on behalf of the principal company based on labor supply contracts, but do not have the resources to run as an independent business. Therefore in times of

business downturn, they opt for restructuring rather than employee retention. Also in the case of dispatch agencies, they have little responsibility over dispatched workers and the same can be said for user companies. The government should take into account such structural problems of indirect employment and review cases of dismissal of workers so that it can design support measures specific to dispatch/contract agencies for the purpose of encouraging employment retention through Employment Retention Subsidies. Joint responsibility of the contractor over dispatch workers and in-house contracting workers should be emphasized.

For example, since it is clear that contract and dispatch workers are particularly vulnerable in the COVID-19 crisis, the government must assess whether indirectly hired workers are received equal treatment to directly employed workers, and suspend business support when rendered

insufficient. Therefore, support should be withheld while active administrative guidance is provided to minimize discrimination. Also, even with the Employment Retention Subsidy, measures that can be applied to dispatch workers by alleviating additional conditions in order to be eligible to receive Employment Retention Subsidies should be devised. At the same time, there should also be legal and institutional modifications to specify joint sense of employment between the contractor and business owners to strengthen protection of indirect employment workers.

Fourth, labor and management must make a joint effort to protect workers who are vulnerable to social calamities. In particular, social responsibility of large companies and the public sector is required. They should take initiative in proposing plans to support vulnerable workers like non-regular workers through various actions such as creating joint funds.

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