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The Lessons and Implications of Employment Policies and Grand Tripartite Agreements to Overcome Past Economic Crises*

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Recently with the wide spread of COVID-19, dark clouds of an impending economic crisis seem to be fast approaching. The Korean economy has previously suffered from two major economic crises, the 1998 Asian Financial Crisis and the 2009 Global Financial Crisis. However the government has successfully mitigated the economic crisis and created a new momentum for economic growth through active employment policies and the grand tripartite social agreements designed to share the burden of economic downturns (involving job retention in return for pay freezes) and strengthen the social safety net. Based on Korea's experience in overcoming the past economic crisis, the key policy tasks in order to overcome the current COVID-19 economic crisis are the following: ① employment stabilization, ② reinforcement of the social security safety net and ③ enhancing economic vitality.

The primary task should be to prevent the spread of the employment crisis under the current economic crisis. The government should expand employment retention subsidies, while labor and management should engage in shared efforts to carry out employment retention measures such as wage adjustment and job sharing in order to prevent fears from employment crisis. In order to overcome the current economic crisis, management needs to retain employment, the labor circle should establish principles for wage stabilization and the government should establish principles for tripartite shared efforts and cooperation methods to reinforce social safety nets. At the same time, it is necessary to establish restructuring principles that prioritize employment protection for firms facing structural crisis through fair credit assessment of major industries and conglomerates. Another important challenge would be to instigate Digital·Biotech·Green New

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Deals with the aim of enhancing economic vitality.

I. Introduction

With the recent spread of COVID-19, dark clouds of an impending economic and employment crisis are looming over countries around the world. Although it is difficult to predict at this point how severely and how long these downturns will have an impact, however it is clear that a serious economic crisis is approaching and that Korea is unlikely to avert the crisis.

The Korean economy has experienced two major economic crises in the past —the 1998 Asian Financial Crisis and the 2009 Global Financial Crisis. In times of these economic crisis, people were under the threat of employment crisis which can be represented by the threat of unemployment and loss of livelihood. However Korea has resolved the employment crisis and the tripartite has created a new momentum for economic growth during these times through employment policies and burden sharing social grand tripartite agreements for employment retention and maintaining increased wages through restructuring and innovation in industrial relations and social security net systems to overcome the employment crisis.

Under such economic situations, this paper aims to resolve the impending economic crisis caused by COVID-19 based on the analysis of how the employment crisis unfolded during the previous economic crisis, and how economic actors as well as the Korean government responded to overcome the crisis.

II. The Development Process of Past Economic Crises and Employment Situations

It has been analyzed that the 1998 Korean Financial Crisis and the 2009 Global Financial Crisis both had a sig-

nificant impact on Korea's economic growth and employment. The economic growth rate at that time decreased as well as a steep decrease in the number of employed workers.

The economic growth rate plummeted, and the number of employed workers declined to the point that the term "employment cliff" gained household familiarity.

[Figure 1] shows that, during the economic crisis in 1998, Korea's economic growth rate dropped by over 11%p from 6.2% in 1997 to -5.1%. There was a serious employment crisis, with a drop of 1.276 million in the number of employed persons, and a rise of 922,000 in the number of the unemployed, causing a 4.5% drop in employment rate. In February 1999, when the employment crisis was most severe, the number of the unemployed reached 1.812 million persons, with the unemployment rate at 8.8%.

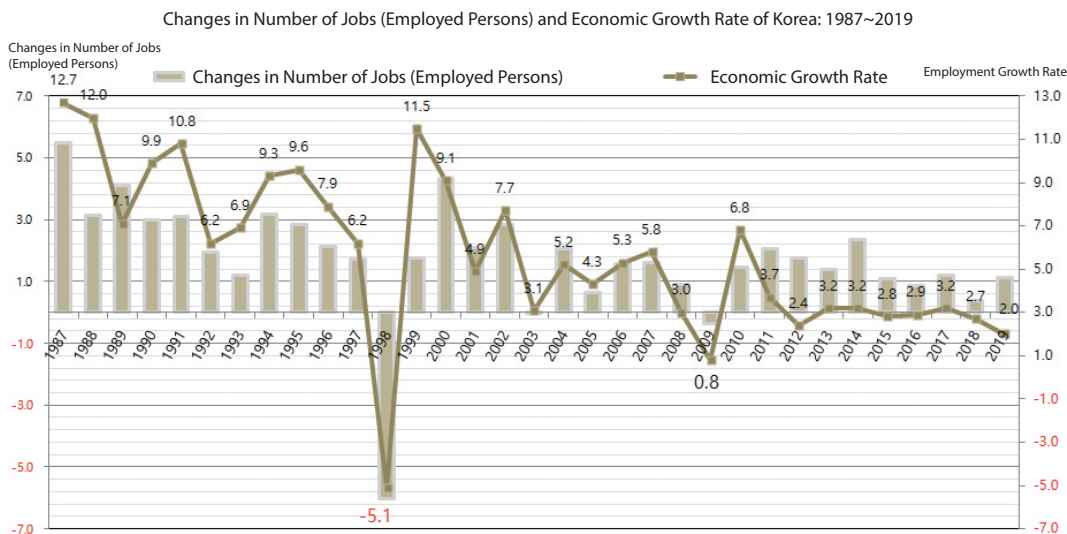
Meanwhile, during the 2008-2009 Global Financial Crisis, the economic growth rate fell by 2.2%p from 3.0% in 2008 to 0.8% in 2009. The number of employed persons decreased by 87,000, while the number of unemployed persons rose by 118,000, causing a drop of 1%p in employment rate.

Overall, it is confirmed that the 1997-98 Korean Financial Crisis had far more serious and extensive ripple effects than the Global Financial Crisis of 2008-2009 in terms of the depth of economic downturn, the decline in the number of employed persons, the rise in unemployment, and the decrease in employment rate.

Comparing the process of overcoming the two crises, it is analyzed that while a rapid economic recovery (a V-shaped rebound) was achieved in both cases, the duration of recovery differed. As shown in [Figure 2], capacity utilization rate declined to a similar level during both economic crises. However, it remained below 75% for 1.5 years during the 1997-98 Korean Financial Crisis, but only half a year during the 2009 Global Financial Crisis.

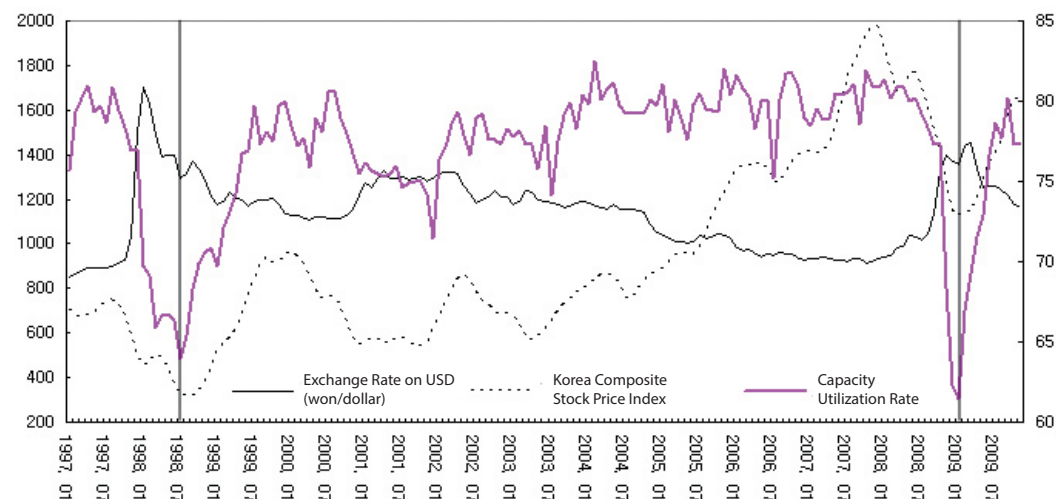
The comparison of employment situations during the

[Figure 1] Changes in Economic Growth Rate and Number of Employed Persons during Economic Crises



Source : Statistics Korea.

[Figure 2] Changes in Capacity Utilization, Exchange Rate and Composite Stock Price Index during Economic Crises



Source : Hwang, Soo-Kyeong (2010), Economic Crises and Employment.

IMF Economic Crisis in 1998 and the Global Financial Crisis of 2008-2009 indicates that the number of unemployed persons reached a maximum of 1.8 million in 1998 and 0.98 million in 2009. It can be concluded that the employment crisis was far more serious during the 1997-98 Korean Financial Crisis.

During the 1997-98 Korean Financial Crisis, a serious unemployment crisis developed due to the following factors: high interest rates, tight fiscal policies, and strict restructuring measures prescribed by the IMF; a surge in business bankruptcies owing to the restrictions on fiscal

and interest rate policies; and widespread restructuring with staff reductions following the introduction of a lay-off system. On the other hand, the employment shock in 2008-2009 was not as severe as in 1998. Research indicates possible contributing factors as follows: the relatively weaker intensity of the economic crisis; more restructuring with job-sharing and wage adjustment; companies having a system of constant corporate restructuring; and the policy effect of the government's employment support such as a job retention scheme (Kim, Jun, 2015).

During both economic crises, the number of unem-

ployed persons peaked five to six months after the economic downturn reached its lowest point. In the case of the 1997-98 Korean Financial Crisis, the economic downturn hits its low point July 1998 (Capacity Utilization 63.9%), and the employment crisis reached its low after six months, i.e. in February 1999, with 1.8 million persons unemployed. During the Global Financial Crisis of 2008-2009, the worst point for the economic downturn was in January 2009 (Capacity Utilization 61.4%), followed by the lowest point in the employment crisis in June 2009 (five months later), with 0.96 million persons unemployed unemployment in June 2009, five months later.

III. Restructuring and Labor-Management Conflicts Due to Economic Crises

1. Patterns of Corporate Bankruptcy and Restructuring during Economic Crises

As the 1998 IMF Economic Crisis and the 2009 Global Financial Crisis developed, the business situations of Korean companies rapidly deteriorated. Exports and domestic demand in the Korean economy decreased, interest rates and exchange rates soared, and more and more firms began to face business difficulties. As a result, there was an explosive increase in corporate bankruptcy, closure, and restructuring for corporate rehabilitation.

During the 1997-98 Korean Financial Crisis, short-term foreign currency borrowing increased and foreign exchange reserves plunged from the first half of 1997. When the Korean government asked the IMF for a bailout loan in December, dollar exchange rates¹⁾ and interest rates skyrocketed. As a result, companies with high debt owing to

lax management and those with a high level of foreign-currency borrowing were forced to go bankrupt. In fact, in the first half of 1998, when corporate business deterioration was most severe, an average of 3,000 companies collapsed every month, and the corporate default rate was at its highest (7.92%). As more companies facing business difficulties began to implement restructuring measures such as workforce reduction, the number of labor-management conflicts surrounding those measures exploded.

A similar situation was observed during the 2008-2009 Global Financial Crisis. Many companies faced severe business difficulties due to soaring exchange rates and deteriorating global financial market conditions. However, this time, the government and financial institutions carried out preemptive restructuring measures such as industrial restructuring and business workouts based on the Corporate Restructuring Promotion Act.²⁾ As a result, the number of bankruptcies dropped, and many firms implemented flexible restructuring measures such as wage rollbacks, reduction of work-hours and welfare benefits rather than workforce reduction.

2. Restructuring Policies in Response to Economic Crises

During the 1998 Korean Financial Crisis, the government's restructuring policies were focused on measures to managing insolvent companies and improving economic vitality. In the short term, the so-called Big Deals (exchange of business lines) between enterprise groups and corporate improvement projects (workout programs) were implemented to restructure insolvent companies that were not able to pay corporate debt. In the mid to long term, the following measures were carried out: ①

1) After the won-dollar exchange rate hit the peak at 1600 KRW on December 23, 1997, the exchange rate shock and severe financial crunch soon followed.

2) The Corporate Restructuring Promotion Act was promulgated in August 2011 to promote the autonomous corporate restructuring of enterprises with signs of insolvency in the private sector based on market principles. For rapid restructuring, the law strengthened the accountability of creditor financial institution and established a permanent assessment system so that companies without the possibility of rehabilitation were immediately forced to exit. The law also stipulated support provisions for addressing legal constraints that companies may experience during the restructuring process.

Enhancing corporate transparency; ② Eliminating cross-debt guarantees; ③ Improving financial structure (lowering the debt ratio); ④ Conglomerates to concentrating on key businesses and strengthen cooperation with SMEs; ⑤ Strengthening accountability of controlling shareholders and executives; ⑥ Improving corporate governance of non-monetary institutions; ⑦ Restricting inter-subsidiary cross-shareholding and internal transactions; and ⑧ Prohibiting illegal transfer of inheritance or gifts .

At the time of the 1997-98 Korean Financial Crisis, the government and financial institutions began to execute corporate workouts (corporate improvement) after a surge of large-scale corporate bankruptcies, resulting in greater damage from restructuring such as workforce reduction. Indeed, even though it was between the late 1997 and the first half of 1998 that corporate defaults surged, the government began in earnest the establishment of the conglomerate restructuring plan and the implementation of restructuring of insolvent firms based on corporate credit ratings after the Financial Supervisory Commission announced its restructuring plans with a list of non-viable firms in June 1998.

During the Global Financial Crisis of 2008-2009, the government, the business community, the labor and management organizations quickly made themselves ready to

respond to the crisis. From the beginning of 2009, the government promoted various restructuring measures aimed at resolving non-performing loans and implementing restructuring programs by industry. To this end, a 40 trillion won corporate restructuring fund was established under the Korea Asset Management Corporation (KAMCO), designed for rapidly executing corporate restructuring and efficiently resolving non-performing loans. In addition, conglomerates were encourage to pursue autonomous restructuring based on the Corporate Restructuring Promotion Act, while SMEs were subject to autonomous restructuring by credit institutions based on the Creditor Banks Committee Operating Agreement. Accordingly, financial institutions classified credit ratings of companies into A, B, C, and D, and required different restructuring measures based on different ratings, e.g. C-rated firms to sign a business normalization agreement and to implement workouts involving self-rehabilitation schemes, a debt-for-equity swap, and debt settlement; and D-rated companies to go through rehabilitation procedures or to exit the market based on the Debtor Rehabilitation and Bankruptcy Act.

Also, thanks to the restructuring of insolvent companies led by creditors as part of the prompt execution of restructuring policies, corporate default rates were lower in the period of 2008-2009 than in 1998. Statistics on the

<Table 1> Default Rates by Year and Industry

(Unit: %)

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Manufacturing	10.0	0.00	1.87	1.88	1.47	0.65	6.62	2.74	2.01	0.00	2.38	3.45	2.10	1.40	2.39	1.86	1.25	1.35	0.68	2.32
Electric Office Devices	50.0	0.00	0.00	0.00	0.00	0.00	30.0	12.5	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.44	20.0	0.00	5.92
Electronic Communication Devices	0.00	0.00	0.00	4.00	0.00	0.00	26.7	0.00	11.8	0.00	10.0	10.5	11.11	21.4	11.11	0.00	6.27	0.00	0.00	5.61
Services	0.00	4.44	2.47	1.20	1.22	1.27	2.74	1.23	0.00	0.00	2.17	0.79	2.29	0.76	1.55	1.38	1.38	0.00	1.43	1.39
Construction	0.00	6.25	3.57	4.17	4.17	0.00	4.35	4.17	0.00	0.00	2.70	0.00	2.70	2.94	0.00	2.44	2.20	0.00	0.00	1.97
Finance	0.00	5.00	0.00	0.00	2.63	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.40
All	7.92	1.46	1.85	1.53	1.54	0.74	4.40	1.87	1.08	0.00	1.88	1.79	1.75	0.86	1.66	1.28	1.03	0.54	0.82	1.79

Source : Korea Ratings.

corporate default rates of Korean firms show that the default rate was 7.92 in 1998, but only about a quarter of that figure during the Global Financial Crisis of 2008-2009, with 1.88 in 2008 and 1.79 in 2009.

3. Labor-Management Conflicts Surrounding Restructuring during Past Economic Crises

During the 1998 Korean Financial Crisis, there were severe labor-management conflicts as companies began restructuring focused on workforce reduction such as layoffs to alleviate their business difficulties, while labor unions protested the layoffs by staging an indefinite sit-in rally. In particular, labor-management conflicts in workplaces that can have significant socio-economic ripple effects, such as those of conglomerates or the financial industry, emerged as a socio-political issue and a potential factor of social instability.

For example, Hyundai Motor announced a layoff list of 3,578 workers in July 1998 due to business deterioration, with its factory utilization rate dropping to 40% in the early 1998. To oppose the layoff decision, the company's labor union held a sit-in strike for 36 days. As the severe confrontation between Hyundai Motor's labor and management was prolonged, the government, political circles, and the Tripartite (labor, management and the government) Commission intervened. The Minister of Employment and the Vice-President of the ruling Democratic party (at the time, Roh Moo-hyun) went to Ulsan to mediate labor-management conflict. After labor and management agreed to lay off 277 workers, grant unpaid leave to 1,261 workers, and donate 2% of the base pay of labor union members to the employment stabilization fund, the strike ended in August 1998.

In the process of restructuring amid the Global Financial Crisis, the government and creditors led the efforts to carry out corporate workouts, promoting flexible restructuring such as wage cuts (freezes, rollbacks, etc.) and

working hour reduction rather than workforce reduction so there were few severe labor disputes surrounding layoffs. However, some companies (SsangYong Motor and Kumho Tire) were forced to reduce their workforce (such as layoffs) due to structural crisis, leading to extreme labor-management conflicts such as indefinite sit-in rallies.

In April 2009, SsangYong Motor announced a workforce reduction plan to lay off a total of 2,646 workers to mitigate its business difficulties, and suffered severe labor-management disputes. The labor union staged a sit-in demonstration to strongly protest the decision, and the authorities had to bring in police forces in order to break the strike in 77 days. Although SsangYong Motor's restructuring proceeded according to the company's plan, the restructuring resulted in extreme social conflicts and enormous damages. A total of about 20 workers including those who had lost their jobs during the restructuring process died from suicide or illnesses.

As shown by the above example, restructuring centered on workforce reduction during an economic crisis has a high social cost, especially when it is carried out by conglomerates (such as Hyundai Motor and SsangYong Motor) that can have strong and far-ranging effects across their industry. In such cases, due to the enormous socio-economic ripple effect, it is highly likely that restructuring becomes a political issue in which the government and political circles may be forced to intervene.

IV. Efforts to Overcome Economic Crises through Grand Tripartite Agreement

1. Grand Tripartite Agreements during the Korean Financial Crisis and the Global Financial Crisis

During the 1997-98 Korean Financial Crisis and the 2008-2009 Global Financial Crisis, Korea's labor, management, and the government reached a Grand Tripartite

Agreement in the spirit of pain-sharing for economic recovery to refrain from wage increases (labor), to stabilize employment (management), and to provide financial support (government). The agreement also contained pledges to reform the industrial relations system as well as the social system (strengthening the social safety net). The establishment of such a cooperative mechanism among labor, management, and the government (tripartite) served as a support pillar in overcoming the crisis.

In the case of the Korean Financial Crisis, a Grand Tripartite Agreement was reached in the early stage when fears of employment insecurity began to spread amid rapidly

surging business insolvency and unemployment (February 1998) after requesting bailouts from the IMF (December 1997). The tripartite agreed on job retention (employers), wage stabilization (unions), and expanded financial support for job retention and direct job creation programs. The Grand Tripartite Agreement contains pledges of labor, management, and the government to improve labor market flexibility, expand basic labor rights, enhance working conditions, and advance the existing systems to strengthen the social safety net. The agreement seeks to promote economic revitalization and job creation through pain sharing and mutual cooperation among economic actors.

<Table 2> Summary and Evaluation of Grand Tripartite Agreements during the Korean Financial Crisis and the Global Financial Crisis

Period	Summary of the Grand Tripartite Agreement	Evaluation After the Crisis
Grand Tripartite Agreement during the 1997-98 Korean Financial Crisis (Feb 6, 1998)	<ul style="list-style-type: none"> - Institutional reforms to enhance flexibility of the labor market <ul style="list-style-type: none"> • Introduction of a layoff system • Introduction of temporary work agency business (worker dispatch system) - Improvements to the working hour system (reduction of working hours) <ul style="list-style-type: none"> • Statutory working hours reduced from 48 to 40 hours per week • Expansion of the flexible working hour system - Expansion the social safety net <ul style="list-style-type: none"> • Expansion of employment insurance coverage (workplaces with 5 employees or more) • Extension of payment period of unemployment benefits • Expansion of industrial accident insurance coverage (workplaces with less than 5 employees) - Institutionalization of international standards on basic labor rights <ul style="list-style-type: none"> • Permission to operate the Korean Teachers and Education Workers Union and the Korean Government Employees' Union • Abolishment of the ex officio arbitration system and introduction of the restrictions on industrial actions affecting essential businesses • Permission to establish multiple trade unions at the enterprise level, prohibition of remunerating full-time union officers - Stabilization of wages, promotion of labor-management cooperation <ul style="list-style-type: none"> • Labor unions to improve productivity, and employers to ensure employment stabilization • Introduction of a rational wage system 	<ul style="list-style-type: none"> - Contributed to overcoming the economic crisis - Stabilized wage increases - Flexible labor market measures such as restructuring focused on workforce reduction (layoffs) led to the problem of non-regular workers - Problems of jobless growth and lack of jobs for youths
Grand Tripartite Agreement during the Global Financial Crisis of 2008-2009 (Feb 23, 2009)	<ul style="list-style-type: none"> - Pain-sharing efforts by labor and management focused on job retention and job sharing <ul style="list-style-type: none"> • Labor unions to refrain from strikes, and employers to abolish labor practices in the process of overcoming economic crisis • Labor unions agreed to wage freezes or rollbacks depending on employers' business circumstances; employers agreed to refrain from layoffs; If restructuring is unavoidable, implement voluntary retirement instead of unilateral layoffs • Labor unions to practice various forms of job sharing - Facilitation of employment by creating jobs <ul style="list-style-type: none"> • Expansion of government-funded job creation projects • Strengthening of job transfer support for the unemployed and non-regular workers, improvement of vocational training • Improvement of employment service delivery system - Strengthening of the social safety net for vulnerable groups and the unemployed <ul style="list-style-type: none"> • Easing of the eligibility requirements for unemployment benefits; expansion of beneficiaries of special extended benefits and extension of benefit period • Removing institutional blind spots of social insurances by raising social insurance participation rate for non-regular workers 	<ul style="list-style-type: none"> - Contributed to overcoming the economic crisis - Stabilized wage increases - Pursued restructuring focused on job retention (wage rollbacks) and job sharing (work hour reduction) rather than workforce reduction - The problem of dualization in the labor market emerged - Youth unemployment problem became serious

As for the Grand Tripartite Agreement signed during the Global Financial Crisis of 2008-2009, it also contains measures to ensure job retention (employers) in return for refraining from wage increases (labor unions), agreements by labor and management to implement the pain-sharing measures to strengthen the social safety net for the unemployed and vulnerable groups, and the government's promise to support such efforts.

2. Significance and Policy Implications of the Grand Tripartite Agreements to Overcome Economic Crises

The Grand Tripartite Agreements reached during the 1997-98 Korean Financial Crisis and the 2008-2009 Global Financial Crisis served as an opportunity to concentrate national power on overcoming the economic crisis by developing a social consensus among labor, management, and the government on the measures to stabilize wages and employment, to share the pain of economic downturn by job sharing, to reform industrial relations and labor market systems, and to improve social systems by strengthening the social safety net. In addition, by reforming industrial relations and labor market systems, those agreements laid the foundation for further enhancing economic vitality and strengthening the competitiveness of labor relations. Thanks to the social consensus and the procedural legitimacy given to improve the existing systems under the name of the Grand Tripartite Agreement, it was possible to implement social system reforms afterwards such as through parliamentary legislation based on social agreements.³⁾

Reforming social systems such as industrial relations and the labor market systems in 1998 was possible because the Labor-Management Reform Committee (participated by the Federation of Korean Trade Unions and the

Korean Confederation of Trade Unions), a tripartite social dialogue mechanism, largely formed a consensus on the basic direction of reform through active social dialogues and public discussions on the topics of labor market flexibility, expansion of basic labor rights, and strengthening of the social safety net from 1996. This suggests that social discussions and consensus building between labor and management are an important step to reach a grand tripartite social agreement.

V. The Government's Financial Support for Overcoming Employment Crisis

During 1998 Korean Financial Crisis, the government's financial support measures were concentrated on livelihood stabilization for the unemployed (59.3%) and direct job creation programs (23.5%) to address the rapidly growing number of unemployed persons. Facing such a large-scale employment crisis for the first time, the government responded with relatively insufficient preemptive measures for job retention, but focused its efforts on stabilizing the livelihood of the unemployed and implementing direct job creation projects such as the public laboring project.

During the Global Financial Crisis of 2008-2009, the government's financial support was concentrated on livelihood stabilization for the unemployed (45.4%) and direct job creation programs (37.6%). In 2009, more government funding was being put into job retention measures based on the social safety net called employment insurance and direct job creation programs for youths (such as the youth internship program for SMEs). It was during the Korean Financial Crisis that the employment insurance coverage was expanded to workplaces with 5 employees, but the actual outcome was limited since it was in

3) The legislation of the layoff system was sought at the National Assembly in late 1998 without having reached an agreement during the discussion by the Labor-Management Reform Committee in 1996. Met with fierce opposition from the labor world (about one month of general strike staged by the nation's two largest labor unions), the legislation was revoked, which was unprecedented in the history of the National Assembly.

<Table 3> Government Budget for Job Creation Projects in 1998~2002

(Unit: hundred million KRW)

Year	Direct Job Creation (Short-term Jobs)	Support for Employment Stabilization	Vocational Training and Job Placement	Livelihood Stabilization for the Unemployed	Total
1998	10,444	1,224	9,011	35,993	56,672
1999	26,218	4,832	6,868	54,482	92,400
2000	13,207	3,663	4,305	38,232	59,407
2001	6,750	3,665	4,797	15,654	30,866
2002	5,819	3,169	4,396	13,587	26,971
Total	62,438 (23.5%)	16,553 (6.2%)	29,377 (11.0%)	157,948 (59.3%)	266,316

Source : Ministry of Labor, *5 years of People's Government, White Paper on Unemployment Measures*, based upon the 2003 data; Yoon, Yong-joong et al. (2010), *Job Creation Policies After the Foreign Exchange Crisis: Outcome and Challenges*, National Assembly Budget Office.

<Table 4> Government Budget for Job Policies in 2008~2010

(Unit: hundred million KRW)

Year	Direct Job Creation	Support for Employment Stabilization	Education and Training	Livelihood Stabilization for the Unemployed, Employment Promotion ² (excluding unemployment benefits)	Total
2008	21,131	381	11,464	33,701(8,966)	66,677
2009 ³	47,073	5,938	15,059	53,129(8,457)	121,199
2010	35,883	1,142	13,015	38,988(5,328)	89,028
Total	104,087 (37.6%)	7,461 (2.7%)	39,538 (14.3%)	125,818(22,751) (45.4%)(8.2%)	276,904

Source : Based on the data submitted by the Ministry of Economy and Finance; Yoon, Yong-joong et al. (2010), *Job Creation Policies After the Foreign Exchange Crisis: Outcome and Challenges*, National Assembly Budget Office.

the early stage of implementation. However, in 2009, the expanded coverage had become more established, making it possible to expand financial support for employment in the form of unemployment benefits and job retention subsidy. Even so, measures to support the livelihood of non-regular workers and jobless dependent self-employed contractors were still insufficient in 2009 so the institutional blind spots of the social safety net were still pointed out as a limitation.

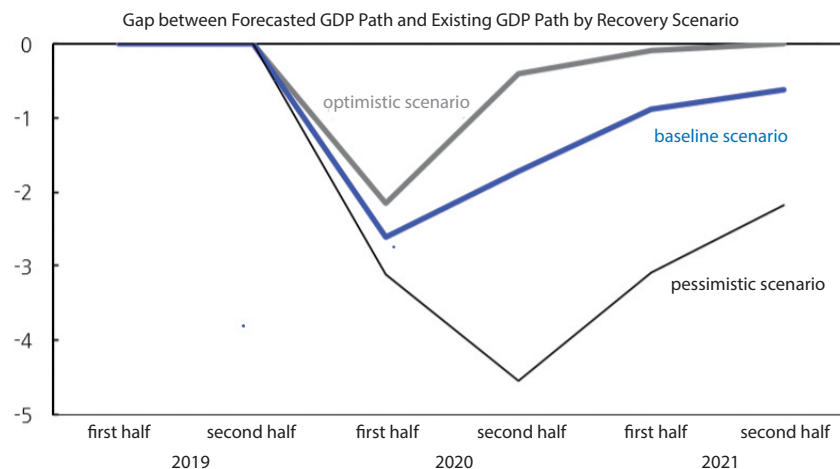
VI. What should we do to overcome the COVID-19 Economic Crisis?

1. Need for a Breakwater to Stem Waves of Employment Crisis Caused by the COVID-19 Economic Crisis

With the spread of COVID-19 which began in early 2020, the dark shadow of an economic recession has already been cast, and it is also predicted that this year's GDP growth will be negative (-0.2% projected by the Bank of Korea). Accordingly, dark clouds of an impending employment crisis seem to be fast approaching.

Through its economic outlook for the first half of 2020, the Korea Development Institute (KDI) observed that the economic shock of COVID-19 drastically reduced the number of employed persons, mainly in the service industry with frequent face-to-face contact, and if prolonged, it could bring about the employment shock in the manufacturing industry. Statistics Korea released the May 2020 employment trends which showed that the employment situation was deteriorating rapidly. The number of unemployed persons was 1.27 million, an increase of 130,000 compared to the previous year; and the unemployment rate rose to

[Figure 3] Outlook of Korea's GDP Growth Rate in the COVID-19 Era (KDI)



Note : The existing GDP path is based on the KDI Economic Outlook (Second half of 2019).

Source : KDI Economic Outlook (First Half of 2020).

4.5%, with a rise of 0.7% compared to the previous month. In May 2020, the number of employed persons decreased by 390,000 compared to the same period last year, and the number of the temporarily laid-off also rose by 680,000 from the previous year. Based on these two numbers, it can be said that more than 1.07 million jobs disappeared. Since the decrease in the number of employed persons is particularly evident in the labor-intensive service industry, placing vulnerable workers (such as non-regular workers, women, and youths) at risk of going through the employment crisis, it has become urgent to protect them with the social safety net, such as through job retention support and the assistance for living expenses.

Unlike in the past economic crises, experts dismiss the prospect of a V-shaped recovery from the COVID-19 economic crisis. There are forecasts that the shape of the recovery will be L-shaped or the Nike Swoosh, meaning that the economic crisis will last a considerable period of time. According to the KDI Economic Outlook, the GDP growth rate of the Korean economy in 2020 is expected to drop to 0.2%, and is unlikely to go back to the existing GDP growth level until 2021. In a pessimistic view, it is expected that the GDP will fall to -0.7% in 2020 as domestic demand and exports continue to slump, and the economic downturn will continue through 2021.

These economic outlooks indicate that the impact of the employment crisis due to the COVID-19 economic crisis will be deeper and longer-lasting than the 1997-98 Korean Financial Crisis, raising the need to be prepared for it. Given that the economic downturn and the employment crisis caused by the COVID-19 pandemic are expected to have more severe ripple effects than the economic crisis of 1998, it is high time that the government devises measures to ensure job retention, strengthen the social safety net, and revitalize the economy in response to the unprecedented employment crisis.

2. Key Policy Tasks to Overcome the COVID-19 Economic Crisis

Based on the analysis of how Korea overcame the past economic crises, the key policy tasks to overcome the current COVID-19 economic crisis are: 1) employment stabilization; 2) strengthening the social safety net; and 3) enhancing the economic vitality. It is necessary to concentrate the government's policy resources and the capacity of economic actors on carrying out these policy tasks.

During an economic crisis, the primary task should be preventing the spread of the employment crisis. With an aim to prevent the fears of the employment crisis, labor

and management may engage in pain-sharing efforts by carrying out job retention measures such as wage adjustment or job sharing; and the government should increase the job retention subsidy. In particular, it is important to focus on providing job retention support swiftly in the early stages of the economic crisis in order to calm market fears.

The number of unemployed persons tends to surge during an economic crisis as small businesses and enterprises with structural business difficulties opt for closure or restructuring. Thus, it is necessary to respond with policies that minimize the pain caused by the employment crisis by strengthening the social safety net, e.g. stabilizing the livelihood of and providing vocational training for unemployed persons; expand direct job creation programs for youths and employment insurance coverage; and introducing an unemployment assistance scheme.

In the event of an economic crisis, the number of industries and corporations facing a structural management crisis is bound to increase. Therefore, it is necessary to have a fair credit assessment of major industries and conglomerates so that those that are temporarily in crisis can be quickly supported through financial and tax support, and those experiencing a structural crisis can be helped to implement rapid restructuring to minimize the damage to the economy as a whole, thereby creating the conditions to revitalize the economy.

3. Financial Support to Focus on Employment Stabilization and Direct Job Creation Programs for Youths in the Early Stage of Employment Crisis

Facing the economic downturn following the spread of COVID-19, the government expanded the financial support significantly for job retention, including its provision of job retention subsidy. Such a move can be evaluated as contributing to preventing the spread of fears in the la-

bor market and creating an atmosphere for job retention. However, as the employment crisis is expected to prolong, it will be necessary for the government to develop ways to secure funds that will be needed upon the extension of payment period of job retention subsidy and the expansion of beneficiaries of job retention support.

In the past economic crises, it was found that young people seeking to land the first job suffered the most. It was reported that young people who could not find employment due to lack of jobs during the economic crises of 1998 and 2009 became a “cursed generation,” continuing to face difficulties in finding a stable job in the labor market even after the economic recovery.

Even during the COVID-19 economic crisis, the employment situation of young people is critical. According to the May 2020 employment trends released by Statistics Korea, the employment rate of those in their 20s was 55.7%, a 2.4%p decrease from the previous year, and the real jobless rate (labor underutilization indicator³) for people between the ages of 15 and 29 reached 26.3%, up 2.1%p over the same month of the previous year.

In response to the abysmal job situation facing our young generation, it will be necessary to provide intensive support for government-funded job creation projects, such as direct job creation programs and vocational training for leading occupations (IT, Big Data, Artificial Intelligence, Biotech, etc.) in the 4th industrial revolution. In particular, in the process of promoting the government’s Digital New Deal, Biotech New Deal, and Green New Deal, it is important to gather policy ideas that can create jobs for young people, and to implement these deals in a way that gives young people various opportunities to experience future-oriented jobs.

4. Institutional and Policy Improvements to Strengthen the Social Safety Net

Reinforcing the social safety net will be the most im-

portant task in order to establish the first line of safety net for the unemployed and the vulnerable, ensuring the stabilization of livelihood and re-employment support for them during the employment crisis caused by an economic crisis.

To strengthen the social safety net, the following measures should be considered: 1) Expanding the beneficiaries of employment insurance (dependent self-employed contractors, entertainers, etc.); 2) Increasing the protection level of unemployment benefits, such as by adjusting wage replacement rate and maximum benefit duration; 3) Introducing the unemployment assistance system for the vulnerable groups that are excluded from employment insurance.

Strengthening the social safety net to cope with the employment crisis requires a social agreement among labor, management, and the government on ways to operate and secure funds—such as raising insurance premiums or appropriating more funds from the general account. Since it is an institutional improvement that requires a large amount of funds in the long term, it is necessary to discuss how to share the pain of raising funds among stakeholders to build a sustainable social safety net system. In particular, pursuing the expansion of the beneficiaries of employment insurance without first examining in detail such matters as the method of identifying the potential beneficiary's income, the adjustment of contribution rate, and the payment criteria of employment insurance, etc. can be unsuccessful because conflicts among economic stakeholders may occur, serving as an obstacle to improving the system itself. Therefore, conducting policy consultation with a range of possibilities among stakeholders of labor, management, and the government is essential.

In addition, when strengthening the social safety net, it would be wise to take a two-track approach by separating it into 1) areas that need to be temporarily strengthened (job retention, direct job creation, temporary extension of payment period of unemployment benefits and increase

of wage replacement rate, etc.) and 2) areas that need to be continuously improved after the economic crisis (expansion of beneficiaries of employment insurance and adjustment of insurance premium rate). It will need to be promoted by expanding the scope of the target, adjusting the rate of employment insurance premiums, etc.).

5. Facilitating the Grand Tripartite Agreement to Overcome the Economic Crisis

A key challenge in order to overcome the current economic crisis is to reach a Grand Tripartite Agreement among labor, management, and the government with the aim to ensure job retention, strengthen the social safety net, and enhance economic vitality through mutual effort and cooperation.

As part of the first step, principles for burden sharing including the business circle ensuring job retention, the labor circle ensuring wage stabilization and the government strengthening the social safety net and measures for tripartite cooperation to overcome the crisis should be established to overcome the crisis. To that end, discussions should revolve around specific measures by the business circle to stabilize employment and the labor circle to stabilize wages. Also, in order to strengthen the social safety net through the expansion of employment insurance coverage and the introduction of the sickness benefit system, the tripartite should discuss in detail the extent to which employment insurance participation will be expanded, the contribution rate, and the payment criteria of employment insurance, and then clarify what labor, management, and the government will do to implement the measures.

For the grand tripartite agreement to become a stepping stone in overcoming the crisis, responsibility is important for all three economic actors that participate in social dialogue.

To this end, it is also important to set the tripartite negotiation agenda so that a “balance of interests in negoti-

ations” can be achieved between labor and management during the tripartite consultation process. In this regard, it can be said that the government plays an important role in leading the tripartite social dialogue. In the process of constituting the tripartite negotiation table and processing negotiation issues, it is necessary to create a balance that does not unilaterally represent the claims of either labor or management so that both parties participate with responsibility. By doing so, the derived grand agreement will gain the executive power in order to be implemented.

In particular, since strengthening the social safety net involves improvement of the legal system such as the Employment Insurance Act, it is necessary to seek such improvement through the tripartite consultation process with participating stakeholders including labor, management, and the government as well as social safety net experts such as employment insurance specialists before the legislation is passed at the National Assembly. It is worth noting that even during the economic crisis of 1998, improvement of the legal system to strengthen the social safety net—such as the expansion of employment insurance coverage, the integration and separation reforms of the National Health Insurance system, and expanded application of the pension system—was made possible due to the grand tripartite agreement.

6. Restructuring Principles and Management of Labor-Management Conflicts to Minimize the Impact of Economic Crisis

In order to overcome the COVID-19 economic crisis, an important challenge is to establish restructuring principles to assist industries and companies facing structural crisis. As seen from past economic crises, certain industries or companies experience structural crisis in the face of an economic downturn. Support should be focused on industries and companies that can rehabilitate, while re-establishing restructuring principles for those deemed

difficult to rehabilitate will minimize the restructuring costs for industries and companies in structural crisis and quickly revitalize the economy. For example, specific principles and standards for restructuring can be established, such as the criteria for determining industries or companies facing structural crisis; measures to minimize workforce reduction if restructuring of industries or companies are unavoidable; provision of financial support for job retention in return for management rights as collateral; and the establishment of a specific and fair arbitration support system in case restructuring is unavoidable due to management crisis, along with corresponding support measures of the government.

Considering that companies and trade unions have a tendency to try overcome the economic crisis through government financial support, an important challenge would be re-establishing restructuring principles in the process of reaching a social grand tripartite agreement in order to overcome the economic crisis and enhance economic vitality.

Another important challenge is to prepare in case of restructuring or workforce reduction of conglomerates which can have strong and far ranging effects on the national economy and across the industry.

In the course of the COVID-19 economic crisis, some conglomerates in structural crisis will inevitably undergo restructuring accompanied by personnel reduction along with bankruptcy, closure, and layoffs. There is a possibility of obstruction in grand tripartite agreements and economic revival turning into socio-political issues due to extreme labor-management conflicts occurring in large enterprises which can have significant socio-economic ripple effects. In view of this, in order to support conglomerates that are forced to cut their workforce to overcome the COVID-19 economic crisis, it is necessary to review measures that support resolution of labor-management disputes surrounding restructuring with consistent principles by establishing a preemptive response system

to prevent labor-management conflicts or to resolve them from the early stage. To this end, it may be necessary to consider operation of a quadripartite arbitration organi-

zation with includes the participation of umbrella organizations of labor and management, civic groups and the government arbitration organizations.

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