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Economic Crisis, Income Support, And Employment Generating Programs: Korea's Experience*

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This paper outlines the dramatic changes in the Korean labor market after the financial crisis of 1997, and evaluates, in a comprehensive manner, programs for income support and employment generation implemented by the Korean government to cope with the labor market turmoil after the financial crisis.

Key words : unemployment policy, unemployment benefit, public works project

JEL classifications: J0, H8

I. Introduction

Beginning in November 1997, the Korean economy underwent a devastating economic crisis. Declining macroeconomic conditions brought about major labor market disruptions in 1998. Among other aspects, a quadrupling of unemployment, a fall of 9% in real wages, informalization of jobs, increased job insecurity,

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and rising poverty and inequality characterized the job market. Disadvantaged groups suffered a disproportionate impact. The result was not only economic misery but also social pain: increased homelessness, a rising crime rate, an escalation in school dropouts, an accelerating divorce rate, and an overwhelming sense of social malaise.

1999 marked a major turnabout for Korea. GDP grew by more than 10.7%, and real wages increased apace. Unemployment in general and long-term unemployment in particular began to fall. As of the first semester 2001, the unemployment rate is now less than half of its peak level. Youth and women are again returning to the labor force and finding employment.

The rapid fall in unemployment is owed, above all, to economic recovery and a return to high growth rates beginning in 1999. A low interest rate, the depreciating value of the won, government policies aimed at promoting venture firms, a favorable international economic environment with low oil price and increasing demand in semiconductor chips, and less uncertainties in the financial market must have contributed to Korea's rapid economic recovery. Any concrete analysis of it would require a good volume of papers.

There are many documents or reports on what Korean government has done to fight against unemployment after the financial crisis. Most representative ones will be KLI(1999), Ministry of Labor(2001) and Yoo et al.(2001). However, they are just describing policy programs adopted by the Korean government without any critical evaluation. Some individual policy programs were evaluated by the initiative of World Bank and Korea Labor Institute (Park et al. 2001). But it is rarely hard to find any comprehensive review paper on labor market policies against unemployment with proper evaluation. The objective of this paper is to outline the dramatic changes in the Korean labor market after the financial crisis, and to evaluate, in a comprehensive manner, programs for income support and employment generation implemented by the Korean government to cope with the labor market turmoil.

The paper will be composed as follows. Following an introductory section, the second section examines briefly the labor market context of the economic crisis. Section 3 explains and assesses the Korean government's effort to cope with the

adverse shock in the labor market. Section 4 provides a summary and suggests implications for other Asian countries.

II. Economic Crisis and the Labor Market

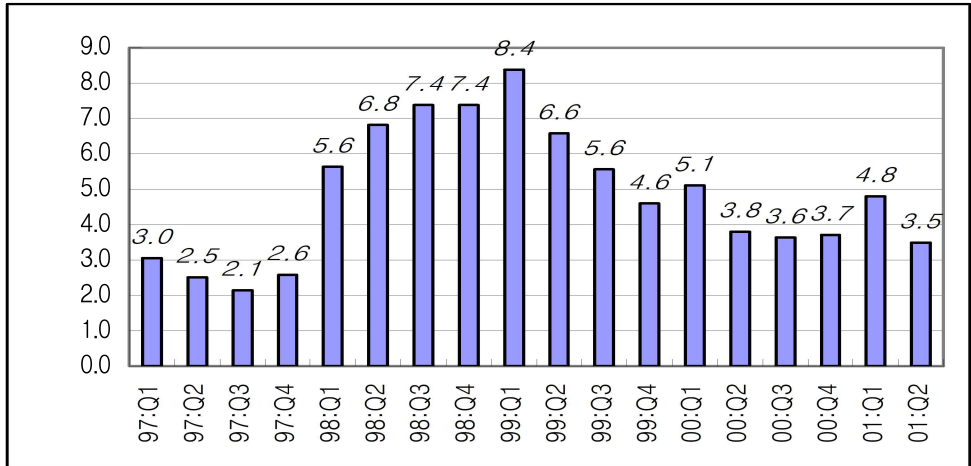
After being hit by adverse shocks, the Korean labor market fell into an unprecedented turmoil. The unemployment rate soared. Non-regular workers and workers with low levels of educational attainment suffered disproportionately. Jobs were made increasingly precarious and core disadvantaged groups in the Korean labor market experienced recurrent unemployment, even if they may not have fallen into the long-term unemployment trap. Wage differentials between low-end workers and others widened and the gap in income distribution increased significantly.

1. Increase in Involuntary Unemployment

Beginning in the fourth quarter of 1997, the unemployment rate soared until it reached 8.4 percent in the first quarter of 1999(Figure 1). Besides high unemployment, one of the outstanding features of the labor market was a substantial increase in involuntarily dismissed workers, in particular, those unemployed due to deteriorated business or end of contract. This was the single most prevalent reason for unemployment at the beginning of 1998 (29.7 percent). By mid-1998 the figure dramatically increased to 43.6 percent, with the number of involuntarily unemployed workers growing by tens of thousands per month (Table 1). The Ministry of Labor had to expand the capacity of public employment service (PES) agencies on a large scale in order to meet the rise in unemployment benefit claims. In fact, the number of claimants increased 8.6 times between 1997 and 1998. At that time, provision of labor market information or job matching services was less urgent than benefit payment.

Figure 1. Fluctuations in the Unemployment Rate

(Unit: %)



Source: National Statistical Office, *Report on the Economically Active Population Survey*, various issues.

<Table 1> Unemployment by Reason

(Unit: thousands, %)

	Jan. 1998	Jul. 1998	Jul. 1999	Jul. 2000
No. of Unemployed ¹⁾	669(100.0)	1,381(100.0)	1,029(100.0)	631(100.0)
Personal Reasons ²⁾	179 (26.8)	289 (20.9)	335 (32.6)	285 (45.2)
Closing of business	123 (18.4)	173 (12.5)	65 (6.3)	36 (5.7)
Dismissal	97 (14.5)	234 (16.9)	123 (12.0)	38 (6.0)
Business Deterioration/ End of Contract	199 (29.7)	602 (43.6)	306 (29.7)	175 (27.7)
Other Reasons ³⁾	71 (10.6)	83 (6.0)	199 (19.3)	98 (15.5)

Note : 1) Those who lost their job less than a year ago.

2) Includes personal or family-related reasons, retirement, dissatisfaction with working conditions and/or pay, etc.

3) Includes termination of temporary or seasonal work or projects.

Source: National Statistical Office, *Monthly Report on Economically Active Population Survey*, various issues.

2. Disproportionate Impact on Non-regular Employees and Workers with Low Levels of Education

Non-regular employees and workers with low levels of educational attainment suffered negative impacts from the economic crisis disproportionately. Workers with non-regular jobs and less education were a dominant group among the involuntarily unemployed. The unemployment rate of persons of low educational attainment (middle school education or below) almost quadrupled between 1997 and 1998(Table 2). The unemployment rate of high school graduates increased at a slower pace, but still reached a level two and a half times higher than the pre-crisis level.

Table 2. Unemployment Rate by Educational Level

	1995	1996	1997	1998	1999	2000
Unemployment Rate	2.0	2.0	2.6	6.8	6.3	4.1
By Educational Level						
Middle School or Below	1.1	1.1	1.5	5.8	5.2	3.2
High School	2.5	2.5	3.3	8.2	7.6	4.7
College and University or Above	2.7	2.6	3.0	5.7	5.3	3.9

Source: National Statistical Office, *Economically Active Population Survey* database.

During the period from 1998 to 2000, the annual average proportion of non-regular employees was approximately 50.4 percent of total wage workers. By contrast, unemployed non-regular employees accounted for 78.7 percent of unemployed wage workers (Table 3). Given this labor market situation, daily workers and many temporary workers were the ones who most needed a social safety net, but they were not covered by the EIS. Thus, ad hoc support programs such as various public works had to be implemented.

Table 3. Employed and Unemployed Workers by Type of Contract

(Unit: thousands, %)

	Employment			Unemployment by type of most recent contract held1)		
	1998	1999	2000	1998	1999	2000
Total Wage Workers	12,191 (100.0)	12,522 (100.0)	13,142 (100.0)	999 (100.0)	891 (100.0)	595 (100.0)
Regular	6,457 (53.0)	6,050 (48.3)	6,252 (47.6)	259 (26.0)	172 (19.3)	111 (18.6)
Temporary	3,998 (32.8)	4,183 (33.4)	4,511 (34.3)	397 (39.7)	337 (37.8)	246 (41.4)
Daily	1,735 (14.2)	2,289 (18.3)	2,378 (18.1)	343 (34.3)	382 (42.9)	238 (40.0)

Note: 1) Those who lost their job less than a year ago.

Source: National Statistical Office, *Economically Active Population Survey* database.

<Box 1> Classification of employees by status

Conventional analysis of the Korean labor market classifies employees into three disjoint categories: regular employees, temporary employees and daily employees. Statistically, regular employees are defined for operational purposes as employees whose employment contract spans, implicitly or explicitly, for a minimum of one year or more. Temporary employees are defined as employees who have an employment contract lasting between a month and a year. Daily employees are those whose contract period is less than a month.

In reality, however, the usage of these terms has nuances other than a simple demarcation by contract period. Temporary employees can be fixed term contract employees or project based employees. It is not rare that their employment period exceeds one year or is without any fixed term, as is the case with most part-time employees and dispatched employees. They are highly replaceable as their jobs do not require professional skills. Employers can freely dismiss them without offering any severance pay. The employer, regardless of regulations in law, is likely not to contribute a social insurance premium for them as their wage is considered to be inclusive of severance pay, social insurance premium, etc. In many cases, the employer does not keep their employment records so they cannot prove their employment career. Temporary employees are, in the usual sense, equivalent to

atypical or non-regular employees.

Daily employees can be viewed as a subset of temporary employees. They are paid daily wages and their employment is contingent on a well-defined project. The employment contract is terminated automatically when the project is completed, even if they remain under the same employer or *Shipjang*.¹⁾ They frequently move from one work place to another. Sometimes it is hard to distinguish them from the self-employed. When awarded an independent job such as house repair or petty construction, they frequently enter the contract collectively in a manner typical of a self-employed worker.

Regular employees are those whose employment contract period is not fixed. Their employment is stable. Their wage increases on the basis of seniority and they are most likely to have a predictable path of promotion. These workers are fully entitled to social insurance coverage as stipulated by law.

The National Statistical Office takes into consideration such conventional meanings when conducting its surveys. When it is difficult to distinguish if an employee is regular or temporary, whether or not he/she is expected to receive severance pay serves as an important criterion in the survey. If an employee is not expected to receive severance allowances from the employer, he/she is classified as a temporary employee even if the employment contract is without fixed term. If an employee is paid on a daily basis although he/she is expected to work more than a month in a workplace, he/she is classified as a daily worker.

3. Increase in Discouraged Youth and Unemployed Elderly Workers

As commonly observed in other countries, low-skilled youth proved the most vulnerable group in the midst of structural adjustment. With the outbreak of the crisis, firms froze recruitment, and tens of thousands of new graduates were left

1) *Shipjang* is an informal organizer in the manpower pool of the construction industry. The *Shipjang* is not an official title; nor is he an owner of a business. A *Shipjang* would normally conclude a contract with the construction company as an independent contractor to perform a certain construction phase. Traditionally, any experienced worker who is able to organize a group of craftsmen and workers in the construction industry can play a role as a *Shipjang* when he finds a small construction project.

jobless. Having searched for employment in vain, a significant number of those discouraged (in particular, young female graduates), withdrew themselves from the labor market.

Table 4. Unemployment Rate by Age Group

	(Unit: %)					
	1995	1996	1997	1998	1999	2000
Total Unemployment	2.0	2.0	2.6	6.8	6.3	4.1
By Age Group						
15-24	6.3	6.1	7.6	16.0	14.2	10.2
25-29	3.0	3.4	4.1	9.3	8.5	5.7
30-54	1.2	1.2	1.7	5.6	5.2	3.3
55 and Over	0.6	0.5	0.9	3.3	3.5	1.8

Source: National Statistical Office, *Economically Active Population Survey* database.

Firms not only halted recruitment but also turned to the so-called 'honorary' retirement program by providing severance pay incentives to those who voluntarily applied for early retirement. The unemployment rate among elderly workers (55 and over), although lower than the general unemployment rate, abruptly increased from 0.9 percent in 1997 to 3.3 percent in 1998. This rate further increased in 1999 when unemployment levels fell for all other age groups. (Table 4).

4. Increasing Precariousness of Jobs

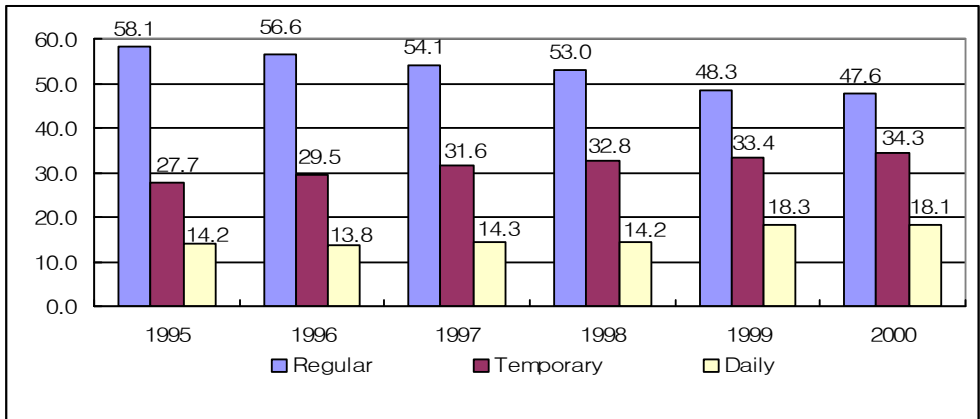
The proportion of employees holding regular contracts stood at 54.1 percent in 1997 and continued to decrease, reaching 47.6 percent in 2000. Over the same period, the proportion of temporary and daily employees rose correspondingly (Figure 2). Increasing trends in non-regular employment was observed even before the crisis, although the crisis appears to have accelerated the phenomenon.

<Figure 2> indicates that a large proportion of employment was transformed into unstable non-regular jobs. Even with the ensuing economic recovery, the trend was neither reversed nor diminished (Table 3). Between 1998 and 2000, the

unemployment rate decreased from 6.8 percent to 4.1 percent and the number of persons employed rose by 0.95 million (7.8 percent increase). But the number of regular employees declined by 0.21 million (3.2 percent decrease), while temporary and daily employees grew by 0.51 million (12.8 percent increase) and 0.64 million (37.1 percent increase), respectively. Hence, the economic recovery does not seem to have reduced the increasing vulnerability of jobs.

Figure 2. Share of Temporary and Daily Employees

(Unit: % of total wage workers)



Source: National Statistical Office, *Economically Active Population Survey* database.

5. Recurrent Unemployment

The proportion of long-term unemployed (out of work for 6 months or more) steeply increased month after month from 5.7 percent in the first quarter of 1998 to 20.0 percent by the fourth quarter of 1998. Unemployment dropped to approximately 14 percent in 2000, which was lower than the pre-crisis level, having shown a steep increase only from third quarter 1998 to third quarter 1999. Long-term unemployment (more than 12 months) showed a similar trend, increasing from 0.7 percent in the first quarter of 1998 to 4.1 percent by the second quarter of 1999, and it now hovers around the pre-crisis level.

Contrary to the prediction of some economists immediately after the crisis (for

example, Shin, 1999a), the cumulative effect of high unemployment did not lead to perpetuation of long-term unemployment. Monthly average outflow from unemployment to employment was a considerable 21.2 percent and remained very stable throughout 1998 amidst unfavorable labor market conditions (Shin, 1999b).

A large portion of workers with precarious employment status proved to have experienced short employment and unemployment spans. About a third of those who were unemployed from January 1998 to June 1999 were found to have undergone recurrent unemployment (Lee, 2000). Among non-regular employees, 77.5 percent experienced unemployment more than twice during this 18-month span. The most disadvantaged groups in the Korean labor market did not fall into the long-term unemployment trap, but rather, fell into a recurrent unemployment trap. This trait would explain why the proportion of long-term unemployed is relatively small compared to that of European and North American countries in similar economic conditions.

6. Aggravation of Income Distribution

The cumulative growth rate of workers' remuneration since 1997 recorded in national accounts is 8.9 percent, while the Wage Structure Survey conducted by the Ministry of Labor shows the cumulative wage growth rate to be 23.3 percent (Table 5).²⁾ This discrepancy indicates that non-regular employees and those in small business firms experienced disproportionate wage increases since 1997.

After the financial crisis, the Gini coefficient drastically increased to 0.316 and has not fallen below that mark since. The average value of Gini coefficients during the period from 1998 to 2000 is 12.1 percent higher than the 1997 level, which shows that income distribution sharply deteriorated following the financial crisis (Figure 3). Recent work by Jeong et al. (2001) confirms that the aggravation of income distribution results from the reduction of low-income

2) Employee compensation in the National Accounts represent the total compensation of all the employees in the economy, while the Ministry of Labor's *Survey on Wage Structure* shows the wage evolution of those workers in establishments with at least 10 (till 1998) or 5 employees (since 1999)

earners' wages rather than from a fall in wages earned by middle-income households.

Table 5. Wage Growth Rates

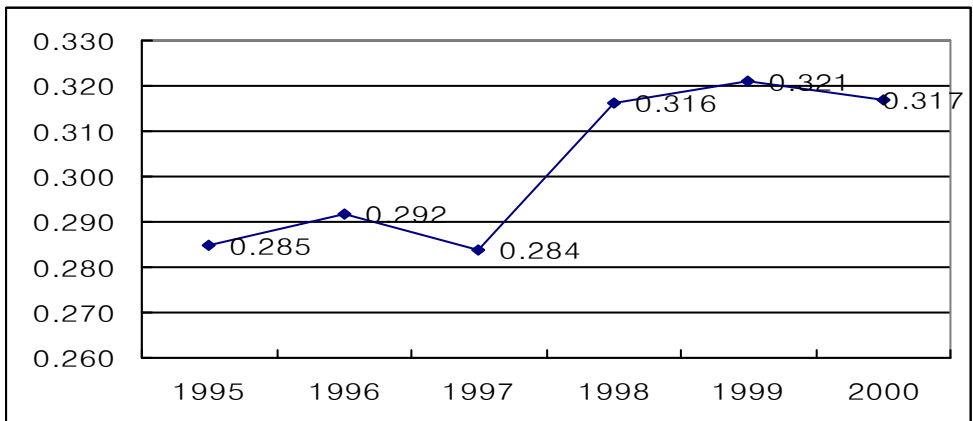
	1995	1996	1997	1998	1999	2000
Growth Rate of Employee Compensation ¹⁾ (%)	14.0	10.6	3.3	1.9	1.9	1.8
Growth Rate of Wage ²⁾ (%)	10.6	11.2	6.8	-2.5	11.4	7.7

Note: 1) Based on employee compensation in the National Accounts.

2) Based on the Wage Structure Survey for firms with at least 5 employees.

Source: Bank of Korea, *National Accounts*; Ministry of Labor, *Survey Report on Wage Structure*.

Figure 3. Evolution of the Gini Coefficient



Source: National Statistical Office, *Family Income and Expenditure Survey*.

III. Income Support and Employment Generating Measures

Faced with high and increasing unemployment, the Korean government administered various strong measures to alleviate the adverse impact of the crisis

on the labor market. The measures taken by the government can be classified into five categories: (1) Income support, (2) job creation, (3) training for reemployment, (4) job retention, and (5) public employment service (PES) and labor market information (LMI) systems.

To implement income support and employment generating measures, The Korean government allocated 10.1 trillion won in 1998, 15.8 trillion won in 1999 and 6.7 trillion won in 2000 respectively in income support and employment generating measures. Of these, expenditures on assistance to unemployed workerstotaled 5.3 trillion won in 1998, 7.5 trillion won in 1999 and 5.0 trillion won in 2000 respectively. Measures other than supporting the unemployed included SOC investments, support for venture firms and SMEs, etc. Approximately 1.2% of GDP has been spent on average for the diverse income and employment generating policy programs during the three consecutive years after the crisis (Table 6).

Table 6. Expenditure and Beneficiaries of Income/Employment Generating Measures

(Unit: billion won, thousand persons)

	1998		1999		2000	
	Expenditure	Beneficiaries	Expenditure	Beneficiaries	Expenditure	Beneficiaries
Total (% of GDP)	5,332 (1.2)	4,302	7,454 (1.5)	5,744	5,024 (1.0)	3,616
(1) Income Support	3,518	2,697	4,298	3,153	2,922	2,063
(2) Public Works Program	925	438	2,327	1,525	1,529	886
(3) Training for Reemployment	715	386	556	399	368	222
(4) Employment Subsidies	113	781	203	667	133	445
(5) PES & LMI System	61	-	70	-	72	-

Source: Ministry of Labor

1. Income Support

As a consequence of the harsh economic recession and increasing rate of unemployment, poverty among the jobless and low-income families emerged as an important social issue that needed immediate attention. Income support programs were implemented in two directions. Firstly, in order that the Employment Insurance System (EIS) could care for as many unemployed as possible, the coverage of EIS was extended, qualification requirements were relaxed, and UI beneficiaries were given extra benefit days of up to 60 days. Secondly, unemployed workers with low income were given credit or income support in the form of loans for living expenses (including family medical and educational expenses), and other benefits from public aid.

1) Unemployment Benefits

In July 1995, before the financial crisis, Korea put into place an employment insurance system (EIS). The three components of this system are traditional unemployment insurance (UI), job training, and employment maintenance & promotion subsidies.³⁾

When EIS was first introduced, the coverage of UI was limited to workers employed at firms with at least 30 employees. Faced with increasing unemployment and wide-spread vulnerability of low-wage workers at small sized firms, it was deemed that an extension of UI coverage was critical in expanding social protection to the unemployed. Thus, the Korean government extended the coverage of UI to firms with at least 10 employees (January, 1998), then to enterprises with at least 5 employees (March, 1998), and subsequently to all establishments with at least one employee (in October, 1998). After the three consecutive amendments of the Employment Insurance Law in 1998, only those

3) The Korean EIS has three pillars: Employment Maintenance and Promotion Pillar, Job Training Pillar, and Unemployment Insurance Pillar. See Yoo(2000) for more details of the Korean EIS structure.

part-time workers working less than 80 hours a month and daily employees employed less than a month remained legitimately excluded from EIS coverage.

Table 7. Extension of EIS Coverage

Date	Unemployment Insurance	Job Retention and Occupational Training
July 1, 1995	30 employees	70 employees
January 1, 1998	10 employees	50 employees
March 1, 1998	5 employees	50 employees
July 1, 1998	5 employees	5 employees
October 1, 1998	1 employee	1 employee

Source: Ministry of Labor (2000), *White Paper on Employment Insurance*, Seoul.

Extending EIS coverage had very limited effect in protecting the unemployed because the simple fact of being insured was not enough to be eligible for UI benefit. Under the initial regulation, one must be involuntarily dismissed after having contributed insurance premium for more than 12 months out of the last 18 months of employment. Such requirements made it difficult for temporary workers and other workers of unstable employment status to be entitled to UI benefits. In order to assist the target group workers the government eased eligibility conditions, which included relaxing the minimum contribution requirements from 12 months out of the last 18 months worked to 180 days out of the last 12 months worked.

The period over which an unemployed worker is entitled to UI benefits depends on the insured employment period and the age of the claimant. At the initial implementing stage, this period ranged between a minimum of 60 days and a maximum of 210 days. Under such provisions, because Korea's EIS was implemented only on July 1, 1995, the insured period of employees could not exceed five years. Hence the actual duration of UI benefit could not go beyond 150 days for any worker until June 30, 2000.

Given the limited duration of benefits under the existing system and unprecedented insecurities in the labor market, the government implemented an

extension of benefits starting from July 1998 so that those who qualified could receive up to 60 days longer than those given by the matrix of benefit duration. Also, the range of the duration of benefits has changed from a minimum of 60 to a maximum of 210 days to that of 90 to 240 days from January 2000. Thus the average duration an unemployed worker received benefits under the UI increased to 126 days in 1999, compared to 85 days in 1997 and 91 days in 1998.

Despite government efforts to extend coverage, relax eligibility criteria and lengthen the duration of benefit payments, the number of beneficiaries under the UI system is still too small a fragment of total unemployed persons for the UI to be considered the primary safety net against unemployment. In 1999, the beneficiary ratio was 10.7%, which is considerably lower than that of any other OECD country (Table 10).

Five reasons can be attributed to the low beneficiary ratio. The first reason is that wage workers account for only 62.4% of total employment and the UI, by nature, does not cover non-wage workers (the difference between A and B in Table 9).

Table 8. Ratio of UI Beneficiaries relative to Total Unemployed Workers

(Unit: thousand persons, %)

Country	Unemployed (A)	Beneficiaries (B)	B/A * 100
Germany (1990)	1,971	858	43.5
Japan (1992)	1,420	395	27.8
Korea (1999)	1,353	145	10.7
U.S.A. (1990)	6,874	2,475	36.0
U.K. (1993)	2,900	870	30.0

Source: *Monthly Report on Economically Active Population Survey* and *Monthly Statistics of Employment Insurance* for Korea, and Phang (1999) for other countries.

The second reason is that the compliance rate is low. This shortcoming comes from two different origins. Daily employees who work less than a month in a firm are legitimately excluded from the coverage of EIS (a considerable part of the difference between B and C in Table 9). Also, all legally insurable employees are not currently covered because of the disincentive for frequent

turnover of non-regular employees, regular worker-oriented burdens such as the declaration process and filing of administrative forms, limited administrative capacity, and informal characteristics of economic agents in the labor market (Hur, 2001; Hur and Yoo, 2001). As of Dec. 2000, the compliance rate is only 73.4%, which means that there is a large gap between coverage *de jure* and coverage *de facto* (the difference between C and D in Table 9). Many temporary and daily employees are still excluded from the coverage of UI and remain outside the walls of protection.

Table 9. Compliance Rate of EIS (December 2000)

(Unit: thousand persons, %)

Employment (A)	Employees (B)	Eligible employees (C)	Insured employees (D)	(D/A)× 100	(D/B)× 100	(D/C)× 100
20,857	13,265	9,190	6,747	32.3	50.9	73.4

Source: Calculation by the author based on *Economically Active Population Survey*, *Economically Active Population Survey* database and *Monthly Statistics of Employment Insurance*.

The third reason is that actual benefit duration is limited because the benefit duration matrix depends on the insured employment period whereas the EIS has only been in existence for 6 years.

The fourth reason is that the eligibility criteria for UI benefits are strict, in particular, the criteria judging whether or not a claimant is involuntarily unemployed. Workers who quit their jobs without justifiable reasons are generally regarded as voluntary unemployed and are not eligible for benefits even though they remain unemployed. This requirement is much stricter than most countries except for a few such as the U.S., Czech Republic, and Spain (OECD, 2000a).

The fifth reason is that there is a considerable number of white-collar unemployed who feel shameful about presenting themselves at the Employment Security Center to receive unemployment benefits.

2) Livelihood Protection for the Poor

As UI could not extend effective protection to large pockets of the jobless in the face of mass unemployment, alleviating poverty for the unemployed had to be addressed with different measures in the context of livelihood protection for the poor. The preexisting livelihood protection scheme, based on the Livelihood Protection Act enacted in 1961, had provided income support for those whose monthly income was below 230,000 won. In 1997, about 1.2 million people were protected under this scheme. However, cash allowances were paid only to those who were judged physically unable to work (disabled, sick, aged, etc) and had no income. For all others who possessed working ability, living allowances were given only in kind or in the form of service such as food, free education for children, medical protection, etc. Among the 1.2 million beneficiaries, less than half of them were entitled to living allowances in cash.

With the advent of the crisis, the government introduced the Temporary Livelihood Protection scheme in March 1998 targeting the unemployed poor who were not qualified for benefits under the UI nor the livelihood protection scheme. The temporary livelihood scheme included long-term low-interest loans as well as support for housing, medical and educational expenditure.

The Temporary Livelihood Protection scheme distinguished itself from the preexisting livelihood protection scheme in that it relaxed the criterion for eligibility. Those who possessed property worth less than 44 million won, instead of previously 29 million won, could qualify for the scheme. In this way, approximately 0.3 million unemployed people benefited from the temporary livelihood protection scheme in 1998.

The temporary livelihood protection scheme, however, was still too restrictive in terms of coverage and benefit to be a substitute for unemployment benefit. For example, a household of four was eligible for 250 thousand won per month, while estimated minimum monthly living expenses for a household of four at the time was approximately 880 thousand won. Although the Korean government developed diverse social safety nets for the unemployed after the crisis, the

absolute assistance level was low in light of basic living standards.

Consequently, the government revised the Livelihood Protection Law into the National Minimum Living Standards Act (MLS Act) in 1999, aiming to guarantee a minimum standard of living for all people regardless of their capacity to work. The MLS Act became effective from October 1st, 2000. As of 2001, MLS Act covers 640 thousand households or approximately 1.5 million beneficiaries. Conditions for eligibility in case of a household of four⁴⁾ is that i) monthly income is less than 956 thousand won; ii) total assets in the household is less than 32 million won; and iii) there must not be any supporting family members outside of the household. The criterion for minimum monthly income is revised every year. Compared to the 2000 level, the critical income level increased by 3% from 930 thousand to 956 thousand won. The total budget of the MLS scheme amounts to 2.7 trillion won.

There are two kinds of beneficiaries. The first is unconditional beneficiaries who are incapable of working. For this group, benefit under the MLS is given without any condition other than income, wealth, and supporting family criteria. The other is conditional beneficiaries who are able to work. They are given benefits conditionally on his/her participation in self-support programs offered by government such as public works, training, etc. to avoid possible lock-in effect.

2. Job Creation

Measures for job creation included (a) creating new jobs by supporting and subsidizing new business start-ups, and (b) providing temporary or relief work for unemployed workers such as the public works program.

To create new jobs by financially supporting new business start-ups, privileged financial credit was provided for starting small business firms and venture enterprises with good business plans. Newly starting small firms and venture

4) Eligibility criteria for different family sizes are given in the following table.

No. of family members (persons)	1	2	3	4	5	6
Income (thousand won)	334	553	760	956	1,087	1,227
Asset (million won)	29	29	32	32	36	36

enterprises were exempt from acquisition and registration taxes. The government expanded public SOC investment, which had a large employment-generating effect.

Public works projects (PWP) and internship programs were introduced on a large scale to alleviate rapidly increasing unemployment and poverty because preexisting safety nets provided more holes than protection. PWP targeted unemployed men and women with low income as well as new entrants to the labor market who failed to find a job. In this way PWP achieved two policy objectives: creation of temporary job opportunities enabling job seekers to maintain their connection with the labor market, and protection of the basic livelihood of the unemployed.

The PWP operated on a unit period of three months. They were implemented in two unit periods in 1998 and in four unit periods in 1999 and 2000. An eligible person could participate in a maximum of 3 unit periods. Between consecutive periods a 10-day break was given to the participants. Although designed primarily for male household heads, the projects also attracted many female workers who were excluded from other job opportunities. At later stages, female household heads were given higher priority.

PWP were classified into the central government's projects and local governments' projects. Local governments and ministries of the central government were allowed to propose various PWP. Various database-building and public service projects were undertaken⁵⁾ as follows: forestation, construction of cyber libraries, on-site monitoring of unemployment policy programs, restoration and maintenance of social welfare facilities and public facilities, etc.

Different selection criteria were applied depending on the characteristics of the projects. Candidates for projects administered by local governments were screened according to scores gained from the following criteria: age (10), head of household (10), number of dependents (15), property ownership (20), household income (10), female head of household (5), handicapped (5), duration of unemployment (10), and participation in previous public works projects (10).

5) See Lee and Kim (2000) for more details.

In principle, participants for PWPs had to be from 18 to 60 years old. Eligible persons were either unemployed, daily workers without regular income, or verified as homeless by the administrative agencies or organizations. Recipients of unemployment benefits were not permitted to participate in PWPs regardless of the size of benefits received. However, spouses of those who received less than 300,000 won of unemployment benefits were eligible for public works. The daily wage rate for participants depended on the type and difficulty of work.

The expenditure on PWPs amounted to 0.9 trillion won in 1998, 2.3 trillion won in 1999 and 1.3 trillion won in 2000 (Table 6), and in total, approximately 2.8 million people participated in PWPs since it first started in May, 1998. Participants worked an average of less than 5 months in the programs. On average, 0.4 million participants engaged in PWP projects per month.

The PWPs proved to be a more effective unemployment measure than expected. They provided earnings opportunities both to low income families and unemployed people who urgently needed social protection. More than 50% of the unemployed were found to have participated in the PWPs (Lee and Kim, 2000). The majority of participants belonged to disadvantaged groups such as low-skilled workers and men and women with low educational attainment, former non-regular workers, women and elderly workers who were excluded from other institutionalized unemployment measures such as UI benefits and loan schemes. Wage levels under the PWPs were substantially lower than that of previous jobs the participants held. Participants expressed satisfaction regarding the management and outcomes of the PWPs, except for the wage level and the duration of the program. They wanted the programs to be continued and preferred the PWPs to unemployment assistance (Lee and Kim, 2000). PWPs were thus found to be more effective than expected in providing income support for the unemployed as well as for other low-income families.

Monitoring results by the special task force installed in the Korea Labor Institute and comments made by various policy advisory groups were reflected almost immediately during program implementation. In the beginning, the wage level ranged from 22,000 won to 35,000 won a day, which was far higher than the minimum wage. Hence concerns were raised that the PWPs could exert a

negative impact on the low-end tier of the labor market. Responding to advisory groups' opinions, the government cut the daily wage rate by 3,000 won on October 1, 1998, and further by 3,000 won in 1999. The final PWP wage levels ranged from 19,000 won to 29,000 won per day.

PWPs were not without shortfalls. In the early stages, the program lacked appropriate screening mechanisms. Monitoring found that some well-off people benefited from the program while many poor unemployed people were excluded. Disadvantaged participants had a tendency to be dependent upon the PWPs perennially. Those who feared underemployment as the only way out of unemployment preferred to participate in public works projects, and doing so, fell into an artificial unemployment trap (Lee and Kim, 2000). A kind of employment illusion was confirmed. Some participants resisted to discontinuation of programs and requested employment security.

The Korean government has reduced the scale of public works since 2000 as the labor market situation improved. Part of the PWPs were combined with job training to constitute self-support programs which accompanied the MLS Act.

3. Job Training for Reemployment

The Job Training for Reemployment program aimed to enhance the occupational skills of the unemployed through training and retraining. Training opportunities for new graduates were also provided at colleges and universities.

Since the outbreak of the economic crisis, the government set up training programs available to the unemployed. In 1998, about 0.39 million unemployed men and women, or approximately eight times as many as those in the preceding year, participated in and benefited from various government-sponsored job training programs. Total expenditure on job training amounted to 7.2 billion won. In 1999, the Ministry of Labor provided job training opportunities for a little less than 0.4 million unemployed workers with a budget of 5.6 billion won.

Unemployed workers who had worked at the firms covered by EIS could apply for the reemployment training programs. They then received training allowances which lasted from one month to one year, up to three times, until they found a

new job. Training allowances were cut in half upon registering in a second training course and reduced to zero for the third training course.

Training allowances were 200-300 thousand won (equivalent to 60-90% of the minimum wage). Trainees could receive an additional bonus for enrolling in skills development courses for shunned jobs where there was a labor shortage. Similar training opportunities, financed by general government budget, were given to the unemployed who had not been insured by the EIS. Therefore, substantial opportunities for job training were provided to the majority of unemployed workers.

Job training programs provided the unemployed with opportunities for training and at the same time the training allowances helped alleviate their economic difficulties. In other words, apart from the proper purpose of job training, training programs served as a social safety net. Those unemployed who could not receive cash benefits participated in job training programs and received training allowances.

However, a proliferation of training programs with loose regulation and without appropriate monitoring and inspection led to moral hazards in some training institutions and trainees. Some unqualified training institutions took advantage of training programs and provided time killing courses to receive government reimbursements, limiting the effectiveness of training programs. Also, some trainees were more interested in being paid training allowances instead of acquiring skills.

An underdeveloped labor market information system and lack of experts to manage the training programs tended to limit the effectiveness of training programs. Training institutions and programs were accredited based solely upon the preexistence of equipment, facilities, and other physical conditions. Little consideration was given either to changing labor market demands or to potential participants' needs. Training institutions routinely provided the same training programs to the unemployed as they had previously conducted. As a result, some training programs were of no significant help to trainees' reemployment. As of October 2000, the reemployment rate of the training participants was 32.5%, a much lower rate than that of other countries with similar programs.

Lee and Kang (1999) identify factors that underlie the low reemployment rate. Firstly, the number of trainees increased rapidly while labor demand was still low during the economic crisis. Secondly, the quality of training programs did not match the growth in quantity. Thirdly, training contents were not suited to changing labor demands. And fourthly, the PES had hardly any capacity to reintegrate the participants into the labor market.

4. Job Retention and Employment Promotion for disadvantaged groups

Measures for job retention consisted of two categories of programs. The one was to help firms at difficulty, and the other was to provide incentives to firms facing managerial difficulties in order to turn them away from resorting to dismissals.

The government provided viable small-to-medium size firms (SMEs) with credit guarantees and bailout credits to protect them from bankruptcy. The capital of the Credit Guarantee Fund was increased so that more credits could be given to SMEs. Banks were asked to evaluate the viability of SMEs and offer appropriate credits.

Subsidy programs were implemented through the Employment Maintenance & Promotion Pillar of EIS. Employment maintenance subsidies intended to minimize employment adjustments through dismissals by providing wage subsidies to firms that made efforts to avoid dismissing redundant workers. To be subsidized, a firm must be able to show that employment reduction was inevitable for managerial reasons. Subsidies were provided upon condition that the eligible firm adopt the following practices: (1) temporary shut-down, (2) reduction of working hours, (3) provision of training to redundant workers, (4) provision of paid or unpaid leave, (5) dispatch or reassignment of workers. The government reimbursed firms from one half to two thirds (depending on the size of the firm) of total wages paid to workers for a period of up to six months.

The requirements of employment retention subsidies were relaxed during the crisis and the assistance level was increased to provide more incentives and to

cover more firms and workers. In 1998, a total of 74.2 billion won was paid for the retention of about 0.7 million jobs while in 1999, 79.2 billion won was spent for a total number of 0.4 million workers. As the labor market situation improved, expenditures under the job retention program decreased to 29.3 billion won covering 0.15 million beneficiaries (Table 10).

Table 10. EIS Employment Subsidies

(Unit: million won, persons)

	1998		1999		2000	
	Expenditure	Beneficiaries	Expenditure	Beneficiaries	Expenditure	Beneficiaries
Job retention Subsidies	74,223	654,375	79,197	369,591	29,297	148,246
Hiring Subsidies	5,878	169	75,888	101,550	42,204	63,407
Employment Promotion Subsidies	16,186	120,721	29,149	198,783	42,148	233,426
Total	96,287	775,265	184,234	669,924	113,649	445,079

Note: 1) Total expenditures and total number of beneficiaries in this table are somewhat different from those in <Table 6> because the criteria for aggregation were different between the data sources.

2) Similarly in <Table 6>, expenditures do not include credit guarantees for the self-employed, SMEs, etc

Source: Central Employment Information Office, *Monthly Statistics of Employment Insurance*, various issues.

Subsidy programs were first criticized by some economists on the ground that they could hamper or delay 'the structural adjustment' of the economy by subsidizing marginal firms which had lost competitiveness in the market. However, subsidized firms were not necessarily unprofitable firms destined to end in bankruptcy. Sound firms could face temporary difficulties in cash flow in the midst of financial crisis where financial institutions did not function appropriately. In addition, since firms were free to decide whether to make use of subsidy programs or dismiss redundant workers, there were no *a priori* reasons to believe that the subsidy programs prevented firms from restructuring. In practice, according to Hwang (1999), firms with good human resources tended to utilize

the job retention subsidies. Thus the programs remained an important tool for labor market policy.

Nevertheless, the contribution of the employment subsidy in reducing unemployment should not be exaggerated. The number of workers who benefited from the program was on average around 25,000 per month in 1998-99. Kim et al. (1999) analyze the job retention effects of employment subsidy programs using employer surveys as well as case studies. The estimated effect was 22.3% on average, which implied that deadweight loss was in the 70% range. According to the assessment of PES staff and monitoring reports, deadweight loss and substitution effects of the 'grants to promote employment of displaced workers' were substantial (Hwang, 1999; Kim et al, 2000).

The subsidy program worked not so much as an incentive but as a compensation. It is costly, if not difficult, for the labor administration to determine whether or not the firm applying for wage subsidy program is in such a situation that employment reduction is inevitable. When a business is indeed in a precarious situation, wage subsidy programs, in most cases, would not be effective as an incentive to induce firms to retain redundant workers. Also, large-sized firms are in a better position to utilize the employment maintenance subsidy programs because, on the one hand, the application procedures are too complicated for small-sized firms and, on the other hand, small firms usually do not have enough resources to place workers on reserve. In sum, job retention subsidy programs seem to have contributed to compensating large firms that suffered involuntarily labor slack.

The other two subsidy programs in the Employment Maintenance & Promotion Pillar of EIS are hiring subsidies and employment promotion subsidies. Hiring subsidies and employment promotion subsidies had the purpose of favoring disadvantaged workers of the labor market such as those dismissed involuntarily, elderly workers, female workers, female household heads, and the long-term unemployed.

5. Public Employment Services and Labor Market Information System

Faced with the sudden influx of unemployment benefit claimants, the number of PES staff fell far short of even tackling the sole task of paying UI benefits. It was deemed urgent to immediately expand the capacity of public employment service (PES) for the purposes of making benefit payments and administering other employment generating programs.

Table 11. Changes in the Number of PES Agencies and Staff

(Unit: offices, persons)

Year	1997.12	1998.12	1999.12	2000.12
Offices	52	134	144	149
Staff	141	1,296	1,825	2,436

Note: For the benefit of consistency, only counselors were counted as staff.

Source: Ministry of Labor.

The government increased dramatically the number of PES agencies from 52 to 149 and the number of PES counselors from 141 to 1,919 between 1997 and 2000 (Table 11).

To improve the quality of employment services and to promote a user-friendly environment, the government combined in 1998 the employment insurance division and the job information service division of local labor offices into PES centers called Employment Security Centers. These centers were based on the concept of One-Stop Service to provide job seekers with information on job vacancies and job training and conduct UI benefit payment services at the same place. The government also eased regulations overseeing private job brokerage firms and strengthened its support to trade unions' and employers' organizations in providing free job placement services.

Although one may marvel at the progress that the Korean PES has made during the three consecutive years after the economic crisis, the capacity of the

Korean PES still remains insufficient to play an active role in meeting labor market needs. Rather, it has made the government realize future policy tasks required to effectively meet the demands of job searchers via the PES. For example, strengthening 'counseling' services in a proper sense based on improvement of counselors' expertise, development of a new occupational classification system that will serve more effectively in job matching, collaboration with private sector employment service agencies, etc. are some of the remaining areas to be addressed.

One way to evaluate PES capacity is to look at the ratio of workers in the labor force to PES staff. For example, Germany's PES has a ratio of 450 workers per PES staff, while that of Sweden and the United Kingdom are 403 and 882, respectively. Each of these countries' PES has a relatively high capacity level. In contrast, an average Korean PES staff has to deliver service to 9,011 workers (Table 12).

Table 12. Composition of the Employment Service Agencies and Staff
(unit: agencies, persons)

	1997	2000
Local Labor Office	46	-
Employment Security Center	3	126
Manpower Bank	3	7
Employment Service Center For daily workers	-	16
Total PES agencies	52	149
No. of Staff	141	2,436

Note: 1) PES agencies and staff of the central government only

2) The Manpower Bank is a PES agency jointly invested and managed by the Ministry of Labor and local governments. It specializes in job-matching and job counseling, but does not deal with UI benefit related services.

Source: Ministry of Labor.

It would be impossible for Korean PES to envisage offering the range or depth of programs and services offered by the German, Swedish, American or British PES mechanisms unless there is a substantial increase in funding and staff (for a more detailed evaluation about Korean PES, see Hunter, 2000).

Table 13. The Number of Public Employment Service Agencies and Staff
(Unit: agencies, persons)

Country	No. of Agencies	No. of PES Staff	No. of Labor Force Participants per PES Staff	No of Employed Workers per PES Staff
Germany	841	87,570	450	364
Japan	666	15,290	4,388	3,445
Korea	149	2,436	9,011	5,395
Sweden	570	11,000	403	339
United Kingdom	1,159	33,000	882	711
USA	2,538	71,378	1,953	1,717

Source: Calculation by the author based on Ministry of Labor's internal document and KLI Foreign Labor Statistics.

The government launched an electronic labor market information system in May 1999, called Work-Net by benchmarking Canada's WorkInfoNet. Work-Net, accessible from the Internet, provides various information such as job vacancies, job training programs, career guidance information, employment policies, services related to employment insurance, labor market statistics, and labor laws. Almost all job vacancies registered in public employment agencies can be searched in Work-Net unless employers refuse to let the information be uploaded. The government is planning a number of improvements to make it more effective and easier to use such as increasing access speed and introducing more user-friendly interface, developing job vacancy information based on a new occupational classification, providing detailed information on labor market trends, employment outlook and wages, etc. Nevertheless it will take time and additional resources to expedite such improvements.

IV. Summary and Implications for Other Asian Countries

Hit by adverse shocks, the Korean labor market fell into an unprecedented period of turmoil. Hundreds of firms went bankrupt on a daily basis and unemployment soared. Moreover, non-regular workers and workers with low educational attainment suffered disproportionately. Jobs were increasingly insecure and the hard-core disadvantaged group in the Korean labor market experienced recurrent unemployment, even if they did not fall into the long-term unemployment trap. Low-income families faced even sharper declines in earnings. For these groups, wage increases were small and far in between even as the economy eventually recovered.

The initiatives of the Korean government to alleviate the adverse impacts of the crisis on the labor market can be classified into five categories: (1) income support, (2) job creation, (3) training for reemployment, (4) job retention and (5) public employment service and labor market information systems.

Despite government efforts, the nation's social safety net showed more holes than protection. In 1999, there were 35.8 million Koreans aged 15 and over. The average number of unemployed men and women in any given month was 1.4 million. Yet, in a typical month, just 0.15 million received unemployment benefits and 0.3 million participated in public works programs. 0.3 million unemployed Koreans received Livelihood Protection benefits at some time during 1999. Taken together, about 0.8 million unemployed (56% of the unemployed) were covered by government assistance programs. This means that important labor market and social problems remain, calling for additional policy considerations.

As of December 2000, there were 13.2 million employees in the Korean labor market. Of these, only 6.7 million employees (50.9 percent of employees) were in jobs that would qualify them for UI benefits in the event of unemployment. The gap in coverage comes mainly from two sources: employees who are

supposed to be covered but are not, and employees legitimately excluded under the present law.

Thus, one of major problems with Korea's unemployment insurance system is that even if Korea has expanded coverage of UI to all firms regardless of their size, coverage remains quite incomplete. The main obstacle to covering temporary and daily workers, who are the main source of the gap, is that there does not exist any means of certifying their past employment. In order to overcome this, the employment record-keeping system as well as regulations on tax declarations should be reformed (Hur, 2000).

During the crisis, the Korean government tackled mass unemployment problems with temporary measures such as large-scale public works projects, which were inevitable because unemployment and poverty took a sharp hike and pre-existing safety nets were insufficient to ease the fallout. Public works programs have been effective as temporary measures for providing income and employment during the economic crisis.

Meanwhile, the need for *ad hoc* unemployment measures is diminishing as the labor market situation improves, and a part of them have been integrated into self-support programs of the Minimum Living Standards Act. Redesigning and strengthening the self-support programs with the participation of local governments is another task that needs to be undertaken.

Improving the training system is yet another important issue to be addressed. Training allowances helped alleviate economic difficulties of trainees who were not able to receive other cash benefits or participate in public works programs. But job-training programs for reemployment should provide more retraining opportunities than income assistance for the unemployed. The restructuring triggered by the crisis continues and structural adjustments in both the private and public sectors, as well as worldwide trends such as technological change and globalization, are affecting the labor market. The extent of traditional employment relations based on seniority is dwindling and external labor market is rapidly developing in Korea. Firms have less incentive than before to train employees who may soon leave for other firms. The labor market changes seem to claim the training system to allow more initiatives to workers than to training

service-providers or firms.

The capacity of the PES has been expanded quantitatively during the economic crisis. Nevertheless, counseling services and the quality of the labor market information system still leave much room for improvement. Counselors do not spend much time in actual in-depth counseling. Rather, they are occupied with such activities as registration of workers' records, recording job vacancies, and processing unemployment benefit claims of workers and subsidy claims of firms. As the PES gave top priority to processing UI benefit claims rather than job matching, most job matching is now handled by private sector agencies and takes place on web-sites of private dot-com companies. In the future, Work-Net will enable job-matching services with relatively little staff involvement. Now that the labor market has been stabilized, counseling should play a greater role through systematic counseling. The PES should improve the labor market information service by undertaking a blanket revision of the occupational classification system to reflect changes in the labor market.

Besides the long-term policy requirements necessary for Korea to develop a more systematic and comprehensive social protection system, other Asian countries could draw the following lessons from the Korean experience.

PWPs and job training programs for reemployment have been effective as temporary measures for providing income, employment, and retraining opportunities during economic crisis. But the cost of implementing hastily designed programs cannot be overlooked. Monitoring and evaluating task forces should be established at the local as well as the central level to minimize leakage to non-target groups and prevent moral hazards in participants.

Overall PWP structures can be well planned and directed by the central government. However, individual programs can be better designed with the participation of as many ministries, local communities and NGOs as possible. Local communities have a natural advantage in discerning potential beneficiaries of PWPs so it is important to involve them in the decision making process relating to PWPs.

The implementation of PWPs, carried out at local levels, tend to be constrained if only the budget for participants' wages are financed. Without appropriate

supply of intermediary goods, the allocated budget can be underused or used for less productive programs. Korea is redesigning PWP as a more permanent safety net program by integrating these projects to self-support programs under the Minimum Living Standards Act. Similar exercises of redesigning PWP can be undertaken in other countries. Integrating PWP with local development programs can be an option. The central government can finance wages and local governments can provide intermediary goods or materials to create productive assets under PWP.

In fact, the contribution of UI has been very limited in securing the livelihood of the unemployed. Of the four main social insurance systems in Korea, people usually place the least importance on UI. However, despite the limited effectiveness of the UI compared to other social insurance programs, UI requires the most refined employment record-keeping infrastructure due to the very nature of its benefit rules.

As UI depends inevitably on employment records, where there is a large informal sector, UI coverage, as well as its role in protecting the unemployed, will be limited. However, it seems also natural to view UI and its coverage extension as a momentum for an economy to transform a large proportion of its informal sector into the formal sector.

ABBREVIATIONS

MLS Act: National Minimum Living Standards Act

EIS: Employment Insurance System

LMI: Labor Market Information

PES: Public Employment Service

PWP: Public Works Project

SME: Small-to-medium size Enterprise

UI: Unemployment Insurance

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