

# KOREA'S EXPERIENCE WITH UNEMPLOYMENT INSURANCE IN THE 1998 ASIAN FINANCIAL CRISIS AND ITS ADJUSTMENTS IN THE CURRENT CRISIS

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# Introduction

- Challenge : Global financial crisis 10 years after 1998 Asian financial crisis
- 1998 shock on Korean labor market: mass unemployment, widening of the income-gap, deterioration of the structure of employment, and spending of huge social costs
- Korean government tried to solve the problems by several temporary welfare programs and active labor market policies, because the social safety net was not developed well in 1998.
- After the crisis, Korea tried to build up a systematic social safety net continuously. – e.g. the Employment Insurance system (EIS)
- The impact on Korean labor market from the 2008 Global financial crisis is not as much as that of 1998's crisis.



# Introduction

- Objective : to analyze the reason of the different influence on the Korean labor market from the 1998 Asian financial crisis and from the 2008 financial crisis
- Chapter 2 : Brief history of the Employment Insurance system in Korea and the changes in the coverage and the contents
- Chapter 3 :
  1. Explain the impacts from 1998 Asian financial crisis on Korean labor market and government efforts to reduce the negative effects
  2. Analyze the statistics of labor market and the EIS to show the trends and the changes of them.
  3. Compare the 1998 and the 2008 financial crisis in order to draw the differences between those two cases and to find what has been the proper measures to overcome the problems in Korean labor market.
- Chapter 4 : Summary and Policy Implications.



# History of EIS in Korea

- The Employment Insurance system (EIS) of Korea was introduced in July 1, 1995, after a debate that began at the end of the 1960s
- The objective of the EIS is to prevent joblessness, to promote employment and vocational competency, and to provide financial support and employment assistance to the unemployed workers (EIS also serves as a source of comprehensive labor market policies and a social security system)
- The coverage of Korean EIS has expanded step by step and now it includes all businesses with one or more employees theoretically.
- In practice the coverage rate of the Employment Insurance for wage workers reaches around 56.8% in August 2008 due to the large number of irregular workers. The coverage rate only for regular workers is approximately 80% in 2008.

**Table 1: Extended Coverage of Employment Insurance in Korea**

Type of the EI Program	Ordinary Businesses (Number of Regular Employees)					Construction Business (Total Construction Price in Million Won)			
	. ~ Dec. 31, 1997	Jan. 1 ~ Feb. 28, 1998	Mar 1 ~ June 30, 1998	July 1 ~ Sep. 30, 1998	Oct. 1, 1998 ~ Present	~ June 30, 1998	July 1 ~ Dec. 31, 2003	Jan. 1 ~Dec. 31, 2004	Jan. 1, 2005 ~ Present
UB	30 or more	10 or more	5 or more	5 or more	1 or more	3,400 or more	340 or more	20 or more	All Workers Undertaken by Licensed Constructors
ES & VCD	70 or more	50 or more	50 or more						

**Table 2: Contents of the Employment Insurance system in Korea**

	<p>Employment Adjustment Assistance, Regional Employment Promotion Grant, Employment Promotion Subsidy for Elderly, Employment Promotion Facilities Subsidy, Provision of Labor Market Information</p>
<p><b>Employment Stabilization Program</b></p>	<p>Employment Promotion Subsidy, Shift-work Change Assistance, S &amp; M Expertise Employment Subsidy, S &amp; M Business Working Hour Reduction Assistance, S &amp; M Working Condition Innovation Assistance, S &amp; M New Industry Advancement Subsidy,</p> <p>Employment Maintaining Assistance, Outplacement Assistance Subsidy, Reemployment Subsidy, Construction Worker EI Maintenance Assistance, Construction Worker Installment of Retirement Deduction Assistance, Construction Worker Continuous Employment Assistance, Childcare Leaves Allowance, Post and Prenatal Vacation Allowance, Childcare Facility Assistance, Continuous Employment after Child-bearing and Child-birth Assistance, Peak-Wage Preservation Allowance, Job Exhibition Assistance, and other sub-programs</p>

<b>Vocational Competency Development Program</b>	Vocational Competency Development Training(In-House Vocational Training Subsidy, Employee Training Subsidy, Loan for Training Facility, Aid for Reemployment Training of Displaced Workers), Assistance for Training Fee
	Paid-leave Training, Outplacement Training, Vocational Competency Development Account System, Training Course Assistance, Vocational Competency Development Card System, Female Household-Head Training, Priority Job Training, and other sub-programs
<b>Unemployment Benefit Program</b>	Job-seeking Benefit, Distant Area Job-Seeking Benefit, Moving Assistance, Early Reemployment Allowance
	Injury and Disease Allowance, Job Capability Improvement Allowance, and other sub-programs

**Note: Upper part of sub-programs is original ones started from the beginning of the EIS in each main program.**



# KLM and 1998 Asian Financial Crisis

- Before the 1998 financial crisis, the Korean labor market was near full- employment status with unemployment ratio less than 3%.
- Asian Financial Crisis struck in 1997 - the financial market of Korea was totally paralyzed from the impact of the foreign exchange market - high interest rate policy driven by the IMF - series of bankruptcy
- Massive layoffs followed in order to reduce the labor costs during the recession.
- Unfortunately the social safety net of Korea was not well constructed at that time, even though the Korean government introduced the Employment Insurance system in 1995.
- Therefore the government tried to overcome the catastrophic situation by setting out temporary welfare programs and active labor market policies like public works for the unemployed.



## Trends of Labor Market







## EIS in 1998 Asian Financial Crisis

- The Employment Insurance system of Korea was in the stage of infancy in 1998, so the system didn't cover the majority of workers - especially the workers in small business
- In December 1999, the EIS covered 46.5% of dependent workers and only 15.5% of the unemployed who had been dependent workers. Thus the unemployment benefit program couldn't effectively provide a definite level of income for the majority of the unemployed at that time
- On the other hand, some scholars argue that the unemployment benefit program produced a somewhat positive impact on the labor market because it helped many unemployed people in desperate times.



## ALMP in 1998 Asian Financial Crisis

- The active labor market policies like the temporary welfare programs and public works for the unemployed were evaluated as more effective than the Unemployment benefit program in terms of the coverage of the programs during the crisis.
- Those programs can be classified as follows; assistance for employment stabilization, provision of temporary jobs like public works, provision of job training and job placement service, assistance for the living cost like loan program for the unemployed and cash transfer for the poverty family.
- The Korean government maintained reliable budget levels in those programs in order to overcome the problems in the labor market from 1998 to 2002.



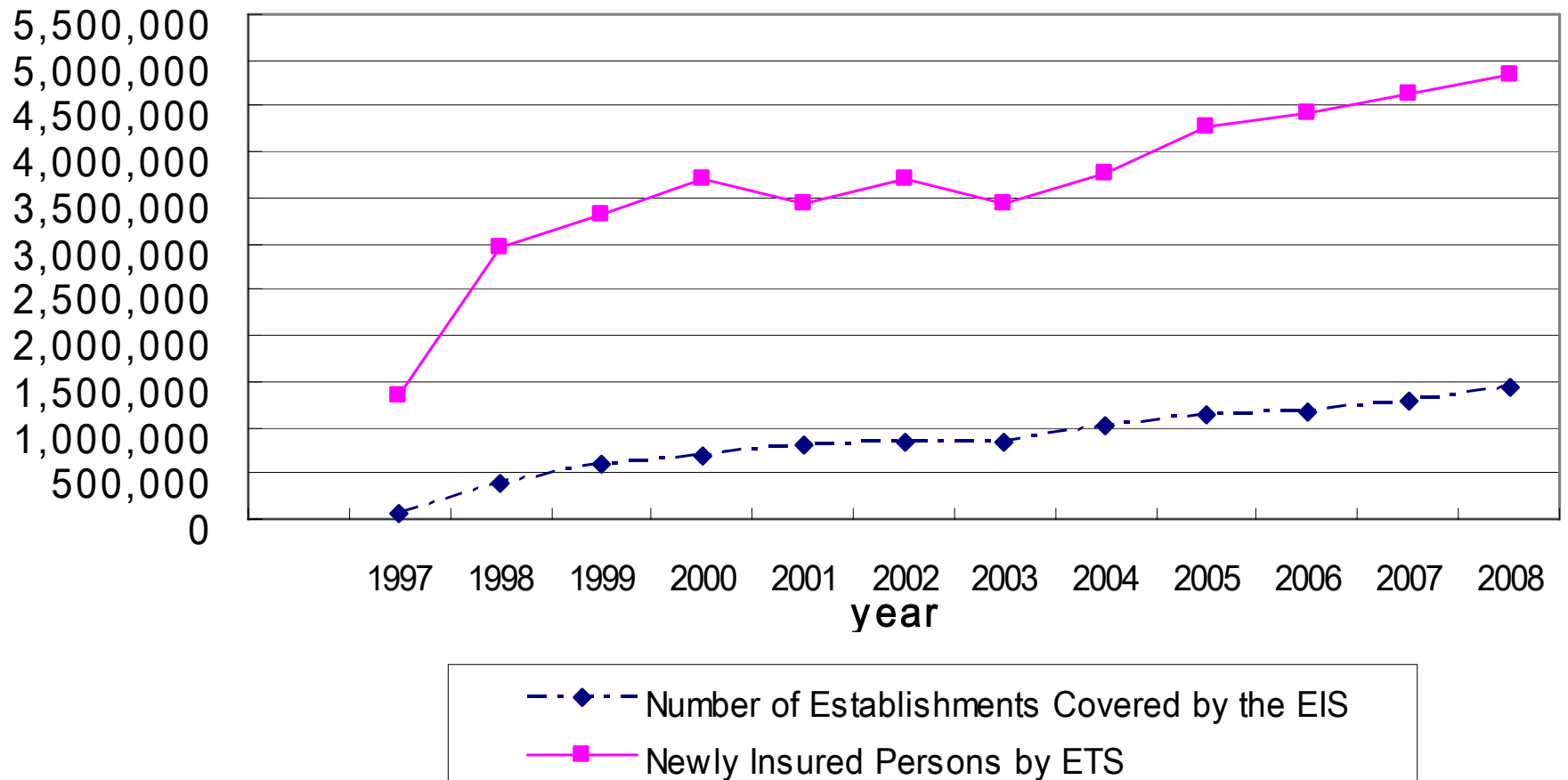
## Policy Implication from the 1998 AFC

- The Korean economy started to rebound rapidly from the recession in 2000 thanks to the recovery of global economy, but the V-shape economic recovery makes it difficult to evaluate the influence of those programs on the labor market.
- Nevertheless, the steep reduction of unemployment rate (from 7.0% in 1998 to 3.8% in 2001) shows that the policy mix of Korean government successfully overcame the mass unemployment situation whether the contribution was small or great.
- Moreover, the experience emphasized the importance of constructing a good social safety net in the long run to prepare this type of economic crisis.

# Changes in the Korean EIS

- The size of covered establishments and insured persons has been increasing continuously as the coverage of the EIS expands.
- The number of establishments covered by the EIS increase 3.6 times for 10 years from 1998 to 2008 and the number of insured persons increased 1.8 times for the same period.
- The proportion of establishments covered by the EIS out of total establishments was 14.4% in 1998, but that is 44.7% in 2008 and the proportion of insured persons out of total workers was 26.4% in 1998, but it increased to 47.1% in 2008.
- So the coverage of the EIS is expanding continuously and it turns into a sure social safety net for insured workers.
- However about 53% of workers still not inside the EIS.
- However the number of total establishments used here includes the number of self-employed business without employee which is excluded from the application of the EIS. When Korea Employment Information Service calculates the proportion of insured establishments out of only qualified businesses is about 78% in 2008.

## Number of Establishments Covered by Employment Insurance System(EIS) : Annual Data



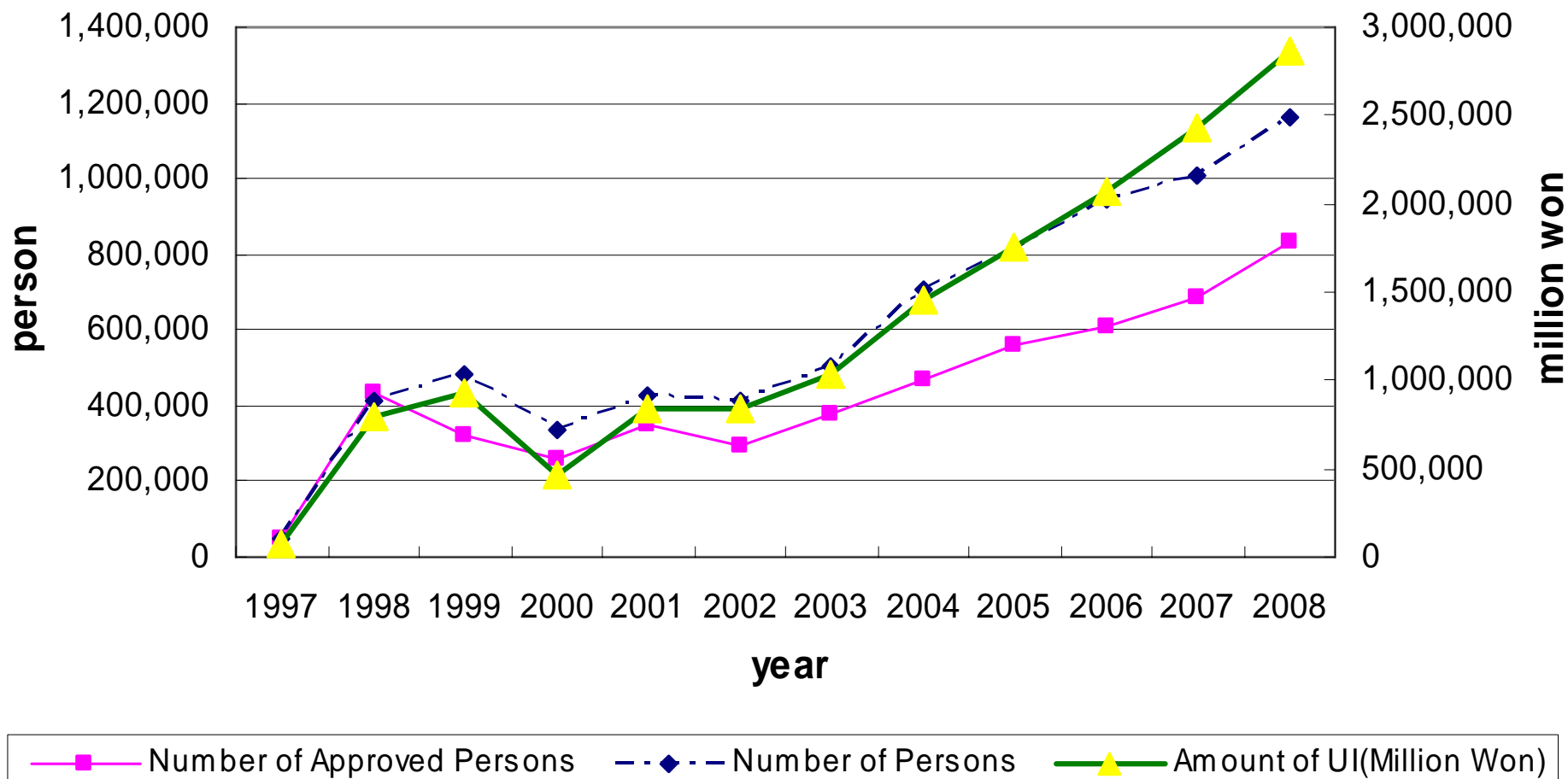


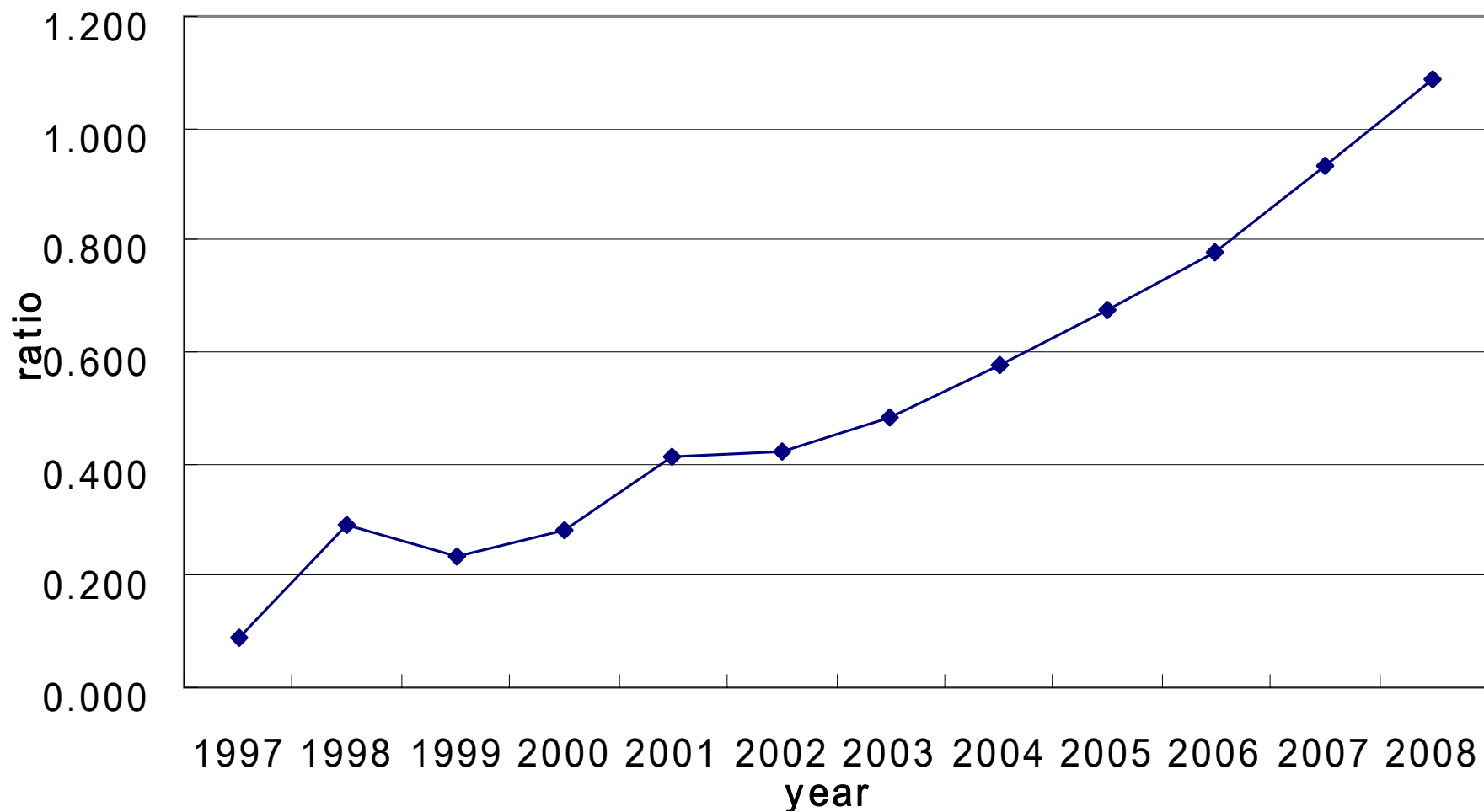
# Trends of Unemployment Benefit

- The number of the UB recipients and the amount of benefits are increasing continuously as the coverage of EIS expands
- When the number of UB recipients is divided by the number of the unemployed, that ratio could be considered as an indicator implying the relative coverage of UB over the unemployed. (This number cannot be percentage proportion but is just a relative indicator.)
- The calculated indicator was 0.29 in 1998, 0.24 in 1999 and 0.29 in 2000, but it is 0.94 in 2007 and 1.09 in 2008.
- It means that, in 2008, the UB plays a role three times more than the role in 1998 as an income support for the unemployed.



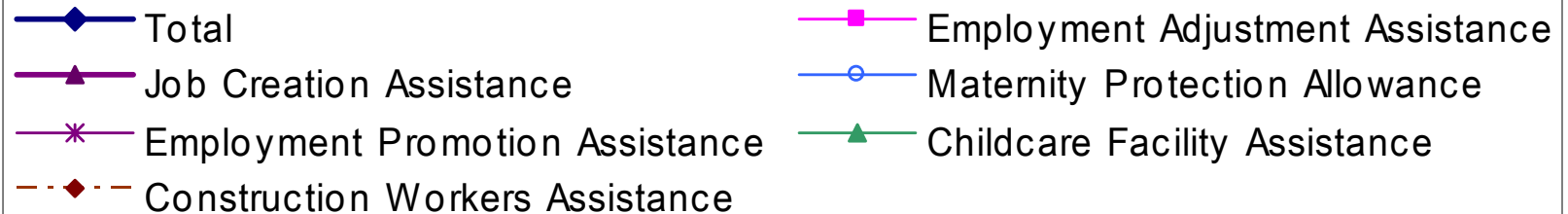
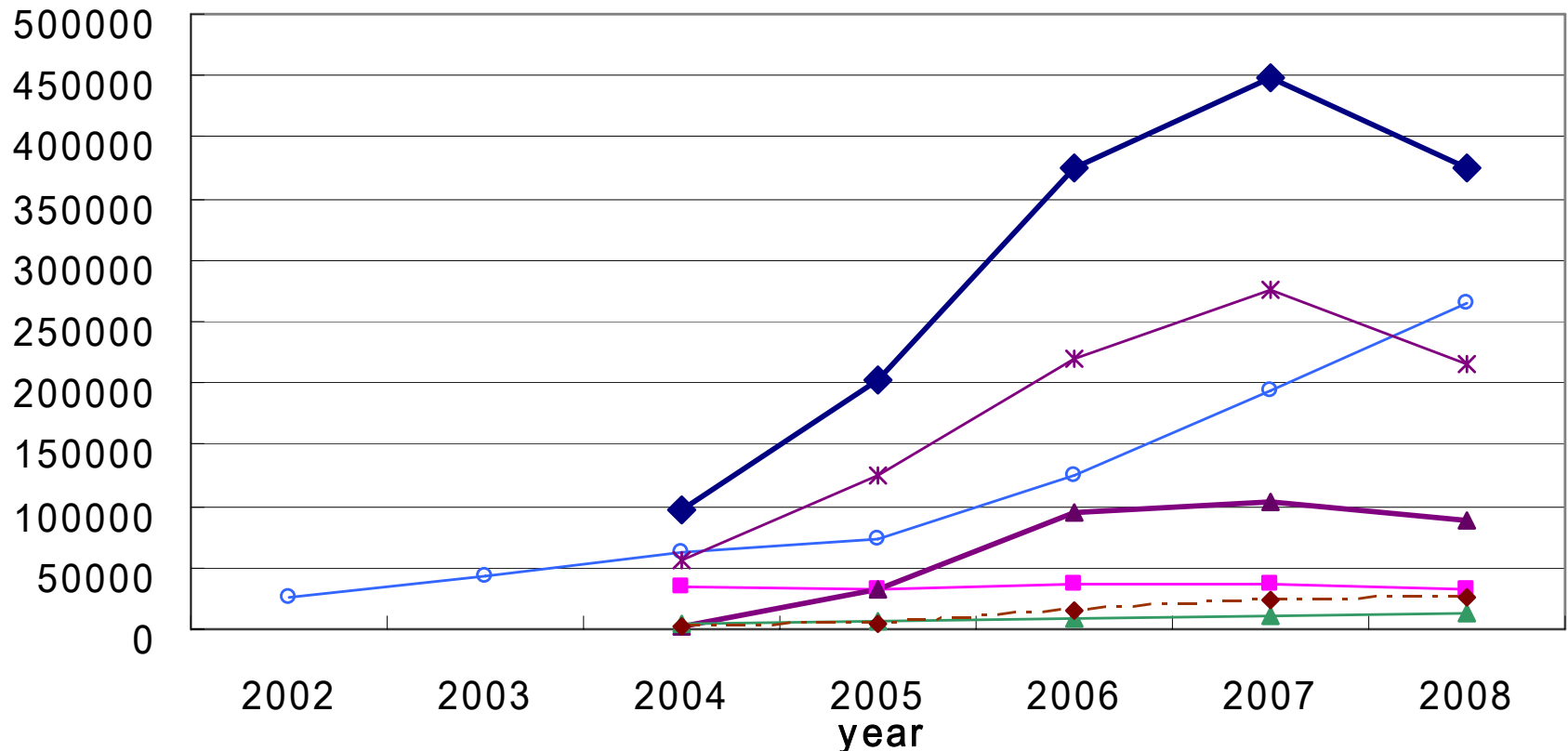
## Number of Recipients and and Amount of Benefits for Unemployment Benefit (Annual Data)



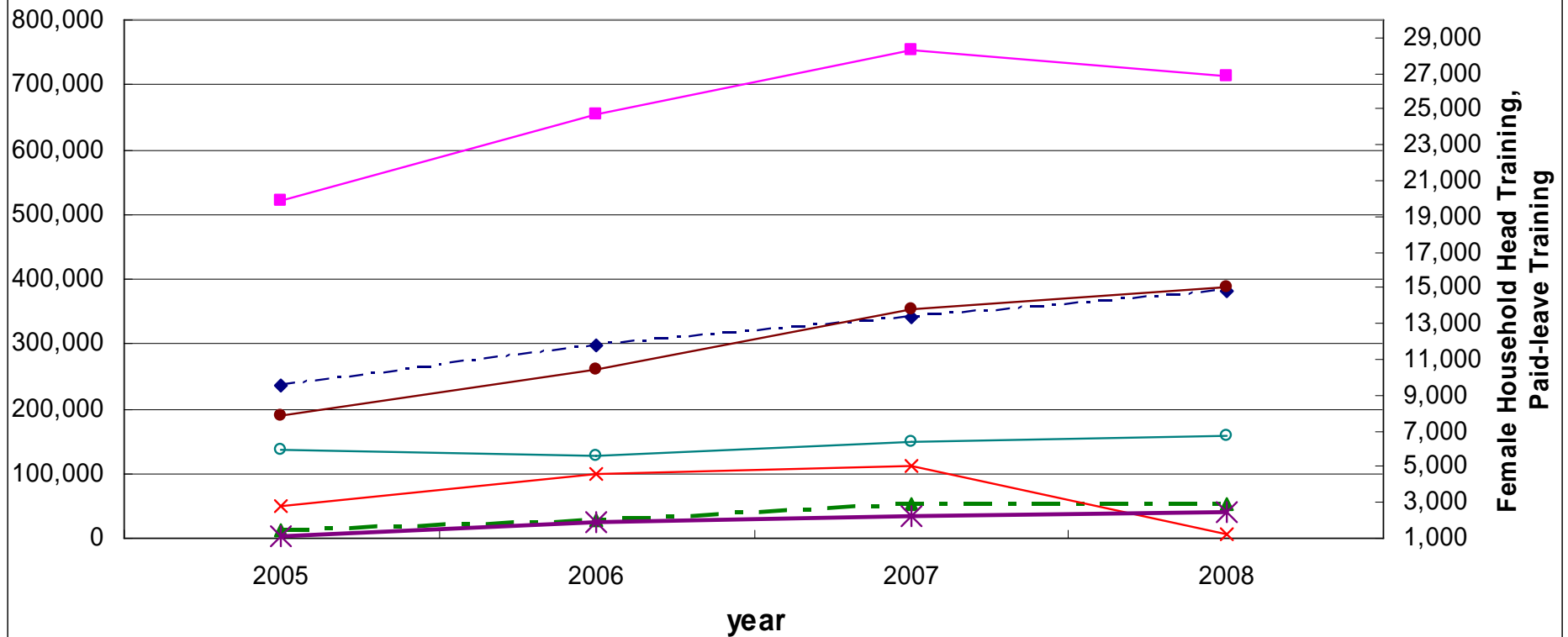


—◆— Ratio of Number of Approved Persons/ Number of the Unemployed

## Employment Stabilization Program(Annual Data)



## Vocational Competency Development Programs(Annual Data)



# Impact on KLM from 2008 Financial Crisis

- Even though recent Global financial crisis started at the end of 2007, the impact on the Korean economy and labor market got worse after the second half of 2008.
- The unemployment rate at the end of 2007 was 3.1%, and the second quarter of 2009 it reached at 3.9%
- while the GDP growth rate on the second quarter of 2008 ; 4.3%, on the fourth quarter; -3.4%, the first quarter of 2009; -4.2%, and the second quarter of 2009; -2.2%.
- However the recent trends of the GDP growth rate and the unemployment rate seem to recuperate from the bottom, thus the damage in the Korean labor market from the current financial crisis could be evaluated as less serious than that from the 1997 Asian financial crisis.

## Recent Trends of Labor Market





# Rapid Reaction against 2008 FC

- At the beginning, the 2008 Global financial crisis draw concerns as much as the 1998 Asian financial crisis because the initiating countries for the crisis were mostly the advanced countries.
- This current crisis could drop the business cycle of most other countries into a long recession especially one like Korea whose economic growth depends on foreign trade completely.
- With a valid reason to be concerned about an even worse situation than that of the 1998 crisis, the Korean government was forced to act quickly with a strong policy-mix to prevent most ill effects from the crisis.
- The policy-mix has wide coverage from the financial market to the labor market.
- Comparing to 1998~2000 major labor policies, 2008~2009 labor policies becomes more specific and target-oriented.



**Table 9: Comparison of Major Labor Policy between two financial crises**

Notes: \* These programs are included in EIS partly or fully.

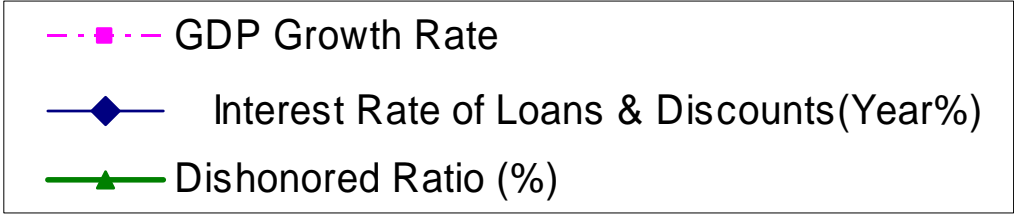
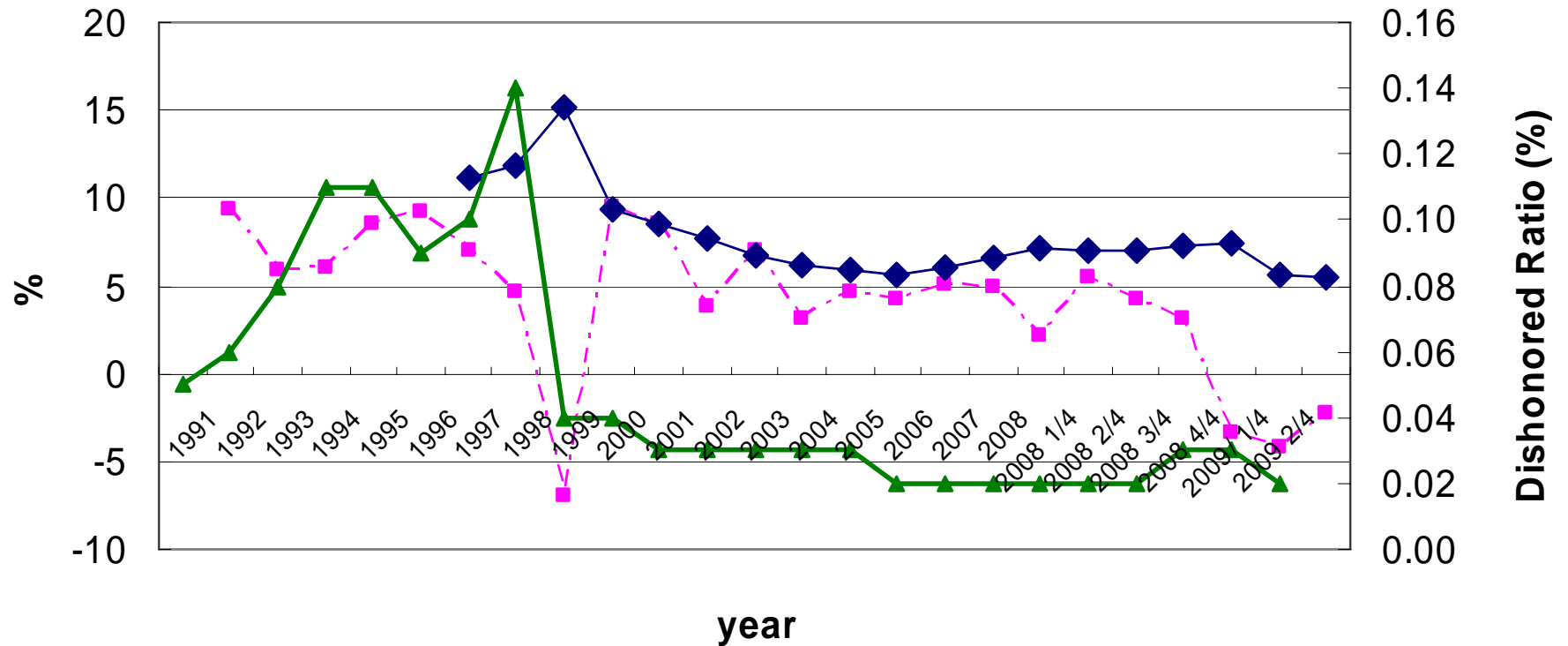
1998~2000 Major Labor Policy	2008~2009 Major Labor Policy
<b>Job Creation</b>	
Provision of Public Works, Employment Subsidy, Promotion of Employment Abroad, Assistance for New Venture Enterprise, Assistance for Returning Farmer, Assistance for New Small Businesses,	Expansion of Provision of Jobs for the Youth(Internship Assistance and etc.), Provision of Public Work('Hope-Work' Project), Expansion of Social Service, Expansion of Self-Support Work Assistance, Expansion of Provision of Jobs for the Olds
<b>Job Sharing and Maintaining</b>	
Avoidance of Lay-Off Effort Assistance, Job Maintaining and Reemployment Assistance,	Expansion of Employment Maintaining Program*(Closed Business Assistance, On-Leave without Pay Assistance, Shift-system Change Assistance)
<b>Providing Education and Training Programs</b>	
Expansion of Provision of Training Program	Stay-in-School Program, 'New Start' Program for the Youth, Vocational Training Program for the Daily Workers, Large-S & M Business Cooperative Training Program
<b>Livelihood Support and Employment Promotion</b>	
Expansion of Unemployment Benefit*, Assistance of Livelihood Support for the Poors, Provision of Loan for the Unemployed,	Expansion of Unemployment Benefit*, Expansion of New Employment Assistance*, Provision of Vacant Job Allowance, Assistance of Regional Employment Promotion
<b>Miscellaneous</b>	
Building Employment Service Network, Construction of Labor Market Information System	



# Reasons of Difference between two Crises

- The level of the GDP growth rate has been higher in 2009 than in 1998, but the disparity in the unemployment rates between the two periods shows a significantly different performance in the Korean labor market.
- Reasons for the difference
  - Macroeconomic policies over interest rate, foreign exchange rate and etc.
  - Financial status of the overall businesses
  - A different way of lowering labor costs (flexibility in working time and in wage under the agreement with workers' side)
    - mandatory use of additional leaves without pay, reduction of overtime work, reduction of regular working hours, return of partial wage, lowering starting salary level, introduction of peak-wage rate for the olds, adjustment of wage system

# **Trends of Macro Indicators** (Annual until 2008 & Quarterly from 2008)



**Table 11: Recent Growth Rates of Selected Programs in Korean EIS**  
**Note: (.) are growth rate of new qualified applicants for UB.**

			Number of Recipients		Amount of Benefits	
			2008/2007	2008.12 /2008.11	2008/2007	2008.12 /2008.11
Employment Stabilization Program	Total		-2.0	-18.0	-18.4	-18.4
	Employment Maintaining Assistance	Closed Business Assistance	147.7	-16.7	118.9	-16.7
		Training Assistance	-13.4	-23.0	180.6	139.6
		On-Leave Assistance	-54.0	60.8	-60.7	114.8
Vocational Competency Development Program	Total		-13.5	12.6	-26.9	18.6
Unemploy- ment Benefit Program	Total		25.1 (84.4)	10.3 (40.5)	30.2	12 28

**Table 12: Record of Employment Maintaining Assistance Program**

	2007			2008			2009 Aug.		
	Number of Establishments	Number of Workers	Amount of Assistance (Million Won)	Number of Establishments	Number of Workers	Amount of Assistance (Million Won)	Number of Establishments	Number of Workers	Amount of Assistance (Million Won)
Annual Total	4,425	84,856	32,533	4,274	88,012	30,642	-	-	-
Monthly Average	416	8,190	2,711	339	6,116	2,464	4,750	107,987	33,969
First Half of the Year	2,497	49,138	19,519	2,036	36,694	14,783	28,498	647,922	203,815



# Income Distribution

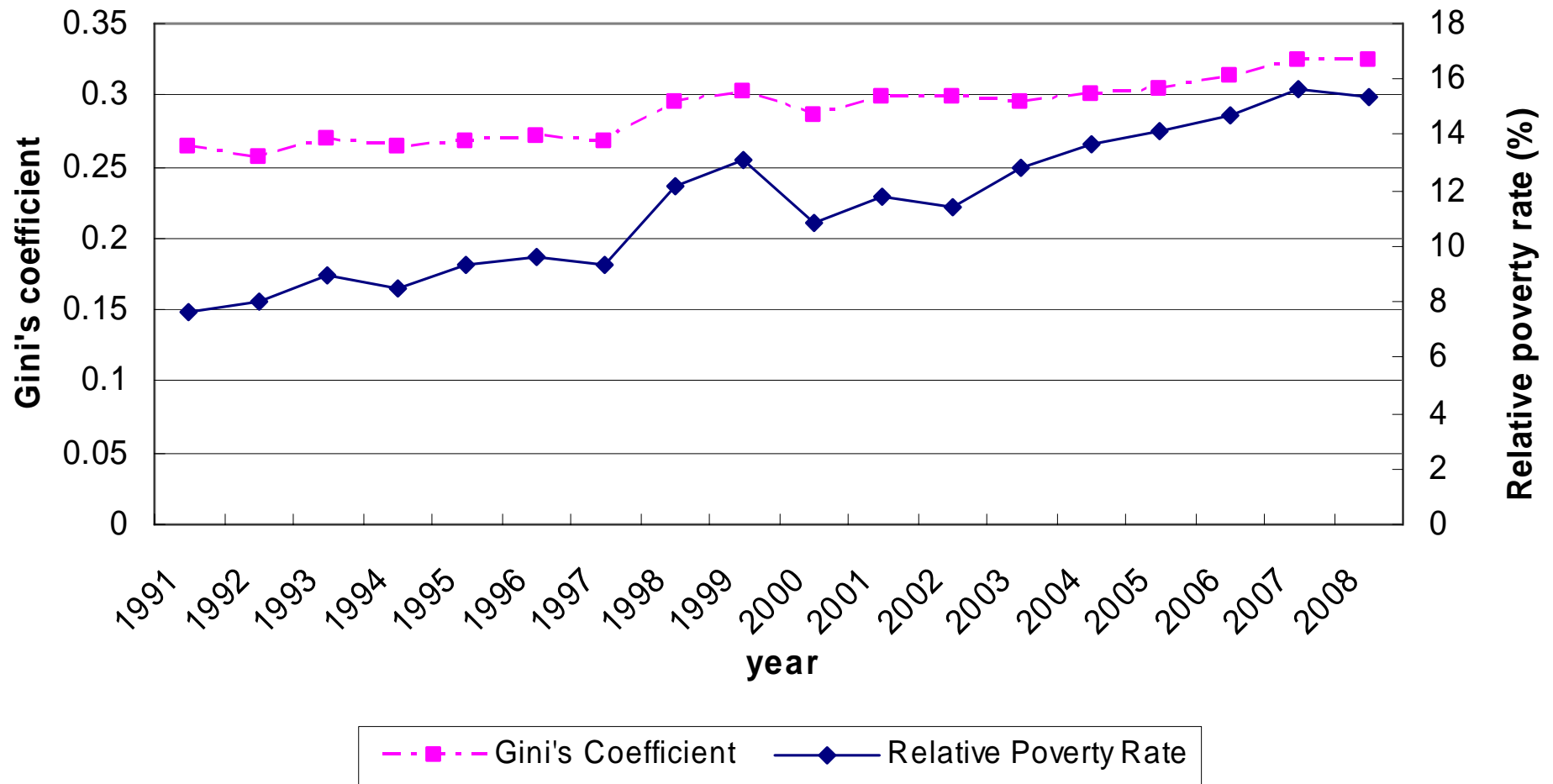
- The extent of effect from the current crisis on income distribution is not clear, because the income distribution is deteriorated consistently since the early 1990s.
- The 1998 Asian financial crisis precipitate the deterioration as the Gini's Coefficient in 1998 rose to 0.303 from 0.268 in 1997 and dropped to 0.286 in 2000 in terms of market income and the relative poverty rate increased to 13.1% in 1999 from 9.3% in 1997 and dropped to 10.8% in 2000.
- This implies that the 1998 Asian financial crisis widened the gap of income distribution significantly.
- Furthermore several empirical papers argue that the 1998 Asian financial crisis was the main factor that caused faster spread of poverty in Korean labor market through the change of labor market structure as well as the mass unemployment.



# Income Distribution

- Comparing the Gini's Coefficient and the relative poverty rate in 2008 to those of 2006 and 2007, it is hard to figure out if the major cause of the increase is the current financial crisis or not, because of the increasing trend of those indicators during 2001~2007.
- It is too early to analyze the effect of the current financial crisis on the income distribution in Korea.
- The effect would not be positive for sure but it is hard to distinguish the effect from the present trend of deteriorating income distribution, so it is the issue for the further study after accumulating concerning data.

## Trend of Income Distribution(Annual Data)







## Conclusion and Policy Implication

- The two financial crises let the Korean government officials realize how a quick and effective response is important, but also the prevention of financial problem at the national level is important as well.
- The trade-depending countries like Korea needs a stable and sizable domestic market to overcome the case of global recession.
- A country should have a control over macroeconomic policies like interest rate and foreign exchange rate to avoid the problems of labor market from the effect of financial crisis.
- The government should supervise the financial status of large companies and financial intermediaries carefully in order to prevent from facing the desperate financial situation.



## Conclusion and Policy Implication

- Each country needs to develop systematic welfare programs including the Employment Insurance system to cope with the change of uncertain economic surroundings autonomously.
- The expansion of social safety net coverage helps the disadvantaged persons from the impact of financial crisis
- The delivery system for the benefit should be efficient and effective.
- The businesses should learn how to use the flexibility of working hours, wage and inside labor market before to use layoff method.
- Finally the cooperation and coordination of departments of government are important to overcome the crisis in labor market because it is necessary to solve the employment problems that the macroeconomic policy, the labor market policy including social safety net, and the industrial policy including industrial relation should work together.



## Conclusion and Policy Implication

- Even though the Korean government and the businesses put serious efforts to avoid mass unemployment situation during the current crisis, the possibility of losing job for irregular workers who are used to have bad working condition and low income level is getting higher.
- After losing their job, in general their chance of reemployment is not good during the recession period.
- Eventually the income distribution would be deteriorated and the number of families below poverty level will increase continuously.
- A large portion of that group of workers is still outside of the Employment Insurance system, so they are not getting most of the benefits from the system despite of the high demand for the benefits.
- Thus it is necessary to reinforce the labor policies for the irregular workers and to involve them into the social system.

**Thanks!**