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**AN EXAMINATION OF THE PUBLIC
EMPLOYMENT SERVICE OF SOUTH KOREA**

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A thesis submitted in partial fulfilment of
the requirements of The Nottingham Trent University
for the degree of Master of Philosophy

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Abstract

This study examines the Employment Insurance System (EIS) and Public Employment Service (PES) of South Korea. The main objectives are to assess the performance of the South Korean institutions that deal with unemployment and through a comparison with UK labour market policies identify alternative policy instruments. The study draws on secondary data sources in South Korea such as Employment Insurance Data and Work-Net.

The development of the South Korean unemployment system, which has only been in existence since the mid 1990s, is analysed in the context of the theoretical argument for such public sector intervention and the historical development of public employment services in other countries. The study provides a more in depth comparison of the South Korean system with that of the UK, where there has been a growing emphasis on more active labour market policies.

The EIS in South Korea consists of three main policies, an employment stabilisation programme, a job skill development programme and an unemployment benefit programme, which are carried out by employment security centres. The employment stabilisation programme has experienced poor utilisation rates and in the job skill development programme there is a gap in voluntary participation rates, for example the programme fails to induce workers in small companies to participate in job training programmes. In the unemployment benefit programme the social safety net and incentive for reemployment is not high so that the majority of the unemployed are not in the social protection system. The job-brokering functions of the employment

security centres appear to have failed to satisfy the demand of employers and job seekers focusing on regular and advantaged workers rather than non-regular and disadvantaged workers.

Although South Korea has established a PES it has not yet achieved the same level of effectiveness as in other countries and there is still some reliance on economic growth to resolve the problem of unemployment.

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Introduction

Introduction

This research project examines a major area of social and economic policy in South Korea namely the Employment Insurance System (EIS) and the Public Employment Service (PES). The South Korean employment insurance system has only operated from 1 July 1995 and is still evolving. It is a compulsory social insurance system. All employees and employers in participating enterprises must pay an insurance premium, which entitles workers to receive grants or employment benefits from the employment insurance fund. The employment insurance system is one of the chief forms of employment policy in Korea. Yoo, Keum, Hur, Lee and Chang (2001) argue that the Korean employment insurance system includes a set of active as well as passive labour market policy measures using for example several incentives for early reemployment and vocational training.

The employment insurance system is chiefly carried out by the public employment service (PES) through public security centres. The PES was relatively weak before 1997, and did not play a key role in the labour market. However after the Asian financial crisis in 1997, the South Korean government expanded and reinforced the public employment services to include job placement to assist employment. The number of public security centres has increased from 52 in 1997 to 182 in 2002, and the numbers of workers in the PES has increased from 141 to 2,357 during the same period.

Previous research on the PES in South Korea has focused on how to improve

its effectiveness in an effort to reduce the high unemployment rate and to carry out active as well as passive labour market policies. While Yoo (2001) argues that the Korean PES has sufficient scope and staff, Chang (2000) argues that there has been little progress in the number of jobseekers using the PES, job vacancies posted, and job referrals, while the service quality such as job matching and counselling is not satisfactory. Therefore he argues that the role of PES should be reinforced through the expansion of PES, improvement of counsellors' working conditions, and the introduction of an incentive system for firms diligent in job vacancy registration.

The Public Administration Association of Korea (2002) emphasizes that the South Korean PES has yet to be fully effective, as a public service provider, because the PES was created within a short period of time in an effort to respond to growing needs among the unemployed who had been affected by restructuring during the late 1990s. Moreover it insists that more personnel resources are directed towards the administration of employment insurance than toward job search assistance in employment security centres. As a result the PES is apt to focus on carrying out passive labour market policies rather than active labour market policies. Yet in the 1990s many OECD countries became more inclined towards active labour market policies. The meeting of labour ministers of OECD (1992) urged a shift in public spending on labour market policies from passive to active measures. The OECD (1997) emphasized that public employment services should take an important role to enhance the efficiency and effectiveness of active labour market policies.

Research Questions and Method

This research therefore examines a topical issue facing South Korea and will:

- Review the historical development and current position of the South Korean Employment Insurance System (EIS) and Public Employment Service (PES)
- Critically assess the theoretical foundations on which the EIS and PES operates in South Korea
- Assess the performance of this labour market policy instrument in terms of its achievements and institutional operations
- Compare the PES in South Korea with the UK PES paying particular attention to the issues associated with active labour market policies
- Formulate recommendations that will enhance the operation of the South Korean EIS and PES

The research methods used largely involve an examination of existing literature and reports and the use of secondary data sources such as the statistics produced by Worknet, South Korea's nationwide centre for all employment information, to provide empirical information which will then be subject to analysis. For example data is available on employment referrals, employment, employment insurance and vacancies. Access to reports and data is enabled by the researcher's employment with the South Korean Government.

The research design develops a theoretical and historical base to understand the principles of unemployment insurance and public employment services, uses secondary data sources to examine the development of institutional

changes relating to employment programmes in South Korea and adopts a comparative case study of two countries, South Korea and United Kingdom. Given the institutional and policy related nature of this research this was felt to be the appropriate methodology to adopt. The alternatives would have been the use of either quantitative or qualitative surveys that would largely have given individual perceptions of the institutional changes rather than an understanding of the rationale for their operation and a wider understanding of how they operated. On a practical level conducting surveys in South Korea when based in the UK would have been extremely difficult.

The UK has been selected as the main comparator area because it has experienced structural changes that are beginning to affect the Korean economy and, as with a number of other Western European countries, has implemented an active labour market policy. which is in its infancy in South Korea. On more practical grounds the research has been conducted in the UK which has enabled access to information to carry out the comparisons with Korea.

The benefit of looking at the UK is that its public employment service and active labour market policies are at a more developed stage than many other economies, which provides some insights and lessons for economies such as South Korea, whose public employment service is relatively new. Although the UK is used as the main country for comparative purposes reference is made to the development and operation of public employment systems in other countries.

Structure of Thesis

After this introductory chapter that sets out the research question to be addressed and the methods to be adopted, the first chapter will provide a contextual setting for the study looking at the recent performance of the South Korean economy and the policy responses to that performance particularly the development of the EIS and PES.

The second chapter provides an examination of the theoretical, historical and institutional development of public employment services and their activities. The development process of public employment services and their role in employment policies will be considered. Schmid (1995) states that unemployment benefits affect labour market transitions, with incentives and disincentives for reemployment. Decker (1997) states that unemployment insurance benefit has been reformed in a way to create new financial incentives for reemployment or provide additional job search assistance and other employment services to expedite benefit recipients return to work. The OECD (2000a) argues that labour market policy should be changed from passive labour market policies to active labour market policies and PES should take a pivotal role in order to enhance the effectiveness of active labour market policies. Thuy, Hansen, and Price (2001) insist that the role of PES consists of job-broking, provision of labour market information, managing of labour market adjustment programmes and managing of unemployment benefits. They argue that decentralization of organization, integration of services and introduction of competitiveness will affect the role of PES and its activity sphere. This theoretical background will provide a basis to analyse the South Korean EIS and PES.

The third chapter deals in detail with the South Korean PES, its development process, its organization and its staff. This process will be carried out through a literature review and documentary analysis including the Employment Insurance White Paper issued by the South Korean Ministry of Labour. Employment referrals statistics and employment insurance statistics produced by Worknet, which is South Korea's nationwide centre for all employment information, will be used to understand the performance of the PES and EIS looking at such indicators as referral rates and vacancies.

In the fourth chapter, The experience of the UK PES with its long history will be useful in suggesting how Korean PES and the programmes that it deals can be developed. One example of the issues that will be analysed is the effectiveness of the UK's New Deal policy and delivery of programmes (Price, 2000). The Tripartite Commission of Korea decided to discuss further how to make the PES a more active labour market intervention although others (Kim et al, 2003) argue that the PES of Korea is in a development stage and should be left to evolve.

The fifth chapter a comparison is undertaken of the UK and South Korean public employment services. This initially compares the unemployment and delivery of employment services in both countries. This is followed by an assessment of the issues involved in implementing an active labour market policy. The comparison with the UK system will enable an examination of alternative delivery mechanisms to be understood and placed within a South Korean context to see whether they are likely to be effective.

The final chapter will provide a conclusion to the thesis looking at limitations of the research, identifying the main research findings, indicating what further work needs to be undertaken but also making some considered policy recommendations.

Chapter 1 Overview of Korean Economy and Change of Labour Market Structure

1 Introduction

This chapter provides a contextual setting for the analysis of the institutional response to unemployment that has developed since the mid 1990s in South Korea. To a large extent the current state of the South Korean economy is dependent on the previous path the economy has taken. Therefore in this chapter an outline of the development of the South Korean economy is provided looking in particular at the change in industrial and labour market structures over the past 50 years.

The chapter explores how the labour market has changed as a consequence of industrial and economic change and how this has led to the implementation of unemployment schemes in South Korea. Understanding the change in industrial and labour market structures provides a basis for understanding how the public employment services and employment insurance system of South Korea work to reduce unemployment and to improve the employment structure of South Korea. Much of the detail of the PES in South Korea is covered in chapter three. This current chapter concentrates on the growth and nature of unemployment in South Korea and an overview of the response to this issue by the South Korean Government.

2 Outline of Korean Economy

Korea achieved liberation from Japan in 1945, then followed the division into

North Korea and South Korea and the Korean War from 1950 to 1953. Economic development in this period was difficult. After an armistice agreement was signed in 1953, South Korea received assistance from the U.S.A. and international organizations to reconstruct its economy. During the 1950's South Korea was heavily dependent on foreign assistance, for example, 58.4 percent of the government budget was provided by foreign assistance in 1956 (Lee et al, 2003).

South Korea was largely a poor agricultural country until the 1960s. In the 1950s the population of Korea was approximately 21 million people, 70 percent of whom lived in rural areas. Agriculture, forestry and fishing industry were the chief industries, accounting for almost 50 percent of GDP, while mining and manufacturing industries were extremely weak. Even so, because of insufficient production, it was still difficult for Koreans to provide sufficient food for themselves (Lee, 2002). South Korea was experiencing deep economic hardship and it seemed difficult for South Korea to escape from the vicious circle of poverty.

In 1961 Park, Jung-Hee came into power through a military revolution and committed himself to economic development. He pursued South Korea's economic development through detailed economic development planning and an export-oriented strategy which laid the foundation for South Korea's economic prosperity during his period of office which lasted for 18 years. Economic development continued to be based on a series of economic development plans with the government playing an active part in industrial development and with a continued emphasis on exports (Hong, 2002).

The first five-year economic development plan started in 1962 and further economic development plans continued until the 7th Five-Year Economic and Social Development Plan from 1992 to 1996.

- The First Five-Year Economic Development Plan (1962-66) consisted of initial steps toward the foundation of industrialization through building the infrastructure such as roads, rails, and power plants and emphasized the import-substitution products such as cement, refined oil, and fertilizer.
- The Second Five-Year Economic Development Plan (1967- 71) stressed exporting light labour-intensive industrial products such as shoes, plywood, bags and textiles which were competitive in the international market because of cheap labour costs in Korea.
- The Third Five-Year Economic Development Plan (1972-76) focused rapid progress in building an export-oriented structure by promoting heavy and chemical industries.
- The Fourth Five-Year Economic Development Plan (1977-81) fostered the development of industries designed to compete effectively in the world's industrial export markets. These major strategic industries consisted of technology-intensive and skilled labour-intensive industries such as machinery, electronics, and shipbuilding. The plan stressed large heavy and chemical industries, such as iron and steel, petrochemicals, and nonferrous metal.
- The Fifth Five-Year Economic and Social Development Plan (1982-86) sought to shift the emphasis away from heavy and chemical industries, to technology-intensive industries, such as precision machinery, electronics (televisions, videocassette recorders, and semiconductor-related products), and information industries.
- The Sixth Five-Year Economic and Social Development Plan (1987-91)

continued to emphasize the goals of the previous plan. The government intended to accelerate import liberalization and to remove various types of restrictions and non-tariff barriers on imports.

- The goal of the Seventh Five-Year Economic and Social Development Plan (1992-96) was to develop high-technology fields, such as microelectronics, new materials, fine chemicals, bioengineering, optics, and aerospace.

3 Economic development of South Korea before 1997

From 1962 to 1996, Korea's GDP increased from US\$ 2.3billion to US\$ 520 billion. However following the Asian financial crisis in 1997 it registered US\$477.6 billion in 2002. Per capita GNP increased sharply from US\$87 to US\$11,385 and then declined to US\$10,013 over the same period. South Korea's exports began to increase from the early 1960s. Exports were US\$550 million in 1962, but increased to US\$129,715 million in 1996 and then amounted to US\$162,470million in 2002.

The development of the South Korean economy from 1962 to 2000 can be divided into five phases according to the different emphasis in government policy (Park, 2002). These phases, which overlap the economic development plans, were:

- the launch of the economic development plans and industrialization in the 1960s,
- promotion of heavy and chemical industries in the 1970s,
- economic stabilization and current account surplus in the 1980s,
- weakening of economic constitution and outbreak of the financial crisis in

the mid-1990s,

- overcoming the financial crisis since 1997.

Phase 1

The 1960s was the period when South Korea started the long journey to develop its economy. The first five year economic development plan focused on laying a foundation for industrialization. It initiated and accelerated a structural readjustment of industry from agriculture to modern manufacturing and export trade. In industries, import-substitution products, such as cement and fertilizers, were fostered to reduce the country's reliance on imports, and then labour-intensive export industries such as textiles and plywood were promoted because South Korea had international competitiveness due to its cheap labour costs.

In addition, various export promotion measures were taken in order to support export industries. The government provided exporters with extensive direct export subsidies and other incentives including tax exemptions, tariff rebates, and export loans with preferential interest rates. The government also devalued the domestic currency by nearly 100 percent against the U.S. dollars in 1964 in order to promote exports, and enacted the Foreign Capital Inducement Act to encourage foreign capital inflow in 1966. Throughout the 1960s, exports expanded from US\$55 million in 1962 to US\$622 million in 1969. Per capita GNP increased dramatically from US\$87 in 1962 to US\$210 by 1969.

Phase 2

In the 1970s, the South Korean economy started to focus on the development

of heavy and chemical industries because labour-intensive light industries were gradually weakening in competitiveness as a result of rapid wage increases, and the appearance of other developing countries with competition in the industries. Moreover, the announcement by the Nixon administration in 1971 to reduce the number of U.S armed forces stationed in Korea, by about one-third, induced the Korean government to make a resolution to develop South Korea's own defence industry to support a self-sufficient military force.

With the announcement of a heavy and chemical industries development plan in 1973, massive investment programmes were introduced to promote heavy and chemical industries such as shipbuilding, iron and steel, automobiles, machinery and petro-chemicals using tax and financial incentives. The heavy and chemical industries policy produced impressive results. South Korea was able to maintain its fast paced growth throughout the 1970s. Exports increased from under US\$1 billion in 1970 to US\$15 billion in 1979. The South Korean economy grew at a rate of above 7 percent per year, and per capita GNP rose from US\$249 in 1970 to US\$1,636 in 1979.

However, massive investment in the heavy and chemical industries brought about huge excess capacity in these industries. In addition, in order to conduct massive projects, the South Korean government induced inflows of foreign capital or expanded the money supply because of the low rate of domestic savings. As a result, foreign debt kept increasing and chronic inflation prevailed. These negative effects forced the Korean government to shift from a more growth strategy to a stabilization strategy in the 1980s.

Phase 3

By 1980, the negative effects of the heavy and chemical industries' strategy became conspicuous. Most of all, inflation soared to 18.3% in 1979 and 28.7% in 1980 (ECOS), the South Korean economy was threatened by huge current account deficits accumulated, even though Korea's exports increased dramatically, because its imports also increased continuously. External and internal circumstances such as the second oil crisis and the assassination of President Park Jung-Hee in 1979 made management of the South Korean economy more difficult.

In 1980 and 1981 South Korea registered its first economic decline since planned economic development was launched. To solve these problems, the government initiated a comprehensive stabilization policy. First of all, the government shifted priority in its economic policy from growth to stability, and encouraged firms suffering from excess capacity to merge. Secondly, the government started a wide range of policies directed toward market liberalization and shifted from a strategy of direct intervention to one of indirect guidance. The government was trying to reduce all subsidized loans and ultimately eliminated them under the financial market liberalization programme. Together with this, the government alleviated restrictions on foreign direct investment (FDI) and accelerated import liberalization.

As a result of these efforts, inflation dropped to single digits from 1982, and the current account deficit narrowed significantly. At the same time, GDP growth increased again. From 1986, GDP growth accelerated swiftly and the current account balance recorded a substantial surplus. This was due to the so called "three lows"; low oil prices, low international interest rates and low U.S. dollar as

well as the government's stability policy (Cho, 2000).

Phase 4

The efforts of market liberalization continued in the 1990s. The government liberalised exchange rates, abolished various protectionist measures (including on the import of rice) and liberalised regulations on domestic and international capital investments (Park 1996). Additionally, the government reduced the size of the state bureaucracy, justifying its actions by means of neo-liberal 'small state' rhetoric. In addition, under the comprehensive policy of globalization called "seggyehwa policy" in South Korea, the government took an active role in participating in international economic activities through international organizations such as the World Trade Organization. South Korea joined the OECD in 1996. Through a series of government efforts the country continued to make remarkable economic growth in the early 1990s. The economic growth rate increased from 5.4% in 1992 to 8.3% in 1994 and 6.8% in 1996. The per capita GNP surpassed US\$10,000 in 1995 and in 1996. Table 1.1 provides a set of key economic indicators that illustrate the growth of the South Korean economy over the period previously discussed.

Table 1.1 Key Economic Indicators of South Korea (1962 to 1996)

Category	1962	1969	1970	1979	1980	1989	1990	1996
Per capita GNP (US\$)	87	210	249	1,636	1,598	5,185	5,886	11,385
Real GDP growth Rate(%)	2.1	13.8	8.8	7.1	-2.1	6.1	9.0	6.8
GDP(current price) (US\$ 100million)	23	65	80	619	622	2,207	2,525	5,200
The amount of export (US\$ million)	55	622	835	15,055	17,504	62,377	65,015	129,715
Current account Balance (US\$ million)	-55.5	-548.6	-622.5	-4,151.1	-5,312.2	5,344.2	-2,014.4	-23,120

(Source: Korean National Statistics Office, Bank of Korea)

During this period of growth in the early 1990s many structural weaknesses were ignored and accumulated. The structural weaknesses came from two sources; a weak financial sector and an overleveraged corporate sector (Chopra *et al*, 2001). The first factor was the short-term oriented external debt structure and insufficient foreign exchange reserves (Table 1.2). Korea's ratio of external debt to GDP had been rising rapidly and continuously since 1994, so that by the end of 1996 the ratio of external debt to GDP reached approximately 30.3% which was not an unendurable level considering the Korea's economic growth potential. Moreover, the share of short-term debt out of total external debt peaked at 48.3%, while foreign currency reserves remained at a low level which was under US\$20billion in 1997.

Table 1.2 External Debt to GDP Ratio (US\$ 100million)

	1994	1995	1996	1997	1998	1999	2000
GDP	4,024	4,894	5,200	4,766	3,177	4,058	4,617
Debt	898	1,197	1,573	1,742	1,638	1,529	1,484
-short term (%)	384 (42.8)	548 (45.8)	759 (48.3)	637 (36.6)	390 (23.8)	424 (27.7)	494 (33.3)
-long term (%)	513 (57.2)	649 (44.2)	814 (41.7)	1105 (63.4)	1,248 (76.2)	1,105 (72.3)	990 (66.7)
Foreign currency reserves	250	319	324	197	519	737	959

(Source; Korean National Statistical Office)

The second factor in South Korea's economic weakness was the highly leveraged corporate financial structure. This weak structure of the South Korean conglomerates (Chaebol) was caused by Korea's past development process. South Korea's government-led growth strategy, which lasted for thirty years,

created a close relationship between the chaebol and the government. The chaebol were often induced to participate in projects of the government's economic plans and the government, in turn, implicitly provided insurance against project failures. South Korean society as a whole came to accept the so-called "too big to fail" expectation. Under such a belief, business firms expanded their business in size rather than to earn profits. To supply the necessary funds to expand their businesses firms used the option of debt-financed growth rather than equity-financed growth. This strategy caused a high debt-equity ratio of firms, which exceeded 400% between 1996 and 1997, and the average ratio for the 30 largest chaebols reached 518 % (Chopra et al, 2001). The high level of corporate debt made enterprises difficult to gain profitability and vulnerable to external shocks. As a result, these weaknesses of the South Korean economy damaged South Korea's credibility abroad, and led to foreign capital outflow. The vicious cycle of foreign exchange shortage and deterioration of Korea's credibility developed into a foreign exchange crisis at the end of 1997.

At the end of 1997, the Korean economy was falling into a technical default situation and was becoming insolvent. The external debt outstanding at the end of 1997 reached US\$159 billion which was equivalent to 36.6% of GDP (US\$477 billion) of Korea, while the foreign currency reserves of Korea were just under 20 billion dollars. The crisis was directly caused by depletion of foreign currency reserves because of a sudden outflow of foreign currency and it caused the exchange rate to skyrocket. However, the fundamental problem was in the structural weakness of the Korean economy. After the financial crisis, various views have been suggested to explain the reasons for the crisis including the lack of liquidity and investor panic, but structural weakness in the

corporate and financial sectors of Korea were considered as the root of the crisis and made Korea vulnerable to outflows of foreign capital flows (Chopra *et al*, 2001). The IMF also had the same views on the origins of the Korean economic crisis. Therefore, when the Korean government agreed to the IMF package to receive IMF funds, which were necessary to resolve the financial crisis, the IMF forced the Korean government to comply with an IMF programme that combined financial aid macroeconomic policy adjustment, and structural reforms.

The South Korean government and the IMF reached an agreement on a financial aid package which amounted to US\$58.35 billion, including loans of US\$21 billion from the IMF, US\$14 billion from IBRD and ADB, and US\$ 23.35 billion from the G7 and other countries (KSDA, 2002). IMF provided the South Korean government with the rescue fund on the condition that the government should propel structural reforms in the financial sector, in the corporate sector, and in the labour market. The IMF also required the government to liberalize its capital market.

In the financial sector, unsound financial institutions were closed down to maintain public confidence in the banking system because the severe shortages of liquidity were harmful to the stability of the financial markets. Together with this, the South Korean government strengthened regulatory measures such as prudential regulations and supervision over financial institutions. In the corporate sector, the government focused on restoring the health and competitiveness of South Korea's enterprises and addressing the structural weakness. The government tried to enhance the transparency of enterprises' financial accounting and management systems, to improve enterprises' capital

structure, and to raise the accountability of managers and major shareholders. In the labour market, the government revised the related legislative provisions so as to make lay-off possible and to enforce flexibility in the labour market. In the public sector, central and local governments were reduced to improve their efficiency.

Phase 5

Since 1997, the South Korean government has taken a number of market liberalization measures in an effort to restore and strengthen foreign investors' confidence in South Korea's ability to overcome the financial crisis, to provide a foundation for sustained growth, and to establish a free market economy. The reforms which the government implemented were various and broad such as those indicated in Table 1.3.

Table 1.3 Economic Reforms of Korea

Category	Reform
Corporate Sector	<ul style="list-style-type: none"> · Adoption of combined financial statements · Restriction on additional loan guarantees between subsidiaries of conglomerates · Permission of mergers and acquisitions · Financial institutions, including banks, to improve capital structure · Right of individual minority shareholders strengthened
Financial Sector	<ul style="list-style-type: none"> · Suspension and closure of insolvent financial institutions · Improvement of BIS capital · Consolidation of sector's supervisory boards · Reduction of existing loan guarantees · Improvement in credit ratings · Adoption of international financial standards

Category	Reform
Labour Sector	<ul style="list-style-type: none"> · Enhanced labour market flexibility · Expanded unemployment insurance · Implementation of comprehensive social safety net · Increase in public infrastructure projects for the unemployed · Extension of emergency
Market Liberalization	<ul style="list-style-type: none"> · Full liberalization of long and short-term financial markets · Abolishment of foreign stock investment ceilings · Full liberalization of market access, either through the establishment of a branch office or a subsidiary · Abolishment of Foreign Exchange Act

(Source: KSDA, Annual Securities Market in Korea 2002)

Due to the continued effort to reform its economic structure, the South Korean economy has recovered faster than expected. South Korea terminated its three-year standby arrangement with IMF on December 3, 2000. South Korea's foreign reserves reached US\$120.8 billion by the end of 2002 due to a continuous current account surplus and the inflow of foreign investment. The government refunded its IMF loan (US\$19.5 billion) three years ahead of schedule. The GDP growth rates, which registered minus 6.7% in 1998, were beginning to increase from 1999 and lasted during 2000 to 2002 although the world economy slowed down. The changes in the South Korean economy are illustrated in Table 1.4.

Table 1.4 Key Economic Indicators of Korea (1997 to 2002)

Category	1997	1998	1999	2000	2001	2002
Per capita GNP (US\$)	10,315	6,744	8,595	9,770	9,000	10,013
Real GDP growth Rate(%)	5.0	-6.7	10.9	9.3	3.1	6.3
GDP(current price) (US\$ billion)	4,766	3,188	4,058	4,617	4,273	4,766

The amount of export (US\$ million)	136,164	132,313	143,685	172,267	150,439	162,470
Current account Balance (US\$ million)	-8,287.4	40,371.2	24,521.9	12,250.8	8,032.6	5,393.9
Foreign currency Reserves(US\$ million)	19,710	51,963	73,700	95,855	102,487	120,811

(Source: Korea National statistical Office, Bank of Korea)

4 The change of industrial structure since 1962.

Underlying the growth of the South Korean economy was a model of capacity-building aimed at engendering the 'developmental state' with an institutional apparatus organised to provide a coherent and effective system of policy formulation and implementation. The state forcibly intervened in the market and while it did not have recourse to significant levels of state ownership it sought to be omnipresent in the market. For much of the 1960s and 1970s the government was the dominant partner in its loose alliance with the *chaebol*. Rather than allow them to respond to 'market signals' the government forced cooperation in its development plans from the business leaders. It was also assumed that the 'trickle down' effects of economic growth, and the support mechanisms of the family, would provide social security and reduce deprivation.

The rapid growth of the South Korean economy has been achieved through the government's active effort and export-oriented development strategy. South Korea's five-year economic development plans in the 1960s and 1970s established a foundation for industrialization to improve its economic competitiveness. The South Korean government emphasized the development

of labour-intensive light industries such as textiles and plywood in the 1960s. In the 1970s the government changed its priority from light industries to the development of heavy and chemical industrials. After the stabilization periods of the 1980s and the early 1990s, the South Korean government started to focus on the development of information and computer technology (ICT) industries, especially since the financial crisis of 1997.

The economic progress of South Korea was a structural adjustment of the nation's industries from agriculture to modern manufacturing industries. The growth of exports, which was an engine of Korean economic growth, was achieved through the diversification of export products and the diversification affected a change in the nation's industrial structure.

In the early 1960s, most of South Korea's exports consisted of primary products such as tungsten, iron ore, fish, and raw silk, while manufactured exports constituted only a small fraction of the total. However, the manufactured exports expanded more rapidly than primary exports. The manufactured exports including light and heavy industrial commodities, which were only approximately 27% of the nation's export in 1962, reached about 90% in 1980, and then 93.2% in 2002. In particular, among these manufactured exports, the exports of heavy industrial commodities exceeded that of light industrial commodities from 1985, which means that South Korea's industrial structure changed the centre of its core industries to heavy and chemical industries (Table 1.5).

Table 1.5

Export by Principal Commodity (%)

	1977	1980	1985	1990	1995	2000	2002
F & D	10.6	7.3	4.2	3.5	2.4	1.6	1.6
C & F	3.8	2.7	4.5	2.3	3.7	6.7	5.2
LI	52.7	48.4	36.9	39.8	24.3	17.6	15.7
HI	32.8	41.6	54.4	54.4	69.6	74.1	77.5

F&D; Food & direct consumer goods, C& F; crude and material fuels, LI; Light industry commodity, HI; Heavy industry commodity

Source: National Statistics Office

The expansion of exports contributed to the acceleration of GNP growth. The share of the manufactured industry in GDP doubled from 1963, when it was only 14.7%, to 2000, when it registered 31.3%. The share of primary industries, which accounted for 43.4% in 1963, decreased to 4.7% in 2000. On the other hand, a combined share of the construction and services sectors in GDP showed an increase from 36.3% in 1963 to 60.9% in 2000. In the early 1970s, the South Korean government pushed forward an ambitious plan for the construction of heavy and chemical industries (HCI) to expand its export as well as to promote import substitution industries. Although the excessive promotion of the HCI, by the government in the 1970s, brought about some misallocation of resources and caused short-run economic difficulties in the early 1980s, the construction of HCI has contributed to the structural improvements in both the country's exports and manufacturing output in the long run (Kim and Hong, 1997). The share of heavy and chemical products in manufacturing sectors which had accounted for 29.7% of total manufactured sectors in 1963 expanded to more than 70% since the middle 1990s (Table 1.6).

Table 1.6 Industrial Structure of Korea Measured by GDP (%)

	A & F	Mining	Manufacturing			E & W	Construction	Services	G.S
			Total	LI	HCI				
1963	43.4	1.6	14.7	70.3	29.7	3.9	36.3		
1965	38.0	2.0	18.0	68.6	31.4	4.7	37.2		
1970	27.1	1.5	21.2	60.1	39.9	1.6	5.1	33.9	9.6
1975	25.0	1.6	25.9	51.9	48.1	1.3	4.7	33.2	8.3
1980	14.8	1.5	28.2	46.2	53.8	2.1	8.0	35.9	9.4
1985	12.6	1.3	29.2	41.3	58.7	3.0	7.5	37.2	9.2
1990	8.5	0.8	28.8	34.1	65.9	2.1	11.4	39.0	9.4
1995	6.2	0.4	29.4	26.9	73.1	2.1	11.3	41.0	9.6
2000	4.7	0.3	31.3	22.3	77.7	2.8	8.0	43.1	9.8

A&F; agriculture, forestry and fishing, LI; light industries, HCI; heavy and chemical industries, E&W; electricity, gas and water, G.S; producers of government services.

(Source: Bank of Korea)

5 Labour market

The rapid growth and changes in the industrial structure of the South Korean economy, as indicated in the previous sections, also affected a change in the employment structure. In 1963, over 60% of the country's economically active population was living in rural areas and 63% of the employed population was engaged in primary industries such as agriculture and fishery. However, South Korea's industrialization and economic growth, through export expansion, caused a dramatic increase of employment in manufacturing industries and service sectors. The rapid increase in non-farm employment changed the structure of employment significantly. Employment in manufacturing industries, which accounted for 7.9% in 1963, peaked at about 28% in 1980s and has declined gradually since 1990. On the contrary, the number in employment in the service sectors has increased continuously since 1963 and in 2002 amounted to 71.5% of the employment rate (Table 1.7.)

Table 1.7 Change of Employment Structure by Industry (%)

	1963	1969	1970	1975	1980	1985	1990	1995	2000	2002
A&F	63.0	51.1	50.4	45.7	34.0	24.9	17.9	11.8	10.6	9.3
Mining	0.7	1.2	1.1	0.5	0.9	1.0	0.4	0.1	0.1	0.1
Manu.	7.9	13.1	13.2	18.6	21.6	23.4	27.2	23.6	20.3	19.1
Services	28.3	34.0	35.3	35.2	43.5	50.6	54.5	64.5	69.0	71.5

(Source: Korean National Statistical Office)

South Korea has achieved a high rate of economic growth since the 1960s. Its average annual economic growth was over 7% from 1962 to 1997. Per capita income rose geometrically during the same period. It was only US\$87 in 1962, but it increased to US\$11,385 in 1996. Alongside this growth the unemployment rate remained at a very low level. The average unemployment rate was only 2.4% from 1990 to 1996. Over this period the government saw little need for an extensive social welfare package to support the unemployed relying on growth of the economy to maintain high employment rates.

However, the financial crisis that affected South Korea in 1997 caused dramatic changes to the Korean economy. The growth rate of GDP was reduced to a low record -6.8% in 1998. The unemployment rate peaked at 8.5% in the first quarter of 1999 following the crisis. During 1998 the number of unemployed increased sharply from 573 thousands people in the fourth quarter of 1997 to 1,235 thousands people in February 1998 (Table 1.8). The number of unemployed with previous job careers and anticipating a 'job for life' increased dramatically from 326 thousands in the fourth quarter of 1997 to 1,096 thousands in February 1998 accounting for 87.4% of total unemployment. Thus, the South Korean government planned, for the first time in March 1998, a

“comprehensive unemployment scheme”.

Table1.8 Rise and Fall of the Newly Employed and Previously Employed
(Person: thousands, %)

	1997							1998	
	Mean	First quarter			Second quarter	Third quarter	Fourth Quarter	Jan	Feb
		Mean	Jan	Feb					
The unemployed	568 (2.6)	659 (3.1)	565 (2.7)	675 (3.2)	560 (2.5)	480 (2.2)	573 (2.6)	964 (4.7)	1,266 (6.1)
The newly unemployed	243 (42.8)	297 (45.1)	248 (43.9)	308 (45.5)	242 (43.3)	185 (38.7)	247 (43.0)	156 (15.1)	170 (12.6)
The unemployed worked previously	325 (57.2)	361 (54.8)	317 (56.1)	367 (54.5)	318 (56.5)	295 (61.3)	326 (57.0)	808 (84.9)	1,096 (87.4)

(Source: Korea National Statistics Office)

The unemployment schemes implemented in South Korea have some of the characteristics of an active labour market policy in that they focus on the conditions that help the unemployed back into work and not merely implement relief measures (Jeong, 2002). The basic framework of unemployment schemes that the Korean government implemented from 1998 to 2002 consists of two parts: active measures and measures that help and protect the unemployed. In the active measures, job maintenance support measures and job creation measures are pursued to minimize a new occurrence of unemployment. In measures that help and protect the unemployed, support for employment and livelihood protection for the unemployed are pursued.

Other policies adopted by the Korean government (Ministry of labour, 2003a) included enhancing the competitiveness of enterprises to create preconditions for job creation, education and training system focused on meeting the needs of

the information and knowledge-based society in order to improve the employability of the unemployed. For the unemployed, who lost jobs involuntarily due to economic restructuring, the government provided various educations and training programmes to help them back to work. These programmes also focused on increasing the nation's competitiveness as well as reducing unemployment. In addition coverage of the social safety net for the unemployed has been expanded. A more detailed examination of the policies, introduced to deal with unemployment, is made in Chapter 3.

Due to the unemployment schemes as well as restructuring in the financial and corporate sectors, Korea's economy recovered from financial crisis and the unemployment rate and the number of unemployed decreased continuously since 1998 (Table 1.9). By the end of 2002, the unemployment rate was 3.1% and the number of the unemployed decreased to 798 thousand people.

Table 1.9 Unemployment rate and number of unemployed (1998~2002)

	1998	1999	2000	2001	2002
Rate(%)	7.0	6.3	4.1	3.8	3.1
Number(thousand)	1,490	1,374	913	845	708

(Source: Korea National Statistical Office)

However, even though Korea achieved an economic recovery and overcame the unemployment trouble, several new issues emerged in South Korea's labour market. Firstly, the economic activity participation rate has not recovered fully to the level of 1997 (Table 1.10). The economic activity participation rate as a proportion of working age population was 62.5% in 1997, reducing to 60.6% in 1998 and 61% in 1999. The rates began to increase from 2000, but stayed at a

lower level at the end of 2002 as compared with that of 1997. The low rate of economic activity resulted from the fact that a lot of the unemployed gave up seeking jobs and remained economically inactive. Where economic activity participation rates decline it is more difficult to argue that the unemployment problem has been solved.

Table 1.10 Economic Participation Rate (person; thousand, %)

	Pop.15years old and over	Economically active population	Not economically Active population	Participation rate
1997	34,851	21,782	13,070	62.5
1998	35,347	21,428	13,919	60.6
1999	35,757	21,666	14,092	60.6
2000	36,186	22,069	14,118	61.0
2001	36,579	22,417	14,162	61.3
2002	36,963	22,877	14,096	61.9

(Source; Korea National Statistical Office)

Second, non-regular workers have increased since 1997 (Table 1 .11). The share of regular employment had started to reduce before financial crisis. However, the increase of non-regular workers, which include temporary and daily workers, has accelerated since the financial crisis of 1997. The rate of non-regular workers, which was 45.7% among the total employees in 1997, surpassed the regular workers in 1999 and stayed over 50% in 2002. Due to the increase of non-regular employment, average job tenure, which means the length of stay in the same enterprise, has reduced. The average job tenure in 1999 decreased to 6.0 years and declined to 5.6 years in 2002, while it was 7.08 years in 1994 (Kuem, 2000, IMF, 2004). The rise of non-regular jobs and the decrease in job tenure has led to more job precariousness in Korea's labour

market. This is as a structural characteristic of the South Korean economy, which is problematic, not only from a social point of view but also for reasons of economic efficiency (OECD, 2000). In general, non-regular workers are paid lower wages, are entitled to fewer benefits and are not well covered by the social safety net.

Table 1.11 Employment Structure: Status of Workers (Person; thousand, %)

	1997	1998	1999	2000	2001	2002
Total	13,404	12,296	12,663	13,360	13,659	14,181
Regular	7,282 (54.3)	6,534 (53.1)	6,135 (48.4)	6,305 (47.9)	6,714 (49.2)	6,862 (48.4)
Non-regular	6,122 (45.7)	5,762 (46.9)	6,529 (51.6)	6,965 (52.1)	6,944 (50.8)	7,329 (51.7)
Temporary	4,236 (31.6)	4,042 (31.9)	4,255 (33.6)	4,608 (34.5)	4,726 (34.6)	4,886 (34.5)
- Daily	1,886 (14.1)	1,720 (14.0)	2,274 (18.0)	2,357 (17.6)	2,218 (16.2)	2,433 (17.2)

(Source: Korea National Statistical Office)

Thirdly, the ratio of long-term unemployment to total unemployment has increased. Long-term unemployment, which means unemployment for more than one year, was 155 thousand (10.6%) of total unemployed in 1998. However, it increased continuously to 15.4% in 2002 even though the total unemployment rate remained stable (Table 1.12).

Table 1.12 Ratio of Long-term Unemployed (1998-2002) (person: thousand, %)

	1998	1999	2000	2001	2002
Total unemployed (A)	1,490	1,374	913	845	708
Long-term unemployed(B)	158	210	134	129	109

	1998	1999	2000	2001	2002
Ratio of long-term Unemployed(B/A)	10.6	15.3	14.7	15.2	15.4

(Sources: Koran National Statistical Office)

Lastly, since 1997 there has been a significant increase in youth unemployment, the age group from 15 years old to 24 years old (Table 1.13). The number of youth unemployed was 162 thousand in 1996 and has increased rapidly since 1997. The level of youth unemployed peaked at 371 thousand in 1998 amounting to 15.9% of the unemployment rate. Although the youth unemployment rate improved from the worst situation, it still remained at a high level compared with the total unemployment rate. Youth unemployment increased mainly due to changes in companies' strategies in hiring employees. Enterprises expressed their preference for workers with job experience over first-time job seekers.

Table 1.13 Youth Unemployment Indicators (Person: thousand, %)

	1996	1997	1998	1999	2000	2001	2002
Total unemployment	435 (2.0)	568 (2.6)	1,490 (7.0)	1,374 (6.3)	913 (4.1)	845 (3.8)	709 (3.1)
Youth unemployment	162 (6.1)	194 (7.6)	371 (15.9)	321 (14.1)	232 (10.2)	219 (9.7)	184 (8.1)

(Sources: Korea National Statistical Office)

Conclusion

Much of the success of the South Korean economy up until 1996 was its adherence to a developmental state approach that saw a close supportive relationship between the government and the main financial and industrial

conglomerates. The economic growth experienced by South Korea meant that little attention was given to issues of unemployment since this was not a major issue. The move towards a more liberalised economy and the financial crisis that emerged in the mid 1990s required the South Korean government to implement structural reforms part of which included the development of institutions to deal with unemployment.

Chapter 3 deals in detail with the nature of those institutions that were developed in South Korea but is preceded by Chapter 2 that provides a theoretical and historical analysis of the development of public employment services and unemployment insurance systems. The changes to the labour market in South Korea following the financial crisis such as the growth in economic inactivity have created a situation that has also become apparent in other countries particularly the UK. Chapter 4 analyses in some detail unemployment and economic inactivity in the UK to compare the response there with that in South Korea.

Chapter 2 Theoretical, Historical and Institutional Development Relating to Public Employment Services

1 Introduction

Unemployment is both an economic and social problem in many countries. Although there are diverse solutions to solve the problem the fundamental approach, in looking for a solution, is to establish proper institutions to deal with the problem and to establish the most effective institutional incentives to prevent unemployment and enable the unemployed to get a job. Employment insurance systems and public employment services are considered to be important institutions to cope with problems of unemployment.

Unemployment insurance systems have been important tools in solving the unemployment problem in other advanced countries prior to one being introduced in South Korea in 1994. In South Korea the employment insurance system involving the payment of unemployment benefit played an important role in South Korea's unemployment schemes that were established after the economic crisis. By 2002 South Korea's employment insurance fund accounted for approximately 64 percent of the annual budget of the unemployment programme (Ministry of Labour, 2003). Most countries have developed their own unemployment protection policy for the unemployed according to their circumstance and the public employment service has evolved its role to improve the function of carrying out unemployment protection policies.

This chapter explores how the unemployment insurance system and public employment service have evolved to cope with unemployment problems in

other countries in order to assess the implications of South Korea's employment insurance system and public employment service. In order to do this firstly the unemployment benefit system will be outlined looking at the basic models which are popular in developed countries, secondly, the theory and effects of unemployment benefit systems on unemployment will be covered. Lastly the role of public employment services will be explained looking at its function and its development to carry out unemployment protection policies in relation to unemployment insurance systems. Understanding the general trends in unemployment benefit policy in the world provides a framework for examining how Korea's employment insurance system and public employment service operate.

2 Theoretical considerations of unemployment insurance systems

Individuals are generally believed to be risk averse; that is, they would prefer a certain income stream to an uncertain income stream with the same expected value. Risk-averse individuals will generally wish to purchase insurance. Due to the dynamic nature of the economy, labour markets are subjected to continual change and adjustment. As a consequence, many workers face risk and uncertainty. Labour market risks are especially significant because labour market income is a worker's main source of wealth and because workers are generally unable to diversify their human capital wealth. In contrast, individuals whose wealth consists mainly of financial assets can reduce their income risk by holding a diversified portfolio. In addition, comprehensive private insurance markets that would enable most workers to purchase insurance against the risk of loss of labour market income (due to unemployment, reduced hours of work and other responses to change) have generally failed to emerge (or, if they

emerged, to persist) despite the demand that evidently exists for such insurance. According to the economic theory of insurance, this absence (or limited nature) of private insurance markets is probably due to moral hazard and adverse selection.

Moral hazard arises when the insured individual can affect the probability of occurrence of the event against which he is insured. In the context of unemployment insurance, moral hazard implies that individuals with insurance are more likely to become or remain unemployed. Adverse selection arises when two conditions hold: (i) there are differences across individuals in the probability of occurrence of the event (s) against which they are insured and (ii) individuals (insurees) are aware of the risks they face but insurers are only aware of the average risk for the group. In these circumstances, insurers will charge purchasers a common price based on the average risk. The individuals who face the greatest risk will be the most likely to purchase insurance. In the context of unemployment insurance, adverse selection implies that the purchasers of unemployment insurance will be those who face the greatest risk of becoming unemployed.

Relative to a situation without moral hazard and adverse selection, these two effects reduce the profitability of selling insurance and may result in a situation in which the sale of insurance is not profitable at any price. Moral hazard and adverse selection are generally present in any insurance situation. Whether they prevent the emergence of private insurance markets depends on their magnitudes. For example, in life insurance, moral hazard is not a serious problem because few individuals will take their own lives in order to collect insurance. Insurance companies often reduce the small amount of moral

hazard by not paying insurance in the event of suicide or murder by a beneficiary. Adverse selection is minimised by such means as not selling insurance to high risk groups (e.g. sky divers), charging differential fees to others (e.g. smokers), and requiring medical examinations for certain individuals seeking insurance.

Moral hazard and adverse selection appear to be quantitatively important in the market for unemployment insurance (Coles and Masters, 2004; Wang Cheng and Williamson, 2002; Levin and Wright, 2001). Consequently, private companies are unlikely to offer insurance against the risk of unemployment except under very narrowly specified circumstances. An additional reason why private insurance companies would be reluctant to provide unemployment insurance is that the risk of cyclical unemployment is largely non diversifiable except over time. That is, the risk of unemployment due to the business cycle is positively correlated across members of the labour force so that pooling many insurees does not substantially reduce the aggregate risk (Green and Riddell, 1993).

This probable failure of private insurance markets to exist on a comprehensive basis provides the fundamental efficiency rationale for a publicly provided unemployment insurance scheme that allows the risk of income loss due to unemployment to be diversified somewhat across individuals, regions and over time. In particular, intervention in markets characterised by adverse selection and moral hazard can, in principle, increase social welfare. Whether a specific intervention achieves this result depends on its design, including how the government-instituted programme deals with the problems associated with adverse selection and moral hazard.

In most state-sponsored unemployment insurance programmes, the consequences of adverse selection are minimised by requiring participation by all of those covered by the programme. This compulsory participation prevents the individuals who believe themselves to be low risk from opting out of insurance coverage. Of course, a similar outcome could be achieved with private sector provision by requiring labour market participants to carry some minimum amount of unemployment insurance.

The consequences of moral hazard can be reduced in several ways. One is via coinsurance so that the insuree loses some income if the insured against event occurs. Examples include deductibles in automobile insurance policies and earnings replacement rates below 100% in unemployment insurance programmes. A second mechanism involves having unemployment insurance premiums paid by employers and/ or employees "experience rates", that is, have them depend on their past contributions to unemployment, much like automobile insurance rates depend on an individual's accident record. Another mechanism requires unemployment insurance recipients to be available for and actively seeking work and to accept a "suitable" job if offered. The first two of these methods of reducing moral hazard effects could be used by either publicly or privately provided unemployment insurance schemes. The third mechanism is probably better handled by a public agency in that society is unlikely to want to grant these broad monitoring and surveillance powers to private companies.

For these reasons, public provision of unemployment insurance may achieve efficiency gains in the operation of insurance markets. However, the goals of the unemployment insurance programme are also likely to be affected by the choice

between public and private sector provision. The profit motive will cause private market provision to focus on the insurance objective, whereas provision through the public sector is likely to result also in the pursuit of equity or redistributive goals. This shift in goals may come about from vote-maximising behaviour by politicians and rent-seeking behaviour by citizens (Green and Riddell, 1993).

Although fully developed private insurance markets may not exist for the above reasons, it would be a mistake to assume that there are not private market responses to the demand for insurance against the risk of unemployment. Firms may insure their employees to some degree, thus shifting the risk from the labour market to the capital market, where it can be handled more readily via portfolio diversification by shareholders. This is the central insight of implicit contract theory which prior to 1997 in South Korea was the main institutional response to labour market fluctuations i.e. a job for life. In exchange for offering relatively stable employment, the firm can pay a lower wage. If employees are more risk averse than the owners of the firms, which is very likely given that human capital risks are difficult to diversify, both can benefit from such an arrangement. In effect, the employment contract, whether explicit or implicit, involves two transactions – labour services provided by the employee and insurance provided by the employer. The employer is better able to deal with the adverse selection and moral hazard problems than a private insurance company. Another potentially important set of private market responses involves various forms of self-insurance such as saving, career diversification, and family labour supply.

These various private market responses are unlikely to reduce the need for comprehensive unemployment insurance. In particular, the “systematic risk”

associate with the business cycle is difficult to reduce through portfolio diversification. Nonetheless, the existence of these responses is important to note in that state-provided unemployment insurance will tend to displace them, at least to some extent.

A plan of insurance must have an actuarial basis. There must be a definition of the risk insured against and the conditions under which indemnity will be paid; the area of insurance must be limited to contingencies, not situations that are certain to occur; there must be some possibility of estimating the rate of occurrence of the contingency; the amount of the indemnity (under unemployment insurance, the rate and payment) must be determined; and the premium or contribution must be calculated which is needed to provide a fund sufficient to meet all probably claims.

For an unemployment insurance plan to be genuine insurance, it follows that (1) the insured person, to have an insurable interest, must be subject to risk of losing something of real value; (2) the actual occurrence of this contingency must be easy of verification and of proof that it falls within the scope of insurance contract.

Under unemployment insurance, as regards (1), the contingency is loss of employment and the earnings there from. A person who is not normally in insurable employment to a substantial extent and within a recent period of time has nothing of substantial value to lose and cannot have an insurable interest. As regards (2), there must be a ready means of determining when an insured person is unemployed and whether he meets the minimum conditions for the receipt of benefit (Green and Riddell, 1993).

The above is a brief statement of what is meant by "insurance principles" as that expression is used in connection with unemployment insurance. A scheme of cash relief for the unemployed which does not adhere to these principles is not insurance.

3 Background to unemployment insurance systems

The essential role of an unemployment insurance system is to provide income security (unemployment benefit) during spells of involuntary unemployment and help the unemployed back to work. From a macroeconomic point of view unemployment benefit is a kind of "automatic stabilizer" which supports consumption in an economic downturn. That is to say, unemployment benefits contribute to consumption smoothing at both the individual and the macroeconomic level. It also promotes efficient job search by facilitating a better match between the supply and demand of labour. Unemployment insurance systems also function as social insurance to enhance the welfare of the community as a whole by transferring the uncertainty of risk from the individual to the community (ILO, 2000).

Unemployment insurance systems and employment exchanges developed in Western economies in the second half of the nineteenth century. These countries experienced the process of industrial development earlier than other countries. In the western capitalist economies a labourer provides his or her labour power to an employer and gets a wage providing a means for living. The lack of income resulting from unemployment not only impacts on the individual and their family but by reducing purchasing power leads to a decrease in

aggregate domestic consumption. This ultimately leads to a decrease of domestic production and employment, resulting via a multiplier process in a further increase in unemployment. Thus not only is the output lost from those initially unemployed but further output is lost through the reduced level of consumption.

Prior to the development of an industrialised society unemployment was not considered as an important policy problem. It was seen as a temporary and occasional problem or inevitable due to seasonal or cyclical changes. It was regarded as a worker's own responsibility if they became unemployed. Moreover, the risk of short-term and frictional unemployment may not develop into a social problem because if it could be covered by self-financing insurance. However, high unemployment that results from national or international recessions could not be overcome by individual efforts as was recognised in South Korea. It requires unemployment schemes and expenditure by national governments and the development of unemployment insurance systems. Payment of unemployment benefit under these system helps to mitigate the economic recession as well as to protect the unemployed. Therefore, over the years, unemployment insurance systems have taken an important role, through various mechanisms such as employment coverage, entitlement to unemployment benefit, and the duration of benefits, in protecting the unemployed and inducing the unemployed to seek work.

Before national-level unemployment insurance systems were introduced in industrial countries unemployment protection schemes in several European cities were organized initially through trade union associations. Under these schemes union members contributed voluntarily to insurance funds and

received unemployment benefits from the funds when they became unemployed. However, these voluntary unemployment insurance funds, organized by trade unions, experienced financial difficulties and could not provide sufficient unemployment benefit because they were funded only by workers who were especially exposed to a high risk of unemployment. Nevertheless, these voluntary insurance funds became the foundation for the development of future unemployment insurance systems.

The first unemployment insurance systems which were developed provided a subsidy to pre existing voluntary unemployment benefit networks. This subsidization of individual schemes became known as the Ghent system (Mares, 2000). France introduced a national policy of unemployment insurance in 1905 by providing a subsidy to all associations that offered unemployment benefit in cases of unemployment. It was followed by Norway in 1906, Denmark in 1907, Netherlands in 1916, and Spain in 1919. These Ghent systems were essentially voluntary unemployment insurance systems although for trade union members membership was in fact compulsory but for non-members it was voluntary. Today some countries, such as Norway and Sweden, maintain these systems.

The first compulsory unemployment insurance system was introduced by the United Kingdom with the introduction of the National Insurance Act in 1911. In this system workers, with certain exemptions, were required to belong to an unemployment insurance system. Unemployment insurance programmes were extended to most workers in industry and commerce in 1920. Following the introduction of such a scheme in the United Kingdom, Italy instituted an unemployment insurance programme covering most manual workers in 1919.

Several countries such as Austria (1920), Bulgaria (1925), and Germany (1927) also instituted compulsory unemployment insurance systems. After the economic depression of 1930s and the risk of high unemployment the United States (1935), Canada (1940), and Japan (1947) established unemployment insurance systems. Over time most countries have modified and developed their systems through extension of coverage and increases in benefit duration and rates.

Unemployment insurance systems have been developed as one of a number of unemployment protection policies that include unemployment benefit, collective contract, and regulations for firing employees. The unemployment protection systems of various countries reflect the social changes that have occurred in their own labour market history, resulting in different types of unemployment protection systems. Industrially developed countries have evolved their unemployment protection systems over a lengthy period of time. They try to improve policies aimed at counteracting unemployment and solving unemployment problems by establishing effective unemployment protection systems. Developing countries have remained in the initial stages of developing unemployment protection systems or have, as yet, no institutional unemployment protection system.

Although the unemployment protection systems vary from country to country in developed countries, the unemployment protection systems have been developed according to two basic models. One is the North American (primarily liberal) model which is popular in countries that belong to the Anglo-Saxon tradition and have highly dynamic markets. In this model, unemployment benefits are based on insurance principles. The other is primarily a social model

which is popular in West European countries where the labour market tends to be less flexible, partly due to numerous historical and social circumstances that have occurred over the course of the past century. In this model, unemployment benefits are based on both insurance principles and welfare principle (Chetvernina, 2003).

4 Basic principles and types of unemployment benefit.

The primary policy outcome of unemployment insurance system is unemployment benefits. In most countries unemployment benefits are governed by two basic principles. One is the insurance principle which underpins an unemployment insurance benefit system while the other is the welfare principle which underpins an unemployment assistance benefit system (Schmid, 1995). In the unemployment insurance benefit system, the benefits which the unemployed receive when they lose their job are financed by wage-linked insurance contributions, which are paid by employers or employees. Thus, benefits are available only to those who have paid insurance contributions during their previous period of paid employment. In this case, the time period or duration for receipt of benefit is limited according to their length of previous employment. Benefit levels are usually linked to previous earnings and, in some cases, the duration of previous employment. The insurance benefit system is a system for the transfer of income through time rather than across individuals by self financing principle (Spiezia, 2000). As a consequence of this financing rule, in the unemployment insurance benefit system the level of benefit and duration of benefit are closely connected to the employed worker's contributions and are conditional on a minimum period of continuous contributions.

In unemployment assistance benefit systems, benefits are generally independent of previous earnings and contribution payments. Unemployment assistance benefits are means-tested and financed from general taxation. In this case, the level of unemployment benefit is connected to need criteria and is lower than that provided by an unemployment insurance benefit system. However, the duration of unemployment benefit is usually unlimited. For an individual to be eligible for assistance benefits, it is sufficient that he or she is unemployed with a non-labour income below a fixed standard. In this case, the level of benefits and duration of benefits are not connected to a worker's past contributions. The level of benefits is based on average standard wages or on national minimum wage. In short, unemployment assistance benefits systems are about the redistribution of income amongst individuals participating in the labour market.

In practice most of countries adopted both types of unemployment benefit scheme. In many cases, during an initial stage of unemployment, the unemployed person receives unemployment benefit according to unemployment insurance principles. After the duration of unemployment insurance benefit has been exhausted the unemployed person may receive unemployment assistance benefit according to unemployment assistance welfare principles. Apart from unemployment insurance benefit and unemployment assistance benefit, in some countries, general assistance (social assistance) is paid to all persons in need, irrespective of whether they are available for work or not.

The support systems for the unemployed in developed countries can be divided into three groups (Schmid and Reissert, 1996):

1. Unemployment insurance only: in Italy, the United States and Greece.
2. Unemployment insurance and unemployment assistance: in Germany, Spain, France, Sweden, Austria, Finland and Portugal
3. Unemployment insurance and guaranteed minimum income (social assistance): in Belgium, Denmark, Luxembourg, the Netherlands and the United Kingdom.

Unemployment insurance systems, in most of countries, apply operating criteria to the operation of their systems. These include having to meet an initial waiting period prior to receiving benefits, meeting certain qualifying conditions as indicated above, and limiting the level of unemployment benefit and/or the duration of unemployment benefit, and being aware of the beneficiary rate of the unemployment insurance system. These criteria are dealt with in more detail below.

Initial waiting period refers to the period when unemployment benefit is not paid at the beginning of an unemployment spell. A minimum waiting period is believed to reduce the cost of administering unemployment benefit and discourage the casual use of the system. This period ranges from 3 to 7 days although in some countries such as German, Belgium, Denmark and the Netherlands, the unemployed person does not need to complete a waiting period.

Qualifying conditions include criteria under which the unemployed are entitled to receive unemployment benefit. Unemployment benefit is conditional on a

minimum period of insured employment before becoming unemployed. Unemployment benefit is also usually restricted to those who become involuntarily unemployed. Those workers who become unemployed voluntarily or because of industrial misconduct are excluded from unemployment benefits in order to encourage the unemployed to stay in work. Minimum periods of insured employment also vary according to countries ranging from 6 months to 12 months.

The duration of insured employment (employment record) also affects how long the unemployed receive unemployment benefit entitlements. The maximum duration of insurance benefits varies greatly from country to country, for example five years for older unemployed in France. Rates of unemployment benefit (the replacement rate) are also linked to criteria for entitlement of unemployment benefit according to how much the unemployed contribute during their insured period. In some countries such as Belgium, Spain and France, the level of benefits is regressive so that the benefit level dwindles according to the length of unemployment in order to prevent increases in long-term unemployment.

Eligibility conditions are criteria under which the unemployed receive unemployment benefit conditional on job search and related behaviours. Workers should be in the situation that they are available for work, have taken active steps to find work and are able to meet administrative requirements such as having the necessary documents, attending interviews with employment counsellors, and applying for vacancies as directed by the public employment service (OECD, 2000).

The beneficiary rate is the proportion of the unemployed who actually receive unemployment insurance benefit. It is an indicator of how much the unemployment insurance system responds to the needs of workers when they fall into unemployment. In general, beneficiary rates largely depend on the coverage of the unemployment insurance system, eligibility conditions and other labour market policies. The stricter the eligibility criteria are the smaller the beneficiary rates.

Coverage of the unemployment insurance system is the percentage of the labour force that is covered by the unemployment insurance programme. Therefore, coverage in the unemployment insurance system can be the precondition for eligibility conditions because workers, who are not covered under the unemployment insurance system, can not qualify for unemployment benefit. The ideal unemployment insurance system is one which includes all wage and salary employees. However, due to the difficulty in determining the eligibility requirements and the excessive burden of administering for unemployment benefits, some groups of workers such as part-time workers, seasonal workers, agricultural workers, and self-employed workers are often excluded from unemployment insurance systems. In some countries these groups of workers are covered by unemployment assistance programmes (Storey and Neisner, 1999).

5 Effects of unemployment insurance benefit

Unemployment insurance benefit may affect labour market activities in various ways. Unemployment benefits not only provide protection against income loss during unemployment periods, but also act as an incentive to work and to hire

or to fire in the labour market. The effects of unemployment benefits on labour market activities are well known (Schmid, 1995). Nine possible directions such as 'moving from employment to employment' and 'moving from inactivity to inactivity' can be distinguished (Table 2.1).

Table 2.1 Labour Market Flows Affected by Unemployment Benefit

From \ To	Employment	Unemployment	Inactivity
Employment	1	2	3
Unemployment	4	5	6
Inactivity	7	8	9

(Sources : Schmid, 1995)

For example, moving from employment to another employment can be occur when moving from a large to small firm; from permanent to temporary term contracts of employment, or from a full time to part time job. These moves may be facilitated by unemployment insurance if this transition carries a greater risk of unemployment (Schmid, 1995). However, among the possible transitions enabled by unemployment insurance benefits, moving from unemployment to unemployment has been identified because the generosity of unemployment insurance benefit has been considered as one of the chief factors causing an increase in unemployment rates. Thus, studies on the effects of unemployment insurance systems have chiefly focused on the disincentive effects of unemployment benefits. Two theories, job search theory and labour supply theory, have been used to explain the disincentive to reemployment inherent in unemployment insurance systems (Decker, 1997).

According to labour supply theory an increase in the level of unemployment

benefit (increase of replacement rate) and an increase in duration of unemployment benefit tend to lengthen unemployment spells because unemployment benefit creates disincentive effects to reemployment. In this model a newly unemployed person, who is eligible for unemployment benefit, is supposed to plan his or her activities over an unemployment period, and decide how to spend his or her unemployment period between work and leisure. During the period, the individual may prefer to either consume the maximum amount of leisure or accept a job. An increase in the level of unemployment benefit tends to extend the unemployment period because the cost of unemployment is lowered by the availability of unemployment benefit during the eligible period (Moffitt and Nicholson, 1982). This model shows that many benefit recipients will put off returning to work until near the time that they exhaust their benefits, so that unemployment insurance benefit has the effect of prolonging the unemployment spells of beneficiaries.

Job search theory starts from the assumption that the job search occurs in an environment where unemployed individuals are uncertain about the wage offers that they will receive. Given this uncertainty, unemployed workers decide their job search intensity and their minimum (reservation) wages. They decide to end their unemployment spell when wage offers exceed their minimum acceptable wage. In job search theory unemployment insurance diminishes the cost of unemployment and encourages benefit clients to reduce the intensity of their job search or to raise their minimum acceptable wages which result in an extension of unemployment spells. An increase in the level and duration of unemployment benefit will strengthen this extension tendency (Burdett, 1979 and Mortensen, 1977).

There has been a considerable amount of research into how unemployment systems might influence the level of unemployment (Atkinson and Micklewright, 1991). Based on the theoretical positions outlined above four aspects of unemployment benefit systems have been identified as affecting the level of unemployment. These are the level of benefit, the duration of entitlement, the coverage of the system and the strictness with which the system is operated (Nickell et al, 2005).

A number of studies have looked at the relationship between the level of unemployment and the level of benefits including Holmlund (1998), Carling et al (1999), Hunt (1995), Meyer (1995), Nickell and Layard (1999) and Scarpetta (1995). The empirical research suggests that a 10 percentage-point increase in replacement rates extends unemployment spells by between 0.5 weeks and 1.5 weeks and one week increase in the duration of unemployment benefit seems to extend it by between 0.1 and 0.5 weeks (Decker, 1997). The rate of benefit recipient's reemployment tends to increase greatly just before they exhaust their benefits (Katz and Meyer, 1990).

In terms of the duration of benefit entitlement there is evidence to suggest that shorter periods of benefit entitlement lead to shorter durations of unemployment (Ham and Rea, 1987; Katz and Meyer, 1990). In terms of coverage of the system Bover et al (1998) have shown that in the case of Spain and Portugal those covered by the system were slower to leave unemployment than those not covered. There is also evidence to suggest that the strictness with which the system is operated, at given levels of benefit, will affect the duration of unemployment (OECD, 2000(a)).

To respond to these reemployment disincentives in unemployment insurance systems various measures have been introduced to make the unemployment insurance more favourable for reemployment. Firstly, unemployment insurance systems have been improved through control of the level of unemployment benefit and reduction of the duration of unemployment benefit. For example, France has reduced both the maximum duration of benefits and replacement rates for the long-term employed. Germany, Ireland and Sweden have reduced replacement rates for some groups (OECD, 1994). In the UK the maximum period of entitlement to unemployment insurance has been reduced from one year to six month from 1996 (Stancanelli, 1999).

Secondly, reform of unemployment insurance has been pursued through changing benefit programmes in such a way as to create new financial incentives for reemployment or to provide additional job search assistance or other employment services in order to expedite recipient's return to work (Decker, 1997). As a financial incentive reemployment bonuses, which are lump sums, can be paid to those who become reemployed faster.

Thirdly, the imposition of eligibility conditions, concerning job search and related behaviour, could offset and even reverse the disincentive effects on the level of unemployment. If unemployed workers do not meet the eligibility criteria during the period of unemployment they will lose entitlement to unemployment benefit (Grubb, 2000). It means that the level and the duration of unemployment benefit fall. Enforcement of eligibility conditions in unemployment insurance systems are likely to encourage the unemployed to back to work although this relies on the public employment service checking and enforcing the eligibility conditions.

Fourthly, some countries emphasize job training and related provisions as well as the traditional provision of unemployment benefit. In 1969, Germany integrated unemployment insurance with job training and an employment stability programme. Japan replaced its unemployment insurance act with an employment insurance act in 1974 and emphasized the concept of lifetime employment in contrast to the concept of temporary aid. Canada included job training provisions in the unemployment insurance system in 1971 and replaced the unemployment insurance act with an employment insurance act in 1996. The newly legislated employment insurance act of Canada was intended to encourage workforce attachment, to reduce benefit levels for frequent claimants and to encourage active reemployment measures such as wage subsidies, self-employment assistance, and job-creation measures rather than passive income support in order to improve employability of benefit claimants (Fedorovitch, 2001).

The purpose of these more active labour market policies is to provide active assistance to the unemployed which will improve their chances of work. A number of studies have shown that such policies can reduce unemployment (Scarpetta, 1996; Nickell, 1997 and Martin 2000). Some of these active labour market initiatives, such as the emphasis on employment rather than unemployment, apply to the South Korean case as is discussed in Chapter 3.

6 Role of public employment service

Public employment service (PES) can be defined as the broad network of institutions that provides job-broking services, labour market information,

unemployment and related benefits, referral to active labour market programmes and employment-related welfare reform services (OECD, 1999). As can be inferred from its definitions, a modern public employment service carries out diverse functions. According to the OECD definition, PES carries out job-brokerage or placement function, the provision of income support to job seekers and improvement of the skills and employability of jobseekers through labour market measures such as training and job creation (OECD, 1993). The International Labour Office (ILO) states the function of PES as job-broking, development of labour market information system, administration of labour market adjustment programmes, and administration of unemployment benefit (Thuy *et al*, 2001).

The early PES appeared in western industrialised countries around the end of the nineteenth century with the introduction of labour exchanges and unemployment insurance benefits. Before the emergence of PES, labour exchange and unemployment insurance were developed by labour unions or employers. In particular trade unions and employers took an important role as recruitment intermediaries. However, the private agencies operated by trade unions and employers gave rise to mistrust between both of them. Unions suspected that employers used labour exchanges as a means for striking-breaking, and employers suspected that unions used labour exchanges in order to have a 'closed shop'. Early public employment services were created to counter the negative effect of private agents and tried to provide free public exchange services for the unemployed (Ricca, 1988). The ILO, which was created in 1919, recommended that PES should have a monopoly in the labour exchange market and prohibit the establishment of private employment agencies (unemployment recommendation, 1919. No 1). In this stage of its

development the PES generally acts as an employment placement agency which arranges for job seekers to obtain job and employers to fill vacancies. Modern PES now have a wider focus including getting the unemployed into work as soon as possible through active labour market measures which include job placement services, unemployment insurance and welfare benefits services, and labour market programmes such as job-search assistance, vocational training for the unemployed, hiring subsidies and job creation schemes.

Active labour market policies were emphasized by the OECD which stressed the need to shift the focus of labour market policies from the passive provision of income support to more active measures in order to assist reemployment. The OECD urged governments to improve the functioning of the PES in order to enhance the effectiveness of active measures. Firstly, PES should integrate three basic functions: placement and counselling services, payment of unemployment benefit, and management of labour market programmes. In addition, PES should give adequate attention to the flow, processing and dissemination of information on vacancies. Secondly, PES should ensure that unemployment insurance benefit claimants remain in regular contact with PES, and that they maintain job search efforts through such methods as back-to-work plans, job clubs, and reorientation interviews. Thirdly, PES should eliminate the monopoly position of the PES because private placement agencies can take a complementary role in job placement market as well as temporary work agencies (OECD, 1994).

The integration of these basic functions is based on the rationale that effectiveness of active labour market measures can be increased if the functions are carried out in the same front line offices or at least under close

cooperation between the responsible networks (OECD, 1996). In order to improve the effectiveness of active labour market policies the need for competition with private agencies and the abolition of monopoly advantage of PES in the labour market was emphasised (OECD, 2000). However, excessive competition in carrying out public employment policies may mean that disadvantaged job seekers stay in unemployment longer, because private employment agencies tend to focus on job seekers with good skills to increase their performance and exclude the disadvantaged job seekers. Therefore, modern PES often concentrate on the promotion of equity in the labour market by focusing on disadvantaged or hard-to-place job seekers with low skills.

7 Job-broking function

The function of job-broking can be defined as the processes through which the PES arranges for jobseekers to find jobs and for employers to fill vacancies, in other words it means job matching between jobseekers and vacancies (Thuy *et al*, 2001). Employers and jobseekers do not have full information about vacant jobs or candidates for jobs when they are seeking necessary workers or new jobs. Systematic links between employers and jobseekers are needed to make labour transactions operate efficiently. Therefore job-broking service have been introduced and developed, whether it is carried out by PES or private employment agencies. If there is no job-broking service, it will take longer to fill vacancies and the unemployed will stay unemployed longer. The PES provides both employers and jobseekers with the necessary information and brings both sides of the market together.

Besides the PES there are various channels for employers and job seekers to

use in the labour market such as newspapers, advertisement, personal contact, notice boards, and private employment agencies. However, the chief obligation of the PES is to focus on guaranteeing public responsibility and the principle of equity in the job-broking market. Due to these characteristics the PES should maintain several principles in carrying out its job-broking function. Firstly, where information on job vacancies and jobseekers is collected, labour exchange services should be accomplished on a voluntary basis. Secondly, exchange services should be free in order for all employers and jobseekers to use them. Thirdly, confidentiality and privacy of information which jobseeker provide should be observed. Fourthly, the job-broking process should be fair to avoid discrimination towards employers or workers, but it is sometimes reasonable to discriminate positively in favour of certain disadvantaged groups such as the long term unemployed.

In order to help the registered jobseekers to find proper jobs, it is important for the PES to keep as many vacancies as possible which are available for jobseekers. Various strategies such as increasing the number of local offices, registration of advertised vacancies, regular contact with employers and provision of useful information for them are used in order to achieve this object. PES, in a number of countries, have maintained contact with employers through regular visit to enterprises. For example, the United Kingdom has appointed account managers who deal with particular firms. In Australia, Germany and Sweden, every employer can contact a particular counsellor who is available for the employer.

According to the degree of intervention, PES can operate three different systems; closed, semi-opened, and open system (Thuy *et al*, 2001). In closed

systems, both employers and jobseekers can use the information about vacancies and jobseekers only through PES staff. Therefore, the staff of PES can control the referrals of jobseekers to employers. This system is very useful for the staff if they wish to increase the possibility of providing vacancies to hard-to-place and less qualified jobseekers, although it can cause employers to complain about unsatisfactory referrals. In the semi-open system, information about vacancies can be displayed on PES data systems without detailed contents such as the name and address of employers. Jobseekers can do their job search and when they find out proper jobs, they can contact with PES staff to get detailed information about vacancies. After screening whether the job seeker is suitable, staff can match the jobseeker to the employer. In the open system, PES provides information directly to both jobseekers and employers, and then both sides can contact each other without any involvement of the PES. The development of the internet makes it possible for PES to maintain open systems in the labour market. One problem with this arrangement is that it is difficult for the PES to know whether a vacancy has been filled or not. Another is that it is difficult to find out whether a vacancy has been filled as a result of the efforts of the PES effort, which is necessary to measure the effect of the job-broking function. Therefore, in practice, the PES, in most countries, combine these different systems (OECD, 2000).

The way of handling vacancies in PES determines the scope of the PES staff in job broking. For example, in the closed system, a lot of staff will be needed while, in an open system, little or no staff will be needed. The development of information technology has contributed to the improvement of PES efficiency in registering jobseekers and job vacancies. Development of information technology makes it possible for PES to focus their efforts on the disadvantaged

groups, because more advantaged jobseekers can find out vacancies and other labour market information through self-service systems, which are available through the internet.

8 Involvement with unemployment benefit systems

The degree of involvement of the PES in unemployment benefit systems is different from country to country. In some countries, PES administers the unemployment benefit system while in others there is a more distant relationship. In terms of relationship with unemployment benefit systems, the role of PES can be divided into three categories. The first is to provide job search assistance or reemployment service for benefit claimants. The second is to confirm the continuing eligibility and job search verification of benefit clients, and the third is to administer the unemployment benefit programme (Thuy *et al*, 2001).

Job search assistance may be part of the process of carrying out a job-broking function as well as part of the process of payment of unemployment benefit. Job search assistance starts with the registration of unemployment benefit claimants which is a precondition for benefit payment. With the initial registration of benefit claimants, the PES needs to explain the rights and duties of the unemployed individuals in their period of unemployment. Depending on the results of such an interview the PES can introduce a variety of job search assistance activities such as group information workshops, compulsory intensive interviews, establishing individual action plans, and mandatory referrals to active labour market programmes including job training. The method and degree of such differs from country to country.

In most countries, unemployment insurance systems include “able to work” and “available-for-work” eligibility requirements that those claiming unemployment benefit have to meet in order to receive unemployment benefits (Grubb, 2000). Thus the PES assists the unemployment benefit programmes in its effort to monitor compliance with “able to work” and “available for work” requirements. In order to carry out this function, benefit clients are usually required to register as jobseekers with PES, and are required to report their job search activities to PES. PES administrators use work test requirements to assess whether clients have registered with the PES, whether they do not submit job search activity report, fail to accept a suitable job referrals, or refuse an offer of suitable work. After identifying a client’s obligations, the PES makes a decision whether unemployment benefit should be denied or not, and in the case of separate systems, between PES and the benefit administration, the PES passes the information to the benefit administration for them to make decisions about benefit payment.

A third role for the PES is to administer the entire unemployment benefit system. However, the degree of involvement in unemployment system differs greatly according to countries. In some countries such as Canada and Norway, PES administers the entire unemployment benefit system. In other countries, PES takes a role for reemployment of beneficiaries as mentioned above. The fundamental functions administering unemployment insurance by PES are tax collection, benefit determination, benefit payment, and continuing eligibility and job search verification (Thuy et al, 2001). There are some conflicts between the two functions of carrying out job-broking and administering unemployment benefit. In the job-broking function it is important for the PES to maintain a

close relationship with employers and jobseekers, while the benefit system needs rigorous enforcement of rules, including eligibility criteria, and imposing of sanctions. The implementation of benefit principles may alienate the PES from both employers and jobseekers, and thus make it difficult for the PES to carry out its inherent function for reemployment of unemployed people.

9 Administration of labour market adjustment programmes

Labour market adjustment programmes go beyond simple traditional job-broking and unemployment benefit functions carried out by the PES. They include job-search assistance, training/education programmes and lifelong learning, direct job creation and work experience, and various integrated programmes (Thuy et al, 2001). The emphasis is on the interaction between active labour market measures and unemployment benefit or related benefit systems. The key point of labour market adjustment programmes has been "welfare-to-work" policies which allow people to be independent from unemployment benefit or related benefits. These programmes are especially important in disadvantaged groups such as the long-term unemployed, unemployed young people, elderly workers and the workers with disabilities.

The OECD have emphasized the role of PES in carrying out labour market adjustment programmes (OECD, 1994). The reason for this is that the PES has a good general knowledge of the labour market and the PES is familiar with individual employers and job seekers' needs and has a local service delivery infrastructure. The PES also has links with both the training and education networks and the social assistance or welfare networks. For these reasons, the PES has become the gateway and gatekeeper for these programmes although

the scope and range of involvement by PES differs from country to country.

Job search assistance element of labour market adjustment programmes can be defined as helping job seekers find proper jobs through providing information, counselling and guidance. Job search assistance by PES can be divided into three categories such as universal and self service provision, group activities, and individual and intensive assistance (Thuy et al, 2001). Universal and self-service provision provides various information such as general occupational information, related education and training opportunities information. Group activities assist many job seekers by grouping them according to their characteristics and include, for example, job clubs, job fairs, group courses or workshops on job-search techniques, and job-plan workshops. Individual or intensive assistance is an intensive one-to-one assistance to unemployed job seekers through counselling, vocational guidance or intensive employment counselling and sometimes establishing action plans, which are designed to help claimants return to work.

Education and training programmes are intended to provide basic education to those who lack basic skills, to help unskilled workers qualify for jobs and to help skilled workers change their occupation in response to economic change. Therefore, education and training programmes have significant implications in the labour market adjustment programmes because they aim to respond to changes in the labour market. However, administrating of education and training programmes is not one of the core functions of PES even though these programmes are important. In practice, PES takes a role in the recruitment and selection of candidates for such programmes and in placing candidates in employment after their programmes are completed. The more important role of

PES in education and training programmes is planning and supervision of such programmes because PES has maintained close relationship with the labour market. Usually emphasis is placed on training and education programmes for specific target groups such as hard-to-place individuals. Selection of suitable unemployed and provision of proper training institutions are important task of PES in order for these programmes not to be used as parking places for the unemployed.

Direct job creation programmes are aimed at increasing the demand for labour and improving the employability of jobseekers by providing them the opportunities of work experience. The type of job creation programmes can be divided into three categories such as public sector programmes, programmes for promotion of self-employment and employment incentives or wage subsidies (Thuy et al, 2001). Public sector programmes is create jobs in public or quasi-public sectors in non-market activities. Programmes for promotion of self-employment provide necessary assistance in capital and technical fields to unemployed people who intend to start small enterprises. Employment incentives or wage subsidies to employers are a useful means of creating jobs for disadvantaged groups. The scope and range of involvement by PES in administration of job creation are very diverse from country to country.

9 Conclusions

This chapter has covered the theoretical and historical basis for the development by the state of unemployment insurance schemes and public employment services that provide a range of services including, for example, job brokerage.

The development of institutions to deal with unemployment has seen the move from a passive system often concentrating on the provision of benefits to a more active system that attempts to deal with structural issues in the labour market such as skills mismatches between jobs available and workers available which then emphasises a training function is needed to rectify the mismatch.

This chapter has covered a range of initiatives available to combat unemployment and improve the workings of the labour market. Some of these initiatives have been covered in some detail because it highlights the complex systems that have to be put in place and the resources needed to operate these systems. Many of the issues covered such as eligibility rules, coverage of unemployment insurance and the functions of a public employment service will be further developed in a South Korean context in the next chapter.

In many countries these developments in public employment services have been gradual and incremental allowing institutions to evolve. In South Korea the development of such institutions has been condensed into a short time period following the financial crisis of 1997 that required South Korea to react to the consequential changes in industrial and labour markets. The next chapter concentrates on the development of the South Korean public employment service and unemployment insurance system examining the impacts of such rapid institutional change.

Chapter 3 Employment Insurance System and Public Employment Services in Korea

1 Introduction

In the previous chapter, unemployment benefit systems and public employment services were explored looking at how both systems have evolved in order to positively affect labour market transitions and function as active labour market policies. The history of the South Korean unemployment benefit system and public employment insurance system is short. While in the economic development stage with high growth rates, South Korea did not feel the need to introduce a social protection system because the country experienced labour shortages rather than unemployment. At that time it was believed that any unemployment problem could be solved by the process of economic development.

It was not until the middle of the 1990s that South Korea became seriously interested in an unemployment benefit system and public employment service. During this period the South Korean government made an effort to develop a social development plan as well as an economic development plan. South Korea introduced its employment insurance system in 1995. With the introduction of the employment system, South Korea established an employment security centre to manage the employment insurance system. In addition the employment security centre was supposed to take a role as a public employment service. As well as undertaking a passive labour market policy, through an employment insurance system, an active labour market policy, through a public employment service, was to be pursued. Accordingly, the

employment security centre is in charge of carrying out the employment insurance system and a job broking function to expedite the unemployed back into work.

This chapter explores the labour market policy carried out by the employment insurance system and employment security centre which are the main employment policy instruments in South Korea. To understand South Korea's employment policy, the employment insurance system of Korea will be outlined with a brief history of the system and its coverage. In the next stage, main programme of employment insurance system will be looked into with more details of its subordinate programme and its performance in order to see the programmes' effects. Lastly, employment security centre will be examined to understand its role in Korea's employment policy and its performance.

2. Overview of Employment Insurance System in Korea

The South Korean Employment Insurance System (EIS) was introduced in July 1995 after the Employment Insurance Bill was passed in 1993, and became operational national wide from July 1996. Before the introduction of EIS, there was a lot of discussion, in the 1960s and 1970s, about the introduction of an unemployment insurance system. However, the idea of introducing an unemployment benefit system was only studied internally within the labour administration and was not developed further at that time. It was felt that the South Korean economy was not developed enough to implement such a system and there was concern about the adverse effects of an unemployment benefit system on incentives to work and the increasing financial burden on the

business sector.

It was not until the 1980s that the government started to become interested in the introduction of an unemployment system when it was drafting the 6th Five-Year Socioeconomic Development Plan. The discussion only remained as a debate and did not result in any action at that time. It was in the 7th Five-Year Plan in the 1990s that the South Korean government committed itself to introducing an unemployment benefit system. However, the system that the government had in mind was not a traditional unemployment benefit system. The government did not think that an unemployment benefit system was sufficient to protect unemployed people. The government looked to more active labour market policies for the unemployment benefit system in line with discussions on active labour market policies in European and OECD countries. The more desirable form of unemployment insurance system was considered to be a combination of the traditional unemployment benefit system and active labour market policies, including vocational training. The government therefore decided to introduce an employment insurance system rather than an unemployment insurance system (Employment Insurance White Paper, 2003).

Before the introduction of the EIS, the government, in 1992, set up the Employment Insurance Research Committee, which consisted of scholars, to develop an employment insurance model for South Korea. The Committee submitted "the Proposed Employment Insurance System for Korea" in 1993 and the government prepared the Employment Insurance Bill on the basis of the proposal and the Bill passed a plenary session of the National Assembly on December 1993 aimed at putting it into effect on July 1995. The employment insurance system of Korea was not a passive system that only provided

unemployment benefit when workers lost their jobs. The system aimed to prevent unemployment, to promote employment, to develop and improve the vocational ability of workers, to strengthen the nation's vocational guidance and job placement capacity, and to stabilize the livelihood of workers and promote their job seeking activities through the enforcement of employment insurance (Employment Insurance Act, 1995). In order to achieve this objective, the Act regulated three main policies which consist of employment stabilisation programme, the job skill development programme, and the unemployment benefit programme.

In principle, EIS of Korea is a compulsory social insurance system. All employers and employees participating in enterprises must pay an insurance premium which entitles workers to receive grants or unemployment benefits from the employment insurance fund. However, when the Employment Insurance Act was passed in the National Assembly, it authorized a Presidential Decree to make exceptions for certain businesses according to scope of the business and consideration of the administrative difficulties in collecting the insurance premium in very small enterprises and the need for a sound financial standing of the business.

Therefore, when the South Korean EIS was first put into effect in July 1995, its scope was restricted to a certain level of enterprises by Presidential Decree. At first, unemployment benefit coverage was limited to workers employed in firms with 30 or more employees, and the coverage of employment stabilisation programme and job skill development programme were limited to workers at businesses with more than 70 employees. Moreover, the Employment Insurance Act did not apply to workers who were working in some categories even

though they were employed by insured enterprises. These categories are 1) those who were newly employed after age 60, 2) those whose fixed work hours per month fell short of what is determined by the Ordinance of the Ministry of Labour (part-time workers), 3) daily workers, 4) those employed in seasonal or temporary projects, 5) government officials, and 6) the teaching staff of private school (Employment Insurance Act, 1995).

It was inevitable that the scope of the EIS was limited given that the Korean public sector was not developed enough to cover the cost of the system, yet the extension of EIS coverage was considered crucial as a social security net and to implement active labour market policies. The government attempted to expand the coverage of the system so that it was available for as many workers as possible, especially after Korea experienced the financial crisis and mass unemployment in 1997. Accordingly, the coverage of unemployment benefits was extended to firms with 10 or more employees in January 1998, and then to firms with 5 or more employees in March 1998, and then to all firms with at least one employee in October 1998. Along with the extension of unemployment benefit coverage, two other programmes, the employment stabilisation programme and the job skill development programme, were correspondingly extended (Table 3.1). In 2002, the Employment Insurance Act was revised to include daily worker in the EIS which is supposed to come into effect in January 2004.

Table 3.1 Changes in Coverage of the EIS

Date	Unemployment Benefits	Employment Programme/ Job Skill Programme	Stabilisation Development
July, 1995	30 employees	70 employees	
Jan, 1998	10 employees	50 employees	
March, 1998	5 employees	50 employees	
July, 1998	5 employees	5 employees	
Oct, 1998	1 employees	1 employees	

(Source; Employment Insurance White Paper, 2003)

In December 1995, the number of insured workers whose employer registered them at public employment offices and paid premiums was just 4,204,000, but it increased to 7,203,000 in 2003. Nevertheless, a lot of employees are still excluded from EIS coverage. In 2003, among those workers who were working as employees, just 49.3 percent were covered by EIS. Moreover, of those employees who should have been legitimately covered by EIS, only 74.6 percent were registered with insured employers. Thus there is a large gap between the number of employees who should be insured and the number of employees who are actually insured even though the number of insured workers has increased (Table 3.2).

Table 3.2 EIS Coverage (1995-2003) (Unit; thousand persons, %,)

Year	Employment (A)	Employees (B)	Employees legitimately Insured (C)	Insured Employees (D)	D/A	D/B	D/C
1995	20,279	13,045	4,280	4,204	20.7	32.2	98.2
2000	21,042	13,548	8,700	6,747	32.1	49.8	77.6
2001	21,628	13,996	9,269	6,909	31.9	49.4	74.5

Year	Employment (A)	Employees (B)	Employees legitimately Insured (C)	Insured Employees (D)	D/A	D/B	D/C
2002	22,052	14,405	9,269	7,171	32.5	49.8	74.0
2003	22,096	14,624	9,651	7,203	32.6	49.3	74.6

(Sources; Korea National Statistic Office, Work Information Centre of Korea)

This difference between employees and insured employees or legitimately insured employees and insured employees is due to two main reasons. The first reason is that the Employment Insurance Act excludes daily workers who work less than a month in a firm and are supposed to be more disadvantaged workers. The another reason is that the employers are reluctant to refer their employees to employment security centres because of the inconvenience of regulations such as the declaration process and form filling and limited administrative capacity (Hur and Yoo, 2001). The expansion of coverage and ensuring all qualified workers are actual insured workers is a critical task for the Korean EIS. It is evident that because of its limited coverage the EIS does not yet play a full role in protecting unemployed workers and promoting them back to work.

3. Unemployment Benefit Programme

3.1 Outline of unemployment benefits programme

The unemployment benefits programme is the key measure in the unemployment insurance system and aims to provide cash benefits to insured workers who lose their jobs. The unemployment benefits programme provides support for the basic living cost of insured workers and the families, and helps

the unemployed find suitable jobs according to their employability (Employment Insurance White Paper, 2003). The unemployment benefits programme consists of a job-seeking allowance (JSA) and employment promotion allowance. JSA is designed to stabilise the living condition of the unemployed and the families during unemployment in order to facilitate smooth job seeking activities, while the employment promotion allowance aims to promote and speed up reemployment of the unemployed. Therefore, JSA takes a fundamental role in the unemployment benefits programme as a social safety net and the employment promotion allowance plays a complementary role.

3.2 Job Seeking Allowance

JSA is designed to minimise the adverse side effects of unemployment benefit as in other advanced countries. In order to do so the South Korean Employment Insurance Act applies eligibility requirements such as a waiting period before collecting any benefits, appropriateness of the level of unemployment benefit, and limits to the duration of unemployment benefit. Eligibility requirements for JSA include a claimant's prior work experience, reason for job termination, and job seeking activities. JSA is paid to the unemployed workers who meet the prescribed eligibility requirements.

In order to receive JSA claimants should have an insured employment record with insurance contributions of at least 180 days out of the 18 months base period before they became unemployed. In addition, unemployed people are required to register as job seekers at an employment security centre immediately and ask for JSA within 12 months after their job loss. This aims to promote early reemployment through the assistance of job placement services

provided by the employment security centre. Also, the claimants should be willing, able and available to work, and must be actively seek work. The employment security centre decides whether the claimants comply with these criteria, and the claimants are considered not to be actively seeking work if they fail to respond to job offers or accept job placement services from the employment security centre. Lastly, the claimants are disqualified if they quit their job voluntarily without good cause or lost their job due to serious misconduct.

The level of JSA is based on an individual claimant's previous wage rate rather than a flat amount. The amount of JSA is basically 50 percent of the claimant's average wage rate during the last three months before the worker became unemployed. However, if the daily level of JSA, calculated by the claimant's previous average rate, is lower than the minimum daily wage rate set by the Minimum Wage Act, then the payment is set at 90 percent of the minimum daily wage rate. JSA is paid to recipients every two weeks during the period of unemployment.

The duration of JSA depends on the insured employment period and the age of claimants, ranging from a minimum of 90 days to a maximum of 240 days (Table 3.3). JSA should be claimed within 12 months of losing a job and is not paid during the 7 days waiting period from the date when the unemployment was reported. In some cases, claimants could receive three kinds of extended benefits such as training extended benefits, individual extended benefits, and special extended benefits.

Table 3.3 Duration of Job Seeking Allowance

		Insured Employment Period (Year)				
		Less than 1	1~3	3 ~ 5	5 ~ 10	10 or more
Age	Less than 30	90 days	90 days	120 days	150 days	180 days
	30 ~ 50	90 days	120 days	150 days	180 days	210 days
	50 or more and disabled	90 days	150 days	180 days	210 days	240 days

(Source; Employment Insurance White Paper, 2003)

The training extended benefits is paid to a qualified recipient for up to 60 days while waiting for training and for two years for the training period, if the unemployed person takes vocational competency development training for reemployment arranged by the employment security centre which takes into consideration a recipient's age and experience. The individual extended benefit may be provided to a qualified recipient who has difficulty in finding a job in a short period of time and funds are provided to maintain their livelihood for up to 60 days. The special extended benefit is activated where there is a sharp increase in the unemployment rate.

3.3 Employment Promotion Benefits

Employment promotion benefits aim to minimise the abuse of unemployment benefits and promote job search efforts. The benefits include an early reemployment allowance, a vocational training allowance, a nationwide job seeking allowance, and a moving allowance. The early reemployment allowance is a kind of incentive pay system used to reduce a recipient's duration of unemployment and encourage the unemployed to get into a stable occupation as soon as possible. The benefit is paid to qualified recipients

when the recipient of JSA succeeds in getting a stable job before exceeding one-half of recipient's possible benefit duration. The amount of benefit paid is one-half of the remaining job seeking benefits.

The vocational training promotion allowance is paid to a qualified recipient for the period of vocational ability development training which is recommended by the employment security centre. The allowance includes necessary expenses for training, such as transportation and meal costs, apart from JSA. The nationwide job seeking allowance is intended for qualified recipients to engage in extensive job search efforts in large areas by supporting necessary expenses such as transportation and lodging costs. The moving allowance is paid to qualified recipients who move to other places for new employment or vocational training arranged by the employment security centre.

4. Performance of Unemployment Benefits Programme

The unemployment benefits programme has played an important role as a social safety net in South Korea's economic crisis. When Korea introduced its employment insurance system in 1995, nobody could anticipate the economic crisis. Two years after the crisis and since the introduction of the system, the unemployment benefits programme has contributed to the stabilisation of the livelihoods of unemployment people. Until 1997, when the unemployment rate of Korea was 2.6 percent, there were few beneficiaries of unemployment benefit. In 1997, the number of beneficiaries was just 55,000. However it increased dramatically to 402,000 in 1998 when the unemployment rate soared to 6.8 percent peaking at 483,000 in 1999 and 481,000 in 2003. Total expenditure on unemployment benefits has followed a similar trend peaking at 936,185 million

won in 1999 and 1,030,304 million won in 2003 (Table 3.4).

Table 3.4 Performance of Unemployment Benefits (1996-2003)

	Job seeking allowance		Employment promotion benefits		Injury and Disease benefits		Total	
	Number	amount	Number	amount	number	amount	number	Amount
1996	-	9,958	-	473	39	-	7,308	10,459
1997	50,964	75,943	4,542	2,577	268	212	55,774	78,732
1998	383,648	782,865	17,361	15,273	1,276	1,016	402,285	799,154
1999	462,635	911,308	19,310	22,237	1,293	2,640	483,238	936,185
2000	303,631	443,546	24,763	24,884	1,959	2,363	330,353	470,793
2001	374,286	783,859	44,339	57,152	1,439	4,099	420,064	845,110
2002	362,895	773,861	43,943	61,087	1,180	4,371	408,018	839,319
2003	428,254	945,599	51,725	79,880	1,268	4,825	481,247	1,030,304

* The data in number of beneficiaries of the unemployment benefit in 1996 is not available in Employment Insurance Database

(Source; Employment Insurance Database)

Job seeking allowance accounts for most of the benefits in terms of number of beneficiaries and expenditure. In 2003, JSA accounted for 89.0 percent of all benefit recipients and 91.8 percent of all unemployment benefit expenditure. In contrast, employment promotion benefits, which aim to promote reemployment of the unemployed, made up 10.7 percent of the beneficiaries and 7.8 percent of total expenditure. Within the employment promotion programme, the early reemployment allowance is widely used and has increased in number of beneficiaries and the amount of expenditure, while the performance of other programme such as the vocational training allowance, nationwide job-seeking allowance, and the moving allowance appears to be very limited (Table 3.5).

Table 3.5 Performance of Employment Promotion Benefits (1996~2003)
(Unit: Persons, Million won)

	Early reemployment		Vocational training		Nationwide job-seeking		Moving allowance		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1996	-	469	-	4.0	-	0.06	-	-	-	473
1997	4,487	2,558	2	0	51	19	2	-	4,542	2,577
1998	17,318	15,257	5	0.1	28	15.0	10	1.0	17,361	15,273
1999	19,243	22,225	10	0	11	5	46	7	19,310	22,237
2000	24,712	24,877	11	0	33	2.0	38	6.8	24,763	24,884
2001	44,135	57,120	8	0	33	2.0	163	27.0	44,339	57,152
2002	43,694	61,055	3	0	65	3.6	181	28.3	43,943	61,087
2003	51,538	79,853	-	-	1	0.03	186	27.0	51,725	79,880

* The data in number of beneficiaries of the employment promotion benefit in 1996 is not available in Employment Insurance Database

(Source; Employment Insurance Database)

As with the employment promotion benefits, the extended benefits seem to have had low utilisation rates except for the special extended benefit. The number of beneficiaries in the training extended benefits and individual extended benefit was only 8 and 364 respectively, in 2003. The total number of the training extended benefits from 1996 to 2003 stayed at 72, questioning the necessity of the programme even though the benefit aims to promote reemployment of recipients, who are considered to be disadvantaged groups in labour market (Table 3.6)

Table 3.6 Performance of Extended Benefits (1996~2003)
(Unit; Persons, Million won)

		1996	1997	1998	1999	2000	2001	2002	2003
Training	Number	-	31	17	3	2	11	8	-
Extended	Amount	7	37	105	45	2.2	5.6	23	-
Individual	Number	-	3	4	496	1,011	676	364	190
Extended	Amount	-	1	2	198	620	482	339	180
Special	Number	-	-	122,962	244,284	-	-	-	-
Extended	Amount	-	-	82,525	215,929	-	-	-	-

* The data in number of beneficiaries of the extended benefits in 1997 is not available in Employment Insurance Database

(Source; Employment Insurance Database)

The unemployment benefits programme of South Korea is designed to protect the livelihood of the unemployed during a period of unemployment and to promote reemployment of the unemployed by requiring them to take up active job seeking efforts and providing incentives including an early employment allowance. The effectiveness of the unemployment programme can be evaluated in two different ways. Firstly, looking at how much the programme contributed to the protection of the unemployed and secondly by looking at how much the programme contributed to the promotion of reemployment of the unemployed.

The effectiveness of unemployment benefits as a social safety net can be understood by comparing the number of unemployment benefit recipients with the total number of unemployed. The proportion of beneficiaries to the total number of the unemployed has increased from 0.6 percent in 1996 to 14.8 percent in 2002 (Table 3.7). Accordingly, the role of the unemployment benefit programme can be said to have improved in protecting the unemployed. However, in spite of this increasing trend in the proportion, it is still low. In

2002, just 14.8 percent of the total of unemployed people could receive unemployment benefit and most of the unemployed (85.2 %) remain outside of the social protection system. Therefore, it can be inferred that the unemployment benefits programme has not played a sufficient role as a social safety net.

Table 3.7 Unemployment Benefits Recipient Rate by Total Unemployed (1996-2002)

Year	1996	1997	1998	1999	2000	2001	2002
Rate	0.6 %	1.8%	7.6%	10.4%	8.1%	13.3%	14.8%

(Source; Employment Insurance Review, Korea Labour Institute, 2003)

There are several reasons why such a small proportion of the unemployed receive unemployment benefits in South Korea. Firstly, the ratio of insured employees to the total number of employees is still low. Secondly, Korea's employment insurance system has strict eligibility rules for claiming unemployment benefit. The system does not cover those who quit their job voluntarily without good causes which covers many people. The proportion of involuntarily unemployed people, who are entitled to unemployment benefit, is low, ranging from 23 percent to 27 percent (Table 3.8).

Table 3.8 Rate of being unemployed by Cause of Unemployment (2000~2002) (Unit; Persons, %)

Year	Total number of unemployed	Voluntarily unemployed	Involuntarily unemployed
2000	2,478,331(100)	1,897,855(76.6)	580,476(23.4)
2001	2,479,699(100)	1,818,691(73.3)	661,008(26.7)
2002	2,856,768(100)	2,195,954(76.9)	660,814(23.1)

(Source; Employment Insurance Review, Korea Labour Institute, 2003)

The effectiveness of reemployment arising from the unemployment benefits programme can be understood by analysing the reemployment rate of the unemployed who terminated receiving unemployment benefits. In 2003 among the beneficiaries who were receiving job seeking allowance, 284,185 of recipients stop receiving the benefits in the same year and most of them quit receiving benefits because of expiry of the benefit duration without getting into jobs. Thus most of the beneficiaries failed to get reemployment within their unemployment benefit duration. Of those unemployed who quit receiving benefits, 40,809 recipients (14.4%) got into work covered by the employment insurance system including recipients who receive early employment allowance (Table 3.9). The effectiveness of the unemployment benefit programme for reemployment purposes is not high.

Table 3.9 The Reemployment Rate of Quitters from Unemployment Benefits (2001~2002) (Unit: persons, %)

Year	Total number of quitters	Quitters through expiry	Getting into job			Others
			Total	Reemployed	Early reemployment allowance	
2001	218,621 (100)	185,259 (84.7)	21,118 (9.7)	6,491 (3.0)	14,627 (6.7)	12,264 (5.6)
2002	287,776 (100)	223,200 (77.6)	47,930 (16.7)	15,700 (5.5)	32,230 (11.2)	16,646 (5.8)
2003	284,185 (100)	225,912 (79.5)	40,809 (14.4)	12,519 (4.4)	28,290 (10.0)	17,464 (6.0)

(Source; Employment Insurance Database)

5 Public Employment Service in Korea

5.1. Outline of Public Employment Service

The public employment service in Korea consists of the employment security agency which consists of local labour administration offices that carry out employment security activities such as job placement and job counselling (The Employment Security Act, 1994). The employment security agency includes employment security centres, the Manpower Bank, which has been integrated into the employment security centre from 2003, the Daily Employment Centre, the Human Development Centre and the Employment Information Centre. The employment security centre, Manpower Bank and the Daily Employment Centre were established and are managed by the Ministry of Labour, whilst the Employment Information Centre is operated by municipalities and local government, which consist of 253 cities, counties, and districts. The employment security centre deals with employment insurance and employment security services. The Manpower Bank is specialised in job-matching services and is co-managed by the central government and provincial governments in 7 mega-local self-governing bodies. The Daily Employment Centre focuses on helping daily workers with job search and job matching. The Employment Information Centre provides the unemployed with job placement services and job counselling, and refers its clients to training programmes or public work programmes. The Human Development Centre is managed by the Human Resources Development Services of Korea which operates vocational training institutions, including 21 polytechnic colleges, and partly takes a role as job placement agency. At the end of 2003, there were 457 public employment agencies in Korea and 2,843 staff working for these agencies (Table 3.10).

Table 3.10 Public Employment Security Agencies in Korea (2003)
(Unit: agencies, persons)

	Employment Security centre	Daily Employment Centre	Man-power Bank	Employment Information Centre	Human Development Centre	Others	Total
Agency	155	16	-	253	23	10	457
Staff	2,367	48	-	344	73	11	2,843

* Others include the agencies which are registered in Work-Net and staffs who can operate data in Work-Net

(Source: Work-Net)

Among the public security agencies, the employment security centre takes a role as a core player dealing with the employment insurance system and public employment services. When the employment insurance system was first introduced in 1995, there was not an employment security agency to support the employment insurance system even though there was a continuous debate on the necessity of introducing a management agency for the new employment insurance system. Instead, the job security division and employment insurance division of local labour offices, under the Ministry of Labour, tackled job placement and employment insurance related tasks in 46 local labour offices.

With the extension of coverage in the employment insurance system, as well as a massive increase in unemployment in 1997, the government began to realise that a new independent management agency should be established to meet the increased demand for services. In 1998, the government introduced an employment security centre as a management agency for the employment insurance system by spinning off the job security division and the employment

insurance division of the local labour office and integrating two divisions into one independent agency. Since establishing the employment security centre the government has expanded and reinforced public employment offices and created a nationwide network for employment services. Most of all, the number of employment security centres has increased from 52 in 1997 to 155 in 2003 with some fluctuations according to the economic situation. The number of staff in the centre has also increased from 141 to 2,397 (Table 3.11). The public employment service in Korea is still in the process of adjustment in terms of the number of employment security centre and the number of staff working in the centres.

Table 3.11 Change of Employment Security Centre (1997~2003)
(Unit: Centres, Persons)

	1997	1998	1999	2000	2001	2002	2003
Centre	52	99	122	126	168	156	155
Staff	141	2,056	2,661	2,462	2,492	2,364	2,367

(Source: Ministry of Labour)

The employment security centre performs three basic roles, a job broking function, involvement in unemployment benefit, and administration of labour market adjustment programme (Table 3.12). As mentioned already, Korea's employment insurance system is designed to provide an active labour market policy as well as passive labour market measures. The employment security centre of Korea, which is in charge of implementing the employment insurance system, is in the centre of these policies. The centre administers the employment insurance system because it is established as the management organisation for the system. However, the degree of involvement in employment insurance system is somewhat different according to different programmes

which consist of the employment stabilisation programme, the job skill development programme, and the unemployment benefit programme.

Table 3.12 Main Activities of Employment Security Centre

Functions	Detailed Activities
Employment Support	<ul style="list-style-type: none"> - job counselling, job analysis, work attitude and interest tests - job placement services, job search/offer services - employment promotion for the aged - achievement programme and employment support programme - approval, registration, and reporting services according to the Job Security Act - manpower export and recruiting activities - prevention of irregularities related to job placement services - job offer management - work supply activities
Employment Insurance	<ul style="list-style-type: none"> - task related to the application and eligibility for employment insurance - job searching allowance payment - job placement services and assignment instructions - job searching allowance beneficiaries, and suspension of payment for those who do not comply to assignment instructions - Counselling and guidance on Job skill development training - Handling of employment management plan applications - Processing of applications for the various subsidies and supports provided by the employment security scheme - Verification and supervision of the employment security projects - Tasks related to the payment of allowances for maternity leaves or childcare leaves - Other tasks related to the employment insurance scheme
Unemployment related activities	<ul style="list-style-type: none"> - Tasks related to the payment of allowances for work experience programs for the youth - Tasks related to wage payment for employment support projects - Development and provision of services for self-support employment assistance plans

(Source: Korean Association for Public Administration, 2002)

In the employment stabilisation programme and the unemployment benefit programme, the employment security centre is in charge of all processing of the programmes, while most of the job skill development programme is carried out by local labour offices, which entrust some vocational training to training institutions including public and private training institutions. The employment security centre is involved in providing guidance and counselling on vocational training, if it is needed, in the process of job matching services and management of unemployment benefits. The employment security centre does not deal with the provision of unemployment benefits but concentrates on efforts to reemploy the unemployed. Claimants for unemployment benefits register as job seekers at employment security centre and need to demonstrate that they are active job seekers. The employment security centre checks the eligible qualification for unemployment benefits and provides job counselling and job matching assistance.

In relation to the job broking function, the employment security centre provides information to all employees and job seekers. Every job seeker is treated equally for job matching purposes irrespective of whether they are insured workers or not. The Korean government has developed an electronic labour exchange system called Work-Net in order to facilitate the job broking function of the employment security centre. The Work-Net, which can be accessed from the Internet, provides various information and services such as job vacancies, vocational training, career guidance information, employment policies, and labour market statistics. Every job seeker can search almost all job vacancies registered in public employment agencies through the Work-Net. For job matching, the employment security centre maintains a semi-open system in

which information about vacancies and job seekers are basically displayed on Work-Net and job seekers and employers can contact with each other without any intervention of public employment agencies. However, in most cases, the employment security centre refers job seekers to employers with job vacancies and supports job seekers through employment support such as job counselling, work aptitude and interest test, and job search services.

4.2. Performance of Employment Security Centre

The main function of the employment security centre is to provide a job broking function. There have been 3,204,299 vacancies and 6,482,537 jobseekers listed with the employment security centres since it was established in 1997. In terms of job matching performance, i.e. succeeding in placing workers in vacancies and getting work for job seekers, the highest rates was achieved in 2000 recording 43.6 percent and 25.0 percent respectively (Table 3.13)

Table 3.13 Performance of Job Broking Function (1998~2003)
(Unit: Persons, %)

Year	Vacancies(A)	Job seekers(B)	Employed(C)	C/A	C/B
1998	186,361	1,221,413	69,798	37.5	5.7
1999	541,488	1,456,658	237,088	43.8	16.3
2000	557,096	972,382	242,979	43.6	25.0
2001	608,154	1,025,962	241,978	39.8	23.6
2002	642,032	873,296	191,979	29.9	22.0
2003	489,168	932,826	180,450	36.9	19.3
Total	3,204,299	6,482,537	1,164,272	38.5	17.9

(Source: Work-Net)

The number of jobseekers using the employment security centre shows a

decrease after 1999 when the number of jobseeker reached the highest point and this trend seems to reflect the economic situation when the unemployment rate and the number of unemployed decreased sharply form that year. With the decreasing trend in the number of job seekers using the centres, the job matching rate of vacancies and job seekers has decreased from 2000. The low matching rate between job vacancies and job seekers demonstrates that the employment security centre is still not able to satisfy the demand of employers and job seekers. The centres fail to provide sufficient information to both clients even though the number of centres has been expanded.

By looking at the previous job status of the unemployed we can get some understanding as to which type of workers frequently use the employment security centre. Regular workers use the centres more than non-regular workers where the latter includes time workers and contract workers, even though non-regular workers make up 50 percent in the labour market. Among the job seekers registered at employment security centres in 2003, regular workers accounted for 91.7 percent in the jobseekers registered and 89.2 percent in the number of jobseekers who succeeded in getting back into work. In contrast, the rate of jobseekers who wanted non-regular jobs consisted of just 2.1 percent of registered unemployed and 7.0 percent of employed workers (Table 3.14). This unbalance between regular workers and non-regular workers means that the job broking function of the centres fails to reflect the character of the labour market of South Korea and the centres have been somewhat negligent in assisting the relatively disadvantaged workers.

Table 3.14 Performance of Job Broking Function by Employment Status (2003)(Unit: Persons, %)

Employment statue	Vacancies(A)	Jobseekers(B)	Employed(C)	C/A	C/B
Regular workers	410,747(84.0)	855,842(91.7)	160,931(89.2)	39.2	18.6
Non-regular workers	67,078(13.7)	19,336(2.1)	12,699(7.0)	18.9	65.7
Daily workers	508(0.1)	101(0.0)	23(0.0)	4.5	22.8
Others	10,835(2.2)	57,547(6.2)	6,707(3.8)	62.7	11.8
Total	489,168(100)	932,826(100)	180,450(100)	36.9	19.3

(Source: Work-Net)

It is the relatively younger age group that seem to use the employment security centres for job search. In 2003, those aged between 30 years old to 39 years old recorded the highest number of jobseekers at 255,365 and were sought in 180,434 job vacancies. The 25 years old to 29 years olds were the next highest. Those aged between 40 years of age to 49 years of age and from 50 to 59 accounted for a lower share. Moreover, there is distinct tendency that the younger the job seekers are, the more likely it is that they succeed in finding their jobs in the centres. 29.3 percent of younger workers succeeded in getting jobs through job referrals from the employment security centres, while the rate for older workers, from 50 to 59, was 12.1 percent (Table 3.15)

Table 3.15 Performance of Job Broking Function by Age Group (2003) (Unit: Persons, %)

Age group	Vacancies(A)	Jobseekers(B)	Employed(C)	C/A	C/B
15 ~ 24	82,332	159,678	46,734	56.8	29.3
25 ~ 29	172,470	223,027	52,501	30.4	23.5
30 ~ 39	180,434	255,265	43,695	24.2	17.1
40 ~ 49	40,057	154,968	20,750	51.8	13.4
50 ~ 59	11,918	109,909	13,303	111.6	12.1
Over 60	1,957	29,979	3,467	177.2	11.6
Total	489,168	932,826	180,450	36.9	19.3

(Source: Work-Net)

Analysing the employment route of the unemployed who receive support and quit employment benefit can be used as another criterion to evaluate the job broking function of the employment security centre. Among the number of the unemployed who quit receiving unemployment benefit because they succeeded in getting into work , only a small portion moved from unemployment to employment through the job broking services of the employment security centre. The rate of getting work for the reemployed workers ranges from 15.6 percent to 25.1 percent (Table 3.16). In contrast, most of the unemployed use other job search methods, accounting for between 74.9 percent and 84.4 percent, rather than using the employment security centre. Taking into consideration that the recipients of job seek allowance are forced to register as job seekers at the centres, the low portion of job broking services of the centres casts some doubt on their effectiveness in this role.

Table 3.16 Reemployment of the Unemployed by Employment Route (2001~2003)(Unit: Persons, %)

Year	Total	Employment Security Centre	Other methods
2001	6,491(100)	1,627(25.1)	4,864(74.9)
2002	15,700(100)	2,539(16.2)	13,161(83.8)
2003	12,519(100)	1,953(15.6)	10,566(84.4)

(Source: Employment Insurance Database, Work-Net)

6. Employment Stabilisation Programme

6.1. Overview of Employment Stabilisation Programme

The employment stabilisation programme aims to prevent unemployment and to promote re-employment where there are manpower shortages or where there are unstable employment situations resulting from a reduction in employment opportunities due to business fluctuations, changes in industrial structures and other economic reasons (Employment Insurance Act, 1995). In a rapidly changing economy with globalisation, which requires flexibility in the labour market to improve company's competition, it is inevitable that firms need to adjust to changing circumstances through modifying their employment structure. However, firms' efforts to overcome changing circumstance may result in massive unemployment, especially in the case of marginal workers such as the elderly, women, and long-term unemployed. The main purpose of the employment stabilisation programme is to harmonise efficiency and equity in the process of employment adjustment and develop labour market flexibility through providing subsidies to firms if they make efforts to avoid massive layoffs or hire disadvantaged workers.

The employment stabilisation programme consists of two main programmes, the employment adjustment assistance programme and employment promotion assistance programme. The employment adjustment assistance programme is intended to prevent the unemployment of workers and support employers in the process of adjustment of their companies in order to reduce the operating costs of businesses. By 2003 the employment adjustment assistance was composed of aid for employment maintenance, a grant to promote employment

of disabled workers, and a grant to promote outplacement service.

Aid for employment maintenance is given to employers who choose to use the employment maintenance programme because of temporary business shutdown, reduced working hours, employment maintenance training and hiring rather than dismissing workers in periods of employment adjustment. The aid for maintenance provides qualified employers with part of the wage and vocational training costs to lighten their financial burden and to prevent the unemployment of workers. Qualified employers are subsidised with two-thirds of the wage paid for those in work and three quarters of the wages for those undergoing training for a maximum period of eighty days.

The grant to promote employment of displaced workers encourages employers to hire back former employees through providing a one-off subsidy if they reemploy their dismissed workers within two years of dismissal. In the programme, the former workers must be those who were dismissed in the process of employment adjustment and remained unemployed for more than six months after applying for job placement services at the employment security centre. The grant to promote outplacement services is granted to companies who provide job counselling and outplacement services to workers who are dismissed or are going to be dismissed. Qualifying companies are assisted with one-half of the necessary costs for a maximum of 12 months.

The employment promotion assistance programme is designed to support the employment and reemployment of disadvantaged workers by assisting employers who promote employment of these workers. This programme is made up of a grant to promote employment of the elderly, a grant to promote

employment of women, a grant to promote employment of the long-term unemployed, and aid to support the management of day-care centres and loans for installation expenses.

The grant to promote employment of elderly is awarded to employers who employ elderly workers aged above 55, who have been unemployed for three months or more, and who reemploy elderly workers who were dismissed for economic reasons, mandatory retirement, and health problems. The grant to promote employment of women encourages employers to guarantee leave of absence for child caring through providing a monthly subsidy and to promote reemployment of women through providing a monthly subsidy for a maximum of 6 months. The grant to promote employment of the long-term unemployed is a subsidy to employers who hire long-term unemployed who have been jobless for 6 months or longer as long as the unemployed worker is employed through the job placement services. Aid for the management of day-care centres is given to employers if they install and operate a workplace childcare centre in order to encourage employment of women with children (Table 3.17).

Table 3.17 Structure of the Employment Stabilisation Programme

Programme	Subordinate Programme	Detailed Programme
Employment Adjustment Assistance	Aid for Employment Maintenance	<ul style="list-style-type: none"> - Temporary Shutdown - Reduced Working Hours - Employment Maintenance Training - Leave of Absence - Manpower Relocation
	Grant to Promote Outplacement service	
	Grant to Promote Employment of Displaced workers	

Programme	Subordinate Programme	Detailed Programme
Employment Promotion Assistance	Grant to Promote Employment of the Elderly	<ul style="list-style-type: none"> - Grant to Promote New Employment of the Elderly - Grant to Promote Employment of Many Elderly workers - Grant to Promote Reemployment of the Elderly
	Grant to Promote Employment of Women	<ul style="list-style-type: none"> - Grant for a Leave of Absence for child caring - Grant for Employment of Female Household Head - Grant to Promote Reemployment of Women
	Grant to Promote employment of the Long-term Unemployed	
	Aid to Management of Daycare Centres and Loans for Installation Expenses	

(Source; Employment Insurance White Paper, 2003)

6.2. Performance of Employment Stabilisation Programme

Employment Stabilisation Programme is designed to temporarily assist companies so that they can maintain their employees, and to subsidise the employment of disadvantaged workers in the labour market. Therefore, the programme is supposed to be used during a period of economic downturn and employment adjustment for business restructuring. The programme was widely utilised in the period of the South Korean economic crisis.

The number of beneficiaries supported by the employment stabilisation programme was just 24,000 in 1995, but it increased to 117,000 in 1997 and peaked at 780,000 in 1998. However, as the Korean economy recovered from

crisis, the number of workers supported began to decrease from 1999 to 2003. Similarly, the amount of expenditure for the employment stabilisation programme peaked at 183,868 million won in 1999 and then declined from 2000 (Table 3.18)

Table 3.18 Performance of main Employment Stabilisation Programme (1995-2003) (Unit; person, Million won)

	Employment Adjustment Assistance Programme		Employment Promotion Assistance Programme		Total	
	Beneficiaries	Amount	Beneficiaries	Amount	Beneficiaries	Amount
1995	-	7	24,365	1,473	24,365	1,480
1996	-	16	92,981	8,558	92,981	8,574
1997	-	48	117,314	12,206	117,314	12,254
1998	660,113	80,440	120,686	16,195	780,799	96,635
1999	472,050	154,797	195,419	20,071	667,469	183,368
2000	211,649	71,400	234,299	41,947	455,948	113,347
2001	289,639	76,825	266,245	50,799	555,884	127,604
2002	170,405	34,945	292,239	53,717	462,644	88,662
2003	122,467	28,779	325,673	60,479	448,140	89,258
Total	1,926,323	447,257	1,669,221	265,445	3,595,544	712,702

* The data in number of beneficiaries of employment adjustment assistance programme during 1995~1997 is not available in Employment Insurance Database

(Source; Employment Insurance Database)

Employment adjustment assistance increased dramatically in both the number of beneficiaries and the amount of expenditure given to companies when the Korean economy was in recession in 1998 and 1999, and then decreased during the economic recovery years from 2000 to 2003. Many companies faced with the need for employment adjustment during a period of economic recession made use of the employment adjustment assistance programme in an effort to avoid layoffs and to hire employees. In contrast the employment promotion assistance has increased steadily, over the whole period, in the

number of beneficiaries as well as the amount of expenditure. The main reasons for this growth are that the government encouraged the expansion of the programme by removing other programmes and employers became more aware of its usefulness (Employment Insurance White Paper, 2003).

Aid for employment maintenance appears to be most useful component among the employment adjustment assistance programme while other components have been less significant. The number of workers supported and the amount of subsidy in aid for employment maintenance reached a peak with 654,000 beneficiaries in 1998 and 79,105 million won of expenditure in 1999. The most used part of the programme was the aid for temporary business shutdown which comprised 92.1 percent of total beneficiaries and 73.2 percent of total expenditure in 1998 (Table 3.19). The use made of the employment adjustment programme largely depends on the nation's economic performance and the programme is more useful in an economic downturn.

Table 3.19 Performance of Employment Adjustment Assistance Programme (1995-2003)(Unit: Million won, Persons)

	Aid for Employment Maintenance				Grant to promote Employment of Displaced Workers		Grant to promote Outplacement Service	
	Total		Business shutdown		Amount	Beneficiaries	Amount	Beneficiaries
	Amount	Beneficiaries	Amount	Beneficiaries				
1995	7	-	7	-	-	-	-	-
1996	16	-	16	-	-	-	-	-
1997	44	-	44	-	-	-	-	-
1998	74,262	654,370	53,360	602,803	-	-	-	-
1999	79,105	370,424	47,373	291,086	517	268	-	-
2000	29,196	148,242	21,833	130,093	1,422	746	-	-
2001	55,790	257,278	32,234	180,061	766	395	43	679

	Aid for Employment Maintenance				Grant to promote Employment of Displaced Workers		Grant to promote Outplacement Service	
	Total		Business shutdown		Amount	Beneficiaries	Amount	Beneficiaries
	Amount	Beneficiaries	Amount	Beneficiaries				
2002	32,635	159,234	19,904	128,866	504	270	432	7,406
2003	27,388	119,127	21,138	107,919	734	408	641	2,917
Total	298,443	1,708,675	195,909	1,440,828	3,943	2,807	1,116	11,002

* The data in number of beneficiaries of the aid for employment maintenance during 1995-1997 are not available in Employment Insurance Database
(Source: Employment Insurance Database)

Among the employment promotion programmes, the grant to promote employment of elderly is frequently used and recorded a steady increase in both the number of beneficiaries and the amount of expenditure given to companies (Table 3.20). The main reason that the grant to promote employment of the elderly has been used seems is because the programme is particularly designed to provide a continuous subsidy to employers who employ a certain percentage of elderly workers (Kuem *et al*, 2003). Other programmes such as the grant to promote employment of women and aid to management of day care centres have not been actively used and have remained stagnated since the launch of the programme in 1995. However, the grant to promote employment of the long-term unemployed, which started in 1999, has been used with increasingly and the number of beneficiaries was 13,569 workers in 2002 compared to 128 workers in 1999 although it decreased to 9,258 workers in 2003.

Table 3.20 Performance of Employment Promotion Assistance programme (1995~2003)(Unit; Million won, Persons)

	Grant to promote employment of the elderly		Grant to promote employment of women		Grant to promote employment of the long-term unemployed		Aid for Management of day care centres	
	Amount	Beneficiaries	Amount	Beneficiaries	Amount	Beneficiaries	Amount	Beneficiaries
1995	1,349	23,750	57	494	-	-	67	121
1996	6,464	87,641	1,487	4,009	-	-	607	1,241
1997	9,006	110,969	2,005	4,137	-	-	1,196	2,208
1998	12,185	113,452	2,365	4,417	-	-	1,645	2,817
1999	25,453	190,013	1,541	2,416	49	128	2,029	2,862
2000	36,756	226,838	2,349	3,166	359	799	2,483	3,496
2001	41,621	254,212	3,821	4,234	2,904	6,262	2,403	1,537
2002	39,980	273,707	4,009	3,441	7,154	13,569	2,483	1,522
2003	46,236	310,085	6,076	4,630	5,248	9,258	2,918	1,700
Total	219,050	1,590,667	23,710	30,944	15,714	30,016	15,381	17,504

(Source: Employment Insurance Database)

The employment stabilisation programme has played a positive role in diminishing the unemployment rate in the economic downturn and in promoting employment of targeted workers by subsidising the cost of employment maintenance and hiring disadvantaged workers. It has been estimated that aid for employment maintenance assistance programme reduced the numbers unemployed over a range from a minimum of 28,953 to a maximum of 61,611 workers in 1998; decreasing the unemployment rate from between 0.1 percent to 0.3 percent approximately (Kim and Park, 2000).

However, some weaknesses are also pointed out in the programme. It is estimated that the net employment effect of aid for employment maintenance is just 22.5 percent, which means that employers might dismiss 22.5 percent of

their workers if they could not use the support programme (Kim and Park, 2000). In a survey of enterprises which used the employment promotion assistance programme it has also been estimated that 92.3 percent of companies employed disadvantaged workers such as the elderly, women, and the long-term unemployed even without subsidies (Chang and Kim, 2002). Therefore the net employment effects of using the programme as a compensation system rather than incentive system to create new employment are estimated to be comparatively low.

Table 3.21 Ratio of Expenditure Against Income in Employment Stabilisation Assistance (1995~2003) (Unit: Million won, %)

	Income	Expenditure	Ratio
1995	65,464	1,480	2.3
1996	160,144	8,574	5.4
1997	201,240	12,254	6.1
1998	271,975	96,635	35.5
1999	373,209	184,210	49.4
2000	448,216	113,803	25.4
2001	549,334	128,753	23.4
2002	595,071	90,052	15.1
2003	380,165	92,692	24.4
Total	3,044,818	728,453	23.9

(Source; Employment Insurance Database)

In addition the use made of the employment stabilisation programme is still low. The ratio of actual expenditure against income for the programme is 23.9 percent for the total period between 1995 and 2003. Even during the period of economic recession in 1998 and 1999, the ratio of the programme's expenditure was slightly over 50 percent of total income and recently this has decreased (Table 3.21). In other words there was a considerable under spend on this programme. There is a strong case for the existing employment stabilisation

assistance programme to be reformed (Environment and Labour Committee, 2002, Examination Report of 2003 Budget).

In any targeted government programme such as the employment stabilisation programme there will be distortionary effects in the labour market resulting from the targeting of support to particular groups and not others covered by the scheme. Such policy decisions need to weigh up the benefits accruing from targeting with the costs of any possible market distortions. The argument for targeted programmes in the first place is to alleviate market imperfections that are reducing the ability for some people to find alternative employment, so that any groups not covered may be deemed not to be in need of such help.

7. Job Skill Development Programme

7.1. Overview of Job Skill Development Programme

The job skill development programme aims to foster and stimulate lifelong vocational training and job skills development at the work site. The South Korean government had considered vocational training system as an important factor in the process of industrialisation, in order to supply the necessary manpower, and had taken an initiative in the vocational training market by enforcing enterprises to train their employees. Before the introduction of the employment insurance system the basis of the government led training system was the training levy system based on the Basic Vocational Training Act (1976-1998) which was designed to enforce enterprises to invest a certain percentage of total wages in training their employees by imposing a training levy if they failed to follow the criteria.

This compulsory training system was effective in Korea's early economic development stage persuading employers to invest in basic skills training, but it was argued that the system needed to change in line with globalisation trends (Ministry of Labour, 2003(b), Employment Insurance White Paper). Accordingly, the employment insurance system was designed to change the compulsory training levy system to a voluntary training incentive system which encourages employers and employees to participate actively in lifelong vocational training through financial support from the employment insurance fund and the Basic Vocational Training Act was replaced by the Vocational Training Promotion Act in 1999.

Under the employment insurance system, the job skill development programme consists of three major subordinate programmes such as the assistance to employers, the assistance to employees and assistance for training the unemployed (Table 3.22). Assistance to employers is designed to encourage employers to train their workers by subsidising certain training costs and divides into a grant for vocational ability development training, a grant for training leave of absences, and loans for training facilities and equipment. The grant for vocational ability development training assists to employers who train their employees or new entrants to the labour market either 'in house' or in external training institutes. The grant for training leave of absences provides support to employers when they provide more than 30 days paid vocation training to workers, who have been employed for more than 1 year, to promote certain technical job skills. Loans for training facilities and equipment provide funds to furnish training facilities and equipment can be made to employers, workers, worker's organisation, and non-profit organisations which implemented or wish

to implement vocational ability development training.

Assistance to employees is designed to encourage workers to sustain and increase their employability in order to adapt to industrial and occupational changes in the labour market. Assistance to employees divides into two programmes such as a vocational training subsidy and a loan for tuition. The vocational training subsidy helps insured workers, who plan to leave a company for non-voluntary reasons, if they take training courses and attend more than 80 percent of the course. A loan for tuition is to help fund the tuition of insured workers who have enrolled or entered colleges, above polytechnic and junior college level, to improve their job skills.

Assistance for training the unemployed aims to enhance the quality of life of workers by providing training opportunities to the unemployed enabling them to learn the necessary skills and techniques in order to get reemployed. The programme targets those who left a firm covered by employment insurance. Under the programme, training expenses are paid to training institutions which are in charge of recruiting eligible applicants. For trainees who attended training courses, a certain amount of family allowance and transportation are paid if they do not receive unemployment benefit.

Table 3.22 Structure of the Job Skill Development Programme

Programme	Sub-programme	Detailed programme
Assistance to employers	Grant for vocational ability development training	- Group training - Field training - On-line training - Overseas vocational ability development training - Vocational training for construction workers
	Grant for leave of absence	
	Loan for training facilities & equipment	
Assistance to employees	Vocational training subsidy	
	Loan for tuition	
Assistance for training the unemployed	Reemployment training	

(Source; Employment Insurance White Paper, 2003)

7.2. Performance of Job Skill Development Programme

The job skill development programme is designed to induce employers and employees to participate voluntarily in job development training and has gradually expanded its scope of coverage since 1995. Accordingly, participation in the programme has continuously increased. The number of beneficiaries and the level of assistance in the programme were small in the initial stage, but it has rapidly grown after the mass unemployment crisis occurred in 1998. In 1997, the number of beneficiaries of the programme was 200,000 in 5,115 firms, but it increased to 588,000 in 18,084 firms in 1998. At the end of 2003, the number of employees taking part in training, assisted from employment insurance fund, reached 1,662,000 and the training participation rate of insured

workers among total insured workers was 23.1 percent. Therefore, it can be argued that the job skill development programme under the employment insurance system has played an important role in Korea's vocational training system (Table 3.23).

Table 3.23 Participation rate of the Job Skill Development Programme (1997-2003) (Unit: Establishments, %, 1,000 persons, 100 Million won)

		1997	1998	1999	2000	2001	2002	2003
Establishments	Covered	42,427	400,000	601,394	693,414	806,962	825,531	845,910
	Assisted	5,115	18,084	43,850	73,732	81,137	62,262	64,225
	Participation rate	10.7	4.5	7.0	10.6	10.1	7.5	7.6
Workers	Covered	4,280	5,268	6,054	6,747	6,969	7,171	7,203
	Assisted	200	588	1,030	1,367	1,730	1,836	1,789
	Participation rate	4.7	11.2	17.0	20.3	25.0	25.6	24.8
Amount of Subsidy		630	2,619	4,212	4,042	3,870	3,922	4,749

(Source; Yearly Statistics of Employment Insurance, Work Information Centre)

Among the subordinate programmes of the programme, the programme for assistance to employers is mostly used and the number of beneficiaries increasing continuously. At the end of 2003, 1,662,000 insured workers developed their job skills in 64,225 firms. Subsidies to the programme for assistance to employers also increased from 45,541 million won in 1997 to 191,378 million won in 2003 (Table 3.24a). The use of the programme for assistance to employees appears to be relatively small, only 8,365 workers used the programme in 1997, but 56,949 insured workers were assisted from the employment insurance fund in 2003. At the initial stage when the programme was introduced existing insured workers primarily used loans for tuition to study in technical colleges or university, but they switched to using vocational training subsidies in order to adapt to a more flexible labour market (Table 3.24b). The programme for Assistance for training the unemployed was

the most used training programme in the economic downturn when unemployment rates reached their highest. The number of participants in reemployment training was below 2,000, but it increased to 226,000 in 1999 and then began to decrease up until 2003 (Table 3.24c).

Table 3.24 Performance of Job Skill Development Programme (1997-2003)

(a) Assistance to employers

(Unit: Establishments, Persons, Million Won)

		1997	1998	1999	2000	2001	2002	2003
vocational development training	Firms	4,969	17,741	43,511	73,411	82,860	62,035	64,225
	Numbers	184,007	408,603	781,408	1,220,334	1,555,402	1,681,862	1,661,978
	Amount	28,362	40,449	82,764	140,495	170,414	170,017	180,838
Grant for leave of absence	Firms	144	339	333	309	271	223	240
	Numbers	5,557	3,940	7,789	7,756	8,611	5,963	5,665
	Amount	13,027	9,117	5,724	5,569	10,455	11,075	6,869
Loan for facilities and equipment	Firms	2	4	6	12	6	4	4
	Numbers	-	-	-	1	-	-	-
	Amount	4,152	4,152	3,035	7,978	7,349	3,468	3,671
Total	Firms	5,115	18,084	43,850	73,732	81,137	62,262	64,469
	Numbers	189,564	412,543	789,197	1,228,090	1,564,013	1,687,825	1,667,643
	Amount	45,541	53,718	91,523	154,042	188,218	184,650	191,378

(b) Assistance to employees

Year	Vocational Training Subsidy		Loan for Tuition		Total	
	Numbers	Amount	Numbers	Amount	Numbers	Amount
1997	-	-	8,365	15,222	8,365	15,222
1998	2	1	12,350	16,949	12,352	16,950
1999	51	40	13,552	23,484	13,603	13,592
2000	252	59	18,590	34,626	18,842	34,685
2001	40,045	3,543	21,722	43,037	61,767	46,580
2002	35,528	3,435	24,444	52,188	59,972	55,623
2003	29,177	4,224	27,772	63,476	56,949	67,700
Total	105,055	11,302	126,795	248,982	231,850	250,352

(c) Assistance for training the unemployed

	1997	1998	1999	2000	2001	2002	2003
Numbers	1,949	163,111	226,356	120,296	104,559	88,372	57,662
Amount	2,262	191,194	306,172	215,512	152,509	151,966	131,991

(Source; Yearly Statistics of Employment Insurance, Work Information Centre)

The job skill development programme is a unique programme in Korea's employment insurance system because it primarily focuses on developing the job skills of existing workers as well as the unemployed. With the programme for assistance to employers, it is estimated that job skill development has encouraged firms to undertake job skill training of their workers voluntarily (Kim *et al*, 2003). In 1994 before the employment insurance system was introduced, the number of employees trained under the training levy system was 152,000, but the number of workers trained with the employment insurance assistance increased 11 times, recording 1,667,000 in 2003. In addition, reemployment training for the unemployed under the insurance system has contributed to increasing the possibility of reemployment for the unemployed by preventing participants from withdrawing from the labour market (Lee, 2000).

However, some weaknesses are apparent in the job skill development programme. In the programme for assistance to employers, much more assistance has been concentrated on large companies with over 1,000 workers. The participation rate of large companies with more than 1,000 workers was 83.5 percent, while the rate for firms with below 50 workers was just 4.7 percent in 2003. The participation rate of insured employees has similar tendency. The participation rate of insured workers in firms with more than 1,000 workers was

97.7 percent compared to 2.9 percent of the companies with below 50 workers (Table 3.25). The job skill development programme has not succeeded in increasing training for job skill development in the small size firms even though the programme laid the foundation for a lifelong training system.

Table 3.25 Vocational training for employees by Firm size (2003)
(Unit: Cases, Persons, Million Won, %)

	Covered		Benefited		Participation rate	
	Firms(A)	Employees(B)	Firms(C)	Employees(D)	C/A	B/D
Below 50	816,277	3,474,843	38,428	100,239	4.7	2.9
50-150	22,924	1,086,731	11,888	80,222	51.9	7.4
150-300	6,047	649,278	5,500	98,692	91.0	15.2
300-500	1,924	381,538	2,538	76,258	131.9	20.0
500-1,000	1,114	404,937	2,230	128,706	200.2	31.8
Over 1,000	624	1,206,020	3,541	1,178,061	583.5	97.7
Total	845,910	7,203,347	64,225	1,661,978	7.6	23.1

(Source; Yearly Statistics of Employment Insurance, Work Information Centre, 2003)

In addition the reemployment rate following training for the unemployed is relatively low. In 2003, 57,662 unemployed workers participated in reemployment training under the employment insurance system. Of those people, 44.0 percent (25,354) completed the training course within the same year, and 29.8 percent continued to train until the following year. Accordingly, the completion rate of reemployment training remained at a low level, while the drop-out rate is relatively high at 26.2 percent. With the low completion rate, the reemployment rate also tends to be low, at 21.3 percent, even though it included the number of reemployment who found their own jobs in the process of training (Table 3.26). Therefore, it is argued that the effectiveness of the programme for training the unemployed is low. This result might arise from the

mismatch between the contents of the training course and labour market requirements and the lack of professional guidance by the public employment services.

Table 3.26 Reemployment rate of reemployment training (2003)
(Unit: Persons, %)

Number of training				Number of employment		
Total	Completion	Continued Training	Drop-out During training	Total	Employment During training	Employment After completion
57,662 (100)	25,354 (44.0)	17,203 (29.8)	15,105 (26.2)	12,256 (21.3)	5,137 (8.9)	7,139 (12.3)

(Source; Yearly Statistics of Employment Insurance, Work Information Centre, 2003)

8 Conclusion

When attempting to evaluate the measures taken by the South Korean Government to alleviate unemployment, one must first recognise that the government's pre-crisis 'social safety net' was minimal. By the beginning of the financial and economic crisis in 1997 the formal social protection system consisted of a minimal social insurance system, supported by a livelihood protection system that provided stipends to the aged, poor and incapacitated along with rudimentary social welfare services. With the crisis and the rapid growth of unemployment to unprecedented levels, the government was clearly pressed to come up with a swift solution.

Most of the new employment policies pursued after the crisis have resulted in much wasted expenditure given the absence of an appropriate institutional capacity for implementing the policies. The level of administrative capacity and

duties that had developed, under the existing system of social insurance, was severely constrained because of limitations in terms of manpower, training and restrictions on the exercise of authority. New benefit programmes often required significantly more staff to process claims because more complex forms of information-gathering and monitoring were required to verify the financial situation of claimants. The capacity to deliver means-tested social benefits involving claimant conditionalities could not be created overnight. This was in part due to the lack of attention - and appropriate resource commitments - to building the capacity (in terms of personnel and services) that was required to implement anti-poverty strategies. Some analysts have argued that by failing to build the state's capacity for market oversight, the government was unable to manage the adjustment from a relatively planned to a more market-driven economy (Kim, H.R. 2000a; Lee 2000).

Although active labour market policies were first introduced after the crisis, passive measures have continued to receive higher budgetary allocations. What in principle appeared to be a compulsory insurance scheme operating in conjunction with a range of active labour market initiatives in practice turned out to be a partial scheme with a number of exclusions and a wide range of initiatives that have not been that successful.

As has been shown in this chapter, the performance of the employment insurance system and the public employment service is poor. The employment stabilisation programme is not fully utilised yet and the job skill development programme fails to induce workers in relatively small companies to participate in the programme. The unemployment benefit programme has a long way to go as a social safety net. The employment security centre is also ineffective in

assisting relatively disadvantaged workers showing that it fails to reflect the character of the labour market in carrying out its functions.

The public employment service and employment insurance system in South Korea have a short history, having been introduced in 1995 and 1997 respectively. While some of the problems of the system have been a lack of resources and a lack of time to develop the necessary expertise there is also a belief, and hence lack of support, from those in the economic bureaucracy who continued to favour the pursuit of growth as a remedy to unemployment, that Korea would succumb to the supposed 'welfare disease' that had slowed down rates of economic growth in Western nations.

Unlike South Korea's system, the employment service and unemployment benefit system in UK have developed over a much longer time period and have evolved toward welfare-to-work policies integrating active labour market policies into Jobcentre Plus. Some of the policy instruments adopted are similar to those used in South Korea but benefit from being better resourced and better implemented. The role of economic growth is recognised and the system in the UK has had to adapt to a changing economic environment. The next chapter explores how the UK's system has evolved and what might be learnt from the operation of this system to inform the South Korean system.

Chapter 4 Unemployment benefit and active labour market policies in United Kingdom

1. Introduction

In the previous chapter the somewhat rapid introduction of new institutions to deal with labour market issues in South Korea was examined. This contrasts with the United Kingdom which has had a long tradition in providing an unemployment benefit system and a public employment service. In the process of developing its unemployment system, the UK has experienced policy changes in parallel with institutional changes in dealing with unemployment issues. Nowadays, the United Kingdom emphasizes welfare-to-work policies in solving the unemployment problems and the policies consist of various active labour market policies and institutions such as New Deal Programmes and Jobcentre Plus.

This chapter explores UK labour market policy to understand how it developed and how the current system evolved to cope with unemployment problems. In order to do this, firstly a brief history of United Kingdom's social security as well as unemployment benefit system will be outlined to understand the present system, secondly the current system based on Jobcentre plus and Jobseeker's Allowance will be discussed, and thirdly the New Deal Programmes are examined to understand how to develop targeted objects in labour market policies and how their objects can be achieved.

One objective of the chapter is to see whether there are aspects of the UK system that can inform the South Korean system. In addition by looking at the

historical development of the UK system it is possible to see the resources and institutional framework that is needed for effective systems to evolve. While there are similarities at least superficially with the principles and types of instruments used in the UK and South Korea there is considerable difference in practice. Although it still has its problems the UK system would appear to benefit from being more integrated and better than that in the South Korea. There is also a legacy of social welfare programmes that is not apparent in the history of South Korea.

2. Social security system and unemployment benefit in U.K.

2-1. Development of social security system in U.K

In the United Kingdom, unemployment benefit is a part of the social security system. The modern social security system started with introduction of the National Insurance Act 1911 which included a health insurance scheme and an unemployment insurance scheme. Before the National Insurance Act 1911, the poor and destitute were assisted by means of the "Poor Law" which aimed at providing a minimum level of poor relief. In the Poor Law the relief was guaranteed to able-bodied persons only if they were willing to subject themselves to the rigours of the workhouse (Wikeley and Ogus, 2003).

The modern social security system in the United Kingdom has been greatly influenced by the Beveridge Report of 1942. The National Insurance Act 1946 implemented Beveridge's scheme for social security. It established compulsory national insurance contributions to cover unemployment, sickness, maternity, widowhood, and old age. This is a major difference to the situation in Korea

where although described as a compulsory system the employment insurance system excludes a significant group of people. The National Assistance Act 1948 abolished the poor law and established the national assistance scheme which provided means-tested support in case an individual's national insurance entitlements did not cover their subsistence needs, especially where their contribution record was insufficient. The National Health Service Act 1946 created a national system of healthcare which was free at the point of use and largely funded by general taxation. In addition, there were the Family Allowance Act 1945 paid to support children and the National Insurance (Industrial Injuries) Act 1946 which provided benefits for injuries sustained at work and for industrial diseases.

From 1948 to 1979, the social security system of United Kingdom gradually and in response to economic and social changes extended and modified the Beveridge model. For example, the National Insurance Act 1966 introduced earning-related supplements for unemployment benefit, sickness benefit and widow's allowance. The Social Security Act 1973 introduced earning-related national insurance contributions and annual reviews of contributions and benefit levels.

Under the Conservative government 1979 to 1997, a series of measures was introduced chiefly aimed at dismantling or weakening the existing social security system. The Social Security (No 2) Act 1980 abolished earning-related supplements for unemployment benefit, sickness benefit and widow's allowance. The Social Security Act 1986 cut entitlement under the state earning-related pension scheme, and promoted private personal schemes as an alternative. Means-tested supplementary benefits were restructured and renamed "income

support". Under the Jobseekers Act 1995, jobseeker's allowance replaced unemployment benefit and income support for unemployed people. One of the main concerns of the Conservative government during this period was the rising costs of social security, and the government thought that the system of social security benefits had become inefficient and wasteful. In this period, the Conservative government emphasized that the social security system should be moved away from universal or contributory benefits toward targeted provision for the most needy. The government widened the scope of means-testing and attempted to privatize aspects of social security through the introduction of employer-mandated benefits for sickness and maternity and through the promotion of private and occupational pension provision (DHS, 1985). The government also changed the rules on benefits for unemployed people in order to aim at increasing work incentives.

The Labour government since 1997 has also introduced major changes to the social security system. The Labour government set out the framework for a programme of welfare reform which was based on the central principle of "work for those who can, and security for those who cannot" (DSS, 1998). The government introduced a compulsory work-focused interview for working-age claimants of certain security benefits through the Welfare Reform and Pensions Act 1999 which regulated that claimants must attend interview within three days of making their first claim to discuss entitlement and to obtain help in getting a job. From April 2003, two new "tax credits" were introduced. The first was child tax credit and the second was working tax credit. These new credits were considered as important means to deal with child poverty, poor work incentives and persistent poverty among working-age people by the Labour government.

Nowadays, the social security system in the United Kingdom is a highly complex system which consists of combining elements of insurance-based social protection, means-tested support, and benefits which are neither contribution-based nor means-tested (McKay and Rowlingson, 2000). The emphasis has also shifted to one of reducing worklessness in families rather than merely supporting inactivity. A greater emphasis has been placed on active labour market policies that involve not only job placement but training and skills development with for example the setting up of a Skills Development Agency, Skill Sector Councils and the Learning and Skills Council.

2-2. History of unemployment benefit in U.K

The statutory schemes of protection for unemployed people in the United Kingdom was introduced at the beginning of twentieth century through the Unemployed Workmen Act 1905 which provided for local authorities to set up "distress committees" to provide assistance to unemployed people and to establish labour exchanges to help unemployed people to find work. In 1909, a national network of labour exchanges was set up through the Labour Exchanges Act of 1909 which was designed to provide information about available work and keep unemployed workers in touch with employers.

A system of unemployed insurance was introduced for the first time through the National Insurance Act 1911. It was funded by contributions from the state, employers and employees. The scheme initially applied only to a restricted number of industries where unemployment was supposed to be recurrent. At that time related wage earners between 16 and 70 with certain income had to join the national insurance scheme under the 1911 Act. Those workers who

contributed were guaranteed unemployment benefit up to 15 weeks in any one year when they were unemployed apart from receiving health benefits (Brown, 1990).

The scope of unemployment insurance scheme 1911 was extended to almost all workers below a certain level of annual income which included more than 12 million workers through the Unemployment Insurance Act 1920. The national insurance scheme was improved and tightened up through Unemployment Assistance Act 1934 which dealt with both contribution-based and means-tested benefits. Contributory unemployment was paid for the first six months of unemployment and it was followed by a means-tested benefit which was assessed on a household basis for as long as necessary. Means-tested support was centrally administered by a new Unemployment Assistance Board which was independent of both central and local government. However, the test for means-tested benefit was abolished in 1941 because of continuing resentment over the household means test.

The unemployment insurance scheme was extended to all people in work who normally paid certain contributions per week in national insurance contributions through the National Insurance Act 1946. Payment of benefit was limited to 180 days in any one year although it could be extended for further 130 days for those with good contributions records. This was planned to avoid the problem of disincentives that claimants might settle down on benefit. Benefit levels were set below the subsistence levels recommended by Beveridge who envisaged that unemployment benefit should be adequate for subsistence. Unemployment benefits were only payable to those who were available for work. Benefits were not paid to workers who were on strike. They were not paid for six

weeks where a worker left their job without good reason or was dismissed for misconduct. There are some similarities with the system operating in South Korea although as mentioned previously the system in South Korea has suffered because of its under resourced rapid introduction.

After the National Insurance Act 1946 was passed, the general structure of the unemployment insurance system has remained unchanged. However, there were some significant modifications. In 1960, the maximum period for the payment of unemployment benefit was extended to 12 months for all claimants without consideration of their contribution record. At the same time, earning-related additions to unemployment benefit were introduced, which were payable for 6 months. In 1973, the principle of flat-rate national insurance contributions was replaced by a system involving a payment based on a percentage of earnings which were subject to a maximum level of earnings.

In 1973, there was internal reorganization which separated job seeking services from benefit payment. Job seeking services were transferred to new offices called jobcentres which were intended to modernize and improve the service provided. However, this was eventually regarded as a failure because of rising unemployment, and in 1987 the functions were reintegrated and emphasized that unemployment benefits were given to unemployed people conditional on active job seeking efforts. Means-tested unemployment support continued to be separated from the unemployment insurance scheme and administered through a separate network of social security offices.

During the period of Conservative governments between 1979 and 1997, the unemployment benefit system was subjected to a series of cutbacks.

Chronological changes in benefit entitlements for unemployed people during this period are shown in Table 4.1.

Table 4.1 Chief changes of benefit entitlement in U.K. (1979-1995)

Year	Title	Details
1980	Abolishment of earning-related supplement	Abolishment of earning-related supplements from 1982
1982	Taxation of unemployment benefit	Unemployment benefit became taxable from July from 1982
1983	Equal treatment of men and women	Equal treatment of men and women in the benefit system were introduced in November 1983
1984	Abolition of child additions	Child dependant allowances for unemployment benefit were abolished from November 1984
1986	Disqualification period	Maximum period of unemployment benefit disqualification was extended from 6 weeks to 13 weeks from October 1988, and to 26 weeks from April 1988
	Restart programme	The restart programme introduced compulsory counselling and referral for people who had been unemployed for more 6 months from 1986, a requirement was introduced for such people to be interviewed every 6 months from 1988
1988	Contribution conditions	Contribution conditions were tightened for unemployment benefit. Contributions had to have been paid on earnings of at least 25 times the weekly lower earning limit in one of the 2 previous tax years
	Removal of 16-17 years olds	The entitlement to claim unemployment benefit was removed from almost all those aged 16-17 from 1988
1989	Availability for work	A more stringent labour market test was introduced in 1989 with a new requirement to be actively seeking work
1990	Students	Full time students lost all entitlement to unemployment benefit from 1990

(Sources: DWP, 2003, Jobseeker's allowance Quarterly Statistical Enquiry, Brown, J., 1990, Victims or Villains?: Social Security Benefits in Unemployment)

The unemployment benefit system developed into jobseeker's allowance (JSA) in 1996. JSA was proposed by the Conservative government in October 1994 (Jobseeker's Allowance, White Paper, 1994). JSA replaced both the previous unemployment insurance benefit and means-tested support (income support) for unemployed people although both benefits continued with almost unchanged rules within the new scheme. JSA accordingly was divided into two distinct types of JSA; contribution-based JSA provided financial help for people who have paid national insurance contributions and income-based JSA provided financial help for people who qualify on the basis of their income.

The introduction of JSA brought together the administration of the two types of benefit for the first time. It is a simplification of the benefit system by replacing two benefits for unemployed people with a single allowance. The Conservative government was trying to achieve several aims through the introduction of JSA (DTI, 1995). The first was to improve the operation of the labour market by helping people in their search for work as well as ensuring that they understood and fulfilled the conditions for receipt of benefit. The second was to secure better value for money for the taxpayer by streamlined administration and closer targeting on those who needed financial support and a regime which more effectively helped people back into work. The third was to improve services to unemployed people by a simpler, clearer, more consistent benefit structure and by better service delivery. The fourth was to form part of a more unified system of in-work and out-of-work benefits designed to minimize the effects of the 'unemployment trap' and to reduce the disincentives for unemployed people and their partners to find work. Some of the theoretical aspects relating to these issues were addressed in chapter 2.

With the introduction of JSA, entitlements to contribution-based benefit for unemployed people were cut further. Firstly, the maximum period for the payment of unemployment insurance benefit was reduced from 12 months to 6 months. Secondly, additional contribution lower rates of personal allowance for JSA claimants under 25 were introduced. Thirdly, Additional amounts for adult dependants of JSA claimants were abolished.

After the Labour government began in May 1997, the government continued to adopt and developed JSA. However, there were some changes in the JSA system during the Labour government. The most important development of JSA since the Labour government was the introduction of a requirement for both partners in a couple to make a joint claim for JSA. The joint claim requires both members of certain couples to look for work in order for them to receive unemployment benefits (Tapp and Thomas, 2004).

3. Operation of unemployment benefit in United Kingdom.

3-1. Organizational structure for unemployment benefit

In the United Kingdom, the Department for Work and Pensions is principally responsible for unemployment policies. The Department was created in 2001 by a merger between the former Department of Social Security and The Employment Services Agency of the former Department of Education and Employment. The new department is therefore responsible for payment of social security benefits and job seeking services and welfare-to-work programmes. The Department oversees an executive agency called "Jobcentre Plus" which

carries out the former functions of the Benefit Agency and the Employment Service Agency. Therefore, Jobcentre Plus is ultimately responsible for most social security benefits and providing job seeking services (Department for Work and Pensions(DWP), 2003).

Before JSA was introduced in 1996, people who needed benefits had to claim their benefits at different agencies' offices. Out-of-work benefits were available at a Social Security Office operated by the Benefits Agency. Housing benefit was available at a local authority office, and getting contributory unemployment benefit together with help in looking for a job was available at a jobcentre operated by the Employment Service Agency. The Jobcentre Plus is designed to integrate most of these services. It brings together the three major groups of working age claimants as a single client base; JSA claimants, sick and disabled claimants, and lone parents. The main benefits dealt with by Jobcentre Plus are JSA, income support, incapacity benefits, and delivery of new tax credits.

The Labour government emphasized that Jobcentre Plus would enshrine the principle that everyone has an obligation to help themselves through work and the government has an equal responsibility to provide everyone with the help they need to get back to work. The government emphasized that Jobcentre Plus marked a crucial step in the transformation of what so far had been a passive benefit payment system into an active welfare state which is aimed at helping people into jobs with a greater focus on the needs of employers (Department for Work and Pensions(DWP), 2002).

The overall operation of Jobcentre Plus is governed by a "performance and resources agreement" which is agreed between the agency and the Department

for Work and Pensions. This agreement lays down targets which the agency's management is supposed to achieve in each year. These targets include Job entry, monetary value of fraud and error, customer service, employer outcome, and business delivery (Jobcentre Plus, 2003(b)).

The job entry target is to place jobseekers in work. In placing jobseekers, Jobcentre Plus places priority on certain groups such as disadvantaged groups. In order to do it, Jobcentre Plus clients are divided into five category groups (Table 4.2). The higher the priority of the client group, the more points are earned for the job entry. The agency's overall target is evaluated by a total number of points earned.

Table 4.2 Five different points categories of clients

Client group	Job entry Point score	Type of clients
Group1	12	<ul style="list-style-type: none"> - Jobless lone parents including people on the New Deal for Lone parents - Those on the New Deal for disabled people - People in receipt of a special primary benefit (income support, incapacity benefit, severe disability allowance, career's allowance and bereavement benefit)
Group2	8	<ul style="list-style-type: none"> - People on the New Deal 50 plus - People on the New Deal 25 plus - Those on the New Deal for young people - Employment zones - Other people with disabilities not included in priority client group 1 - JSA long-term claimants over six months
Group3	4	- JSA short term claimants
Group4	2	- Unemployed non claimants
Group5	1	- employed people

(Source: Jobcentre Plus, 2003)

Apart from the five different categories group, additional points are added to particular cases. For example, 1 additional job entry point is added for every JSA client who remains off benefit 4 weeks after starting a job, and 2 additional points are added for each job entry achieved in 60 designated local authority districts which are made up of 30 local districts with poorest labour market positions and 30 districts with highest ethnic minority populations.

Monetary value of fraud and error aims at reducing the money lost in income support and JSA payments caused by mistakes made by customers, mistakes made by staff, and customer fraud. The customer service target consists of two components; clients and employers. The client component of the target accounts for 75 percent and the employers component accounts for 25 percent. These are measured under the four criteria (Table 4.3).

Table 4.3 Evaluation Criteria in Target Clients and Employers

Criteria	Details
Speed	- How quickly staff answer the telephone, how they greet the customer, and how they deal with customers on the telephone and face-to-face
accuracy	- The accuracy of the information given on the telephone and face-to-face
Pro-activity	- How well staff understand customers' requests and anticipate their needs, and how successfully staff tailor services to meet customers' individual needs
Environment	_ The quality of the agency's premises and facilities, and their accessibility and physical conditions

(Source; Jobcentre Plus, 2003)

Employer outcome target measures how quickly and effectively the agency

meet employer's recruitment using two elements; resolution and responsiveness. Resolution is a criterion to measure whether the vacancy is filled or not, and responsiveness measures whether the vacancies are filled in a timescale that meet the employers' need. Business delivery target is to measure the agency's performance in five of the most important processes; the accurate processing of claims for income support; the accurate processing of claims for JSA; booking appointments, holding interviews with clients, and following up any cases where clients have failed to attend interviews; accurate and timely processing on incapacity benefit medical decisions; and identifying people in certain client groups who have literacy, language and literacy skill needs.

From April of 2003 to March of 2004, Jobcentre Plus achieved a score of 7,458,564 points recording 1,184,086 job entries in its Job Entry Target; reduced losses from fraud and error in the working age income support and jobseekers allowance by 7.3 percent of the monetary value of these benefits; achieved 83.4 percent of customer service level in its customer service target and 84.9 percent of employers' positive outcome in the employer outcome target (Table 4.4)

Table 4.4 Performance and Resources Agreement (2003/2004)

Type of Target	End Year Target	Performance
Job Entry Target	7.681,000 points	7,458,564 points (1,184,086 job entries)
Monetary value of fraud and error	To reduce to more than 6.9 %	7.3 %
Customer service	83%	83.4%
Employer outcome	82%	84.9%

(Source; Jobcentre Plus, 2004, <http://www.jobcentreplus.gov.uk/documents/>

Q4PerformanceAgainstPRA2004.doc)

Of the 1,184,060 workers who returned to work most were on New Deal Programmes. Long-term unemployed made up 26.0 percent and short term JSA claimants made up 24.7 percent of those who found work. There 162,059 lone parents, disabled people, and other jobless people in receipt of specified primary benefit who succeeded in getting into work with help from Jobcentre Plus (Table 4.5)

Table 4.5 Job Entry Performance (2003/2004)

Client group	Type of clients	Number of job entries	Ratio (%)
Group 1 (12 points)	Lone parents	107,223	
	Disabled people	35,726	
	Other jobless customer	19,110	
	Total	162,059	13.7
Group 2 (8 points)	The unemployed for over 6 months or other disadvantaged people	307,775	26.0
Group 3 (4 points)	The unemployed for less than 6 months	162,059	13.7
Group 4 (2 points)	Unemployed non claimants	281,280	23.7
Group 5 (1 points)	Employed job changers	140,515	11.9
Total		1,184,086	100.0

(Source; Jobcentre Plus, 2004,

<http://www.jobcentreplus.gov.uk/documents/JobEntriesQ42004.xls>)

3-2. Operation of JSA

As mentioned already, JSA consists of two distinct types of benefit; contribution based JSA ('JSA (Cont)') and income based JSA ('JSA (IB)'). There are some

differences between JSA (Cont) and JSA (IB) even though they are both for unemployed people. Firstly, there is no means test for JSA (Cont), and a person's financial situations are ignored when considering entitlement to JSA (Cont), while JSA (IB) is a means tested and it depends on the unemployed person's financial resources and need. It takes into account their savings, their income from other sources, and factors such as the presence of dependants. Secondly, JSA (Cont) is paid for a maximum of 6 months in a claim period. However, after JSA (Cont) payments end after 6 months, it may be possible to make a claim for JSA(IB). There is no time limit for the payment of JSA(IB). It will continue to be paid as long as the claimant is eligible (CPAG, 2004).

Eligibility for both types of JSA is conditional on meeting certain labour market rules. In order for unemployed people to receive JSA, the claimant must be capable of working, must be available to work, and must be actively seek work. Whether an unemployed person is considered capable of working is determined by a capacity test, introduced in 1995. The person who is not considered to be capable of working may be eligible to claim disability-related benefits. This is an area of some controversy in the UK given the numbers that are now claiming this benefit rather than JSA – it is not an issue that is covered in this thesis. A person's availability for work is checked by an employment officer in Jobcentre Plus. In order to be considered available for work, a claimant must usually be willing and able to work for at least 16 hours a week. This rule has some perverse outcomes if an unemployed person undertakes full time training or education since they are then deemed not to be available for work. An unemployed person also must demonstrate "actively seeking work" by undertaking some steps which include preparing curriculum vitae, applying for job vacancies, getting advice about the jobs that are available, and registering

with public and private employment agencies. These steps are set out in jobseeker's agreement which is signed at the time of the jobseeker's interview.

In the JSA system, there are some compulsory regulations to encourage the unemployed to back to work. These regulations include jobseeker's interview, jobseeker's agreement, and jobseeker's direction. Jobseeker's interview takes place when a claim is made for JSA. It consists of two parts. The first part focuses on the benefit claim itself. The second part consists of a meeting with a personal adviser who will advise the claimant about work and training issues. In the interview, the personal adviser can discuss the kinds of work that they are looking for and the best way of job finding. The adviser also provides the claimant with information about jobs, training and other opportunities. Additional interviews such as a restart interview are carried if the claimant is still out of work after a certain period. These interviews are designed to ensure that claimants are maintaining job search activities and know about the provisions which are available to help claimants back to work.

The jobseeker's agreement is set out in the claimant's first interview. The agreement involves the following.

- The number of hours a week that the claimant is available for work
- The type of work that the claimant is seeking.
- The steps that the claimant has taken to find a job and to improve their chance of finding a job.
- Any restrictions that the claimant may wish to impose on their availability for work.
- Any support that will be provided by Jobcentre Plus to help the claimant find work.

Jobseeker's directions are directions which are given to a claimant by an employment officer. An employment officer has the power to instruct a claimant to carry out actions which will be helpful for the claimant to find out a job. A claimant should obey a jobseeker's direction unless they can show good reasons to refuse it. If a claimant refuses or fails to carry out jobseeker's direction, the right of receiving benefit will be stopped for certain periods.

JSA is flat rate benefit system. In case of JSA(Cont), the benefit rates are divided into three categories; one for those aged 25 and over, lower ones for those aged 16-17 and those aged 18-24. Table 4.6 shows the current rates.

Table 4.6 Rates of JSA (Cont)

	Person aged 16-17	Person aged 18-24	Person aged 25 over
Per week	£32.90	£43.25	£54.65

(Source; Welfare benefits and Tax credits Handbook, 2004)

The amount of JSA(IB) is made of 3 part; personal allowance, client group premiums, and certain housing costs. Personal allowances are paid according to the claimant's age and whether they are single or have a partner. The rate of the personal allowance (for 2003-2004) for someone aged 25 or over is £ 54. 65. The rate for couple who both are over aged 18 is £ 85.75. Client group premiums are additional amounts which are additionally paid to the claimant or a member of their family who have a group of people with special needs. These premiums include family premium, pensioner premium, disability-related premiums, care's premiums, and bereavement premiums. Housing costs are paid in three kind of costs; interest on home purchase loans including

mortgages, interest on loans taken out to pay for certain repairs and improvements, and service charge and similar costs.

What emerges from the previous detailed discussion of JSA is the amount of resources committed to the programme, the emphasis on performance measurement and the amount of support and advice offered. This contrasts with the South Korean situation where there was little consideration when implementing their employment initiatives about the personnel and resources needed.

3-3. Effects of JSA

JSA was introduced to improve the working of UK labour market, to secure better money value for money and enhance the service to seeking work. Since the introduction of JSA results seem to be positive, although this may have been helped by more favourable macroeconomic conditions. Firstly, the number of people receiving JSA is in downward trend in the United Kingdom. Total numbers of unemployed people receiving JSA decreased from 1391,000 in 1997 to 841,000 claimants in 2003. Of those receiving JSA, however, the proportion of claimants receiving contributory benefits has risen steadily from 14.5 percent in 1997 to 21.5 percent in 2003 even though total numbers of unemployed people receiving JSA (Cont) has decreased trend during the same time (Table 4.7)

Table 4.7 Numbers of Receiving JSA

	97/98	98/99	99/00	00/01	01/02	02/03	03/04
JSA(Cont) (A)	201	192	183	166	165	183	183
JSA(IB) (B)	1,190	1,037	936	804	690	667	658
Total (C)	1.391	1,229	1,119	970	855	850	841
A/C (%)	14.5	15.6	16.4	17.1	19.3	21.5	21.8

(Source; Benefit Expenditure Tables, Department for Work and Pensions, 2003)

Claimants account for just 3 percent of economically active population, and around 2-3% percent of total working age (Table 4.8)

Table 4.8 Proportion of JSA claimants

	Time point	Level (thousand)	Rate (%) (D/A,B,C,D,E)
Employment(A)	Oct-Dec 03	28,156	3.2
Unemployment(B)	Oct-Dec 03	1,459	61.1
Economically active(C)	Oct-Dec 03	29,615	3.0
Economically inactive(D)	Oct-Dec 03	7,848	
Of which Not wanting a job		-5,728	
Wanting a Job		-2,120	
Working age Population (E)	Oct-Dec 03	37,463	
JSA claimant count	Jan 2004	892	2.4

(Source; Labour market statistics February 2004)

The duration JSA claimant claims benefit is also on a downward trend. The proportion of JSA claimants whose claims last for less than 6 months increased from 36 percent in 1998 to 46 percent in 2003, while the proportion of JSA claimants receiving benefit over 2 years decreased from 16.7 percent to 7.1 percent over the same period (Table 4.9).

Table 4.9 JSA Claimants by Duration (Thousand, %)

Duration	1997		1999		2001		2003	
	Level	%	Level	%	Level	%	Level	%
All claimants	1,763	100	1,325	100	1,031	100	978	100
Under 3 months	563	31.9	514	38.8	450	43.6	450	46.0
3 to 6 months	337	19.1	264	19.9	212	20.6	214	21.9
6 to 12 months	267	15.2	195	14.7	150	14.5	148	15.2
1 to 2 years	257	14.6	159	12.0	100	9.7	96	9.8
2 years or over	338	19.2	193	14.6	119	11.5	69	7.1

(Source; Jobseekers allowance statistics, jobseekers allowance quarterly statistical enquiry: May 2004)

There is also a tendency for total spending on JSA to be reduced. In 1997-98, £ 4,544 million was paid to claimants. However, it decreased to £ 2.757 million in 2001- 2002. Of the total expenditure on JSA, JSA (Cont) made up for fewer than 20 percent in the same period (Table 4.10)

Table 4.10 Expenditure on JSA in Great Britain (£ Million)

	97/98	98/99	99/00	00/01	01/02	02/03
JSA(Cont)	563	546	518	498	511	545
JSA(IB)	4,052	3,553	3,153	2,714	2,322	2,214
Total	4,615	4,099	3,671	3,212	2,834	2,759

(Source; Benefit expenditure tables, Department for Work and Pensions)

The principal aim of introducing JSA was to encourage the unemployed to return to work by changing their attitudes and behaviours in job seeking activities through sanctions, which are applied if they fail to carry out related regulations (Smith, 1998). Both positive and negative incentives have been adopted to amend claimants' behaviour. Accordingly, the proportion of jobseekers leaving benefit increased following the introduction of JSA (Mckay *et*

al, 1999). According to one report which analysed the impact of JSA on claimants and the labour market, as a whole, through comparing two separate samples under the old and new benefit regimes, the introduction of JSA had positive effects on the labour market and unemployed people (Smith *et al*, 2000). These effects are outlined in another report which drew together the results of all the earlier research on the impact of JSA (Rayner *et al*, 2000).

Firstly, in relation to increases in movements off benefit, JSA led to a large increase in movements off the claimant count in the first year of operation, and there-after has resulted in smaller but significant increases in movements off the claimant count. In the year following the introduction of JSA, the fall in claimant unemployment was 240,000 higher than it would have been if JSA had not been introduced, and this has resulted in a permanently lower level of unemployment of about 0.8 percent. 32 percent of jobseekers were in full-time work of over 16 hours a week after approximately eight months under JSA, which was higher than 26 percent prior to JSA even though considering the effects of the improved economy (Rayner *et al*, 2000).

Secondly, in relation to changes in duration of unemployment spells, there was little change under JSA in the pattern of duration of unemployment of jobseekers. However, periods of unemployment among new clients under JSA became shorter. The median length was 12.4 weeks compared to 14 weeks before the introduction of JSA (Smith *et al*, 2000).

Thirdly, in relation to the proportion moving into work, there was a slight increase in the proportion of people who had moved into work. After JSA, just over two-thirds (68%) of people who left benefit moved into work, while it was

just under two-thirds (62%) before the introduction of JSA (Smith *et al*, 2000). The majority of return-to-work jobs remained stable both before and after JSA, especially for those who had experienced only a short spell of unemployment. Only 14 percent of individuals, who had moved from JSA to full-time work, were again unemployed six months later, while it was 21 percent of individuals before JSA (Smith *et al*, 2000).

Fourthly, in relation to job search behaviour of clients, the proportion of JSA clients who are not actively seeking work has fallen under JSA. Unemployed clients who were not seeking work in August 1996 was 14 percent, while it decreased to 10 percent in summer 1998. There was a significant change since the introduction of JSA in the number of people contacting employers directly: 41 percent of JSA clients contacted employers directly during previous week of unemployment, while it was 31 percent before JSA. This means that clients' search activity has become more active after the introduction of JSA (Smith *et al*, 2000)

Lastly, since 1996, joint claims have accelerated the employment prospects of more motivated couples and decelerated the prospects of the least motivated couples. However, it did not have a significant impact upon the majority of ambivalent couples (Bell, 2002). Therefore, it is not clear whether the introduction of joint claims to encourage unemployed couples to get into jobs has been successful, but there has been a great tendency for at least one partner in a couple to be in work, especially women (Bonjour *et al*, 2002).

4. Active labour market policies and programmes in UK

4-1. Background of active labour market in U.K

Welfare-to-work policies are an important part of the UK's active labour market policies. The government's welfare-to-work policies are based on an awareness of the high social security spending of the United Kingdom that had failed to prevent increasing poverty and created a dependency on social security benefits with the spread of workless households (DSS, 1998(a)). The government saw workless as the primary cause of poverty and social exclusion and past policies had contributed to these problems because the security system had remained a passive system for paying benefits rather than moving claimants into work (DSS, 1999). Between 1979 and 1996, the proportion of working age householders with no-one in employment had more than doubled from less than one in ten to just less than one in five. The total workless householders reached 3.4 million (DSS, 1998(b)).

Therefore, the government planned to shift the focus of welfare-to-work beyond unemployment claimants to include other non-employed groups such as lone parents, partners of unemployed people, carers, and people with long-term illness or disability (DSS, 1999). Accordingly, New Deal programmes have been extended to cover a number of other groups such as disabled people, lone parents, older people, and the partners of benefit claimants although it started with New Deal for Young People programme. New Deal programmes have been based on a "work first" strategy on social security and unemployment, and accompanied by "make work pay" strategy such as introduction of a statutory Minimum Wage Act (1998), Tax Credits Act (1999). In other words a number of

initiatives were put in place to present a package of measures that working together would represent an employment policy rather than an unemployment policy.

Nowadays, New Deal programmes form a key element of the United Kingdom's employment strategy and welfare-to work policies. The programmes are designed to move long-term jobseekers out of benefits by helping them to gain skills and experiences and to find work. In addition, the New Deal Programmes are designed to help economically inactive people of working age to explore work options.

4-2. Types of New Deal Programme

New deal programmes can be divided into two categories; compulsory New Deal programmes, and voluntary New Deal programmes. Compulsory programmes consist of New deal for Young People and New Deal for 25 plus, and others belong to voluntary programmes.

4-2-1. New Deal for Young People

The New Deal for Young People (NDYP) is to help young people aged 18-24 who have been unemployed and claiming JSA continuously for 6 months or more. This is a compulsory programme for those young people and therefore backed up by a benefit sanction regime. The programme has three stages; Gateway, New Deal Options, and follow-through stage. The first gateway period lasts up to 4 months. During these periods, intensive advice, and guidance are provided to improve employability and to find unsubsidized jobs for as many

people. During the gateway period, the unemployed receive JSA as usual, and, in some cases, the period may be extended if there are problems referring the claimants to a New Deal option (O'Donnell, 2001).

In the second stage, the claimants take up work on one of four New Deal options such as the employment option, voluntary sector employment, work with an environment task force, and full-time education or training for up to 52 weeks. Participants on the employment option are employed by the employer and have the same rights as other employees. The employment will be subsidized out of public funds for 26 weeks and participants should work for at least 24 hours per week except where the New Deal employee has a disability or has caring responsibility. New Deal participants on the voluntary sector and environment task force options will either be paid an allowance or a wage. The allowance will be the same rate as JSA plus £400 paid in instalments over 6 months. The wage will be paid by the provider, but will be at least the same as the allowance. The education and training option is intended to prepare jobseekers for full-time employment. Participants should attend for at least 5 days and 30 hours per week for up to 52 weeks. In these processes, work-related skills are emphasized and there is a minimum of 4 weeks work experience as part of the course. Participants are paid in allowance at the same rate as under JSA.

If participants have not found a job after 6 months of the second stage, they re-enter JSA and enter a follow-through' stage. In the follow through stage, additional support and guidance are provided from Jobcentre plus to help them find a job. However, in some cases, claimants may be exempted from participation of the New Deal in exceptional circumstances and it will be judged by the discretion of employment officers. For the exemption, claimants should

be those who have severe mental health problems or those who are extremely violent. JSA claimants participating in the NDYP may be issued with a sanction in certain circumstances which are based on the general JSA rules. They may be issued with a sanction stopping their benefit for 2, 4 or 26 weeks if they are found to have refused a place on a programme with good cause, or dropped out of a programme without good cause, or been dismissed from their programme for misconduct. In addition, JSA claimants may be issued with a sanction lasting 2 or 4 weeks if they fail to carry out a jobseeker's direction without good cause.

4-2-2. New Deal 25 plus

New Deal 25 plus programme is to help unemployed adults into sustained work, particularly those people who are aged 25 plus, and have been claiming JSA for 18 months out of previous 21 months. This programme started with "New Deal for the Long Term Unemployed" in June 1998 and was renewed as New Deal 25 Plus in April 2001.

The scheme consists of three stages; Gateway, Intensive Activity Period, and follow through stage. The Gateway is the first stage and lasts for 4 months. During this stage, participants will receive help from a personal New Deal Adviser through weekly meetings and support and help with communication skills, job searches, interview techniques and confidence building. If participants have not found work by the end of the Gateway, they will be moved into the Intensive Activity Period (IAP) which consists of a set of activities tailored for each individual. Those who are between 25 and 49 years old are required to participate in IAP (Wilkinson, 2003)

In most cases IAP activities will last for a minimum of 30 hours a week over 5 days and will last for 13 weeks for most people. However, for those who need additional assistance, it can last for up to 26 weeks and it can last for up to 52 weeks for those who are on an education and training opportunity. In New Deal 25 plus, various opportunities such as subsidized employment, work placements, education and training opportunities, work experience, and self-employment provision will be provided to help them into work according to their circumstance.

4-2-3. Other New Deal voluntary programmes

New Deal for Partners, New Deal 50 plus, New Deal for Lone Parents, and New Deal for Disabled People belong to the voluntary programmes which aim at helping vulnerable unemployed people into work.

New Deal for Partners is a voluntary programme that began on a nationwide basis in April of 1999. This programme encourages jobless partners to become economically active, and accordingly reduces the number of workless households. The programme provides intensive guidance and continuing support to partners of those people who have been claiming social benefits such as JSA(IB), income support, incapacity benefit, carer's allowance, and sever disablement allowance.

New Deal 50 plus is also a voluntary programme which is designed to help those aged 50 and over who wish return to employment and have been claiming work-related benefits for 6 months or more. This programme provides work advice and job search support from a personal adviser including help with

interviews. The programme is designed to maximize the opportunities to participate in it by offering a variety of assistance such as an employment credit (which provides £60 a week for those working full time for a year if the recipients' total income is less than £15,000 a year) and a training grant according to an individual's circumstances (Atkinson *et al*, 2003).

New Deal for Lone Parents (NDLP) is a voluntary scheme which aims to help lone parents move into work and improve their job readiness in order to increase their employment opportunities. The programme consists of a series of interviews between participants and the New Deal personal advisor. Personal advisors provide an integrated advice and support service in finding and applying for jobs, education, training and childcare (Phillips *et al*, 2003)

New Deal for Disabled People (NDDP) is a voluntary programme which is designed to help people who are on a disability or health related benefit to find work and move off benefits into sustained employment. This programme start with an interview with a new deal personal adviser who provides them information about the NDDP job broker service in their areas and encourage them to register with an NDDP job broker who helps them find and secure paid work (Ashworth *et al*, 2003).

4-3. Effects of New Deal Programmes on labour market

New Deal programmes enabled many unemployed people get into sustained jobs. According to government statistics, a total of 2,402,640 unemployed people participated in New Deal programmes by the end of December 2003. Of those people, 928,940 (38.7%) clients found work from the programmes. Of

these programmes, New Deal for Young programme (44.3%) and New Deal for Lone Parents Programme (42.7%) appear to be more effective in getting unemployed people into jobs while New Deal 25 plus Programme (25.8%) is less effective (Table 4.11).

Table 4.11 Number of People into Jobs Via New Deal (end of December 2003)

Programme	Total number of starts (A)	Number of current participants(B)	Total jobs (C)	C/A (%)
NDDP	69,460	52,120	28,910	41.6
NDYP	1,081,680	86,390	479,660	44.3
ND 25 plus	673,790	56,900	173,660	25.8
NDLP	577,710	99,450	246,710	42.7
Total	2,402,640	294,860	928,940	38.7

(Source; Department for Work and Pension, <http://www.dwp.gov.uk/asd/ndyp.asp>)

New Deal programmes have been formally assessed and evaluated in the process of implementation whether they are carried out in pilot level or national level to understand how far these programmes affect on labour market. Evaluations continue to go on, so it is not easy to understand the exact effect. However, the programmes are generally evaluated to have positive effects in increasing employment and lowering unemployment.

In the evaluation of New Deal for Young People programme, the programme reduced youth unemployment by approximately 35,000. The number of young people in jobs rose by about 15,000 as a result of NDYP excluding those on the environment task force and voluntary sector options (Riley and Young, 2001). The programme had a significant effect in moving more young people into jobs. The young unemployed were 20% more likely to find jobs each month as a result of the programme and the wage subsidy had a significant element to be

take up of jobs (Reenen, 2001). However, the effect of the programme varied greatly according to local labour market conditions. In areas with low labour demand and a lack of employment growth, the programme was less successful at getting young people into work (Sunley and Martin, 2002). Nevertheless, NDYP is seen as bringing about positive impacts in terms of less unemployment and more employment for young unemployed people (White and Riley, 2002).

A positive result also occurs for the New Deal for Lone Parents Programme which is voluntary programme. In the early evaluation, almost a quarter of the target group participated in the programme and half of them were successful in finding jobs during the time of the prototype. The evaluation suggested that after 18 months, 33 percent more parents left income support in NDLP Prototype areas compared to the comparator areas (Hasluck, 2000). According to a more comprehensive evaluation, since October 1998, 51 percent of all leavers left income support and entered into work of at least 16 hours per week and employment chances increased by double for those who took part in the programme. Therefore, the programme appears to have large and positive impact on entries into work (Evans et al, 2003).

Employment trends in the United Kingdom seem to reflect the achievement of welfare-to-work policies including New Deal Programmes. The unemployment rate and the number of unemployed people fell greatly from 1997 to 2003, while the total employment level continued to grow over the same period. The unemployment rate decreased from 6.3 percent in the end of 1997 to 4.7 percent in the end of 2003. The number of unemployed people was 1,478 thousand in 1997, but down to 1,400 thousand in 2003 (Table 4.12). The unemployed level of United Kingdom recorded one of the lowest levels in OECD

countries. There is still some debate as to the overall impact of welfare to work programmes in an economy that, at the same time, experienced a long period of sustained economic growth.

Table 4.12 · Employment Indicators UK (1887-2003) (Winter, thousand)

Year	Total in employment	Un-employed	Total Economic Active	Eco-inactive	All aged 16+	Employment rate	Un-employment rate
1997	26,576	1,781	28,357	17,262	45,617	73.0	6.3
1998	26,933	1,763	28,696	17,133	45,809	73.6	6.1
1999	27,223	1,656	28,878	17,165	46,043	73.9	5.7
2000	27,533	1,487	29,020	17,313	46,332	74.3	5.1
2001	27,699	1,474	29,173	17,461	46,634	74.1	5.1
2002	27,968	1,478	29,447	17,435	46,912	74.3	5.0
2003	28,322	1,400	29,721	17,497	47,219	74.7	4.7

(Source; National Statistics, <http://www.statistics.gov.uk/CCI/nscl.asp?ID=5089>)

5. Conclusion

The UK employment services and unemployment insurance system have evolved over time from the introduction in the early twentieth century. This has meant that over that period the system has been able to develop and adjust to changing circumstances, but always having as its basis the underlying principle of a welfare state. Unlike South Korea, the development of the employment service can be seen as an element in a package of measures that seek to reduce the loss of income following a life event such as illness, old age and unemployment. As has been argued in this chapter understanding the current system requires an understanding of the historic development of the institutions. The existence of the institutional framework, that has developed over time, enable more proactive policy initiatives to be undertaken rather than the

somewhat reactive policy forced upon the South Korean government following the Asian financial crisis in the mid 1990s.

In the next chapter a comparison is made between the South Korean Public Employment Service and the UK's Public Employment Service. This initially compares the unemployment benefit and delivery of employment services in both countries. This is followed by an assessment of the theoretical and practical difficulties of implementing an active labour market policy in South Korea based on some of the lessons that can be derived from the UK experience.

Chapter 5 Comparison of South Korean and UK's Public Employment Services and Active Labour Market Policies

1 Introduction

In this chapter a comparison is made between the South Korean Public Employment Service and the UK's Public Employment Service. This initially compares the unemployment benefit and delivery of employment services in both countries. This is followed by an assessment of the theoretical and practical difficulties of implementing an active labour market policy in South Korea based on some of the lessons that can be derived from the UK experience. Besides considering the underpinning rationale for an active labour market policy consideration has to be given to the resource costs and political backing required to make such a policy feasible.

The public employment service and employment insurance system in South Korea have a short history, having been introduced in 1995 and 1997 respectively. The UK active labour market policies have been operating over a longer time period and have had increasing amounts of resources allocated to them as the system has evolved. While some of the problems of the South Korean system have been a lack of resources and a lack of time to develop the necessary expertise there is also a belief, and hence lack of support, from those in the economic bureaucracy who continued to favour the pursuit of growth as a remedy to unemployment, that Korea would succumb to the supposed 'welfare disease' that had slowed down rates of economic growth in Western nations.

When attempting to evaluate the measures taken by the South Korean

Government to alleviate unemployment, one must first recognise that the government's pre-crisis 'social safety net' was minimal. By the beginning of the financial and economic crisis in 1997 the formal social protection system consisted of a minimal social insurance system, supported by a livelihood protection system that provided stipends to the aged, poor and incapacitated along with rudimentary social welfare services. With the crisis and the rapid growth of unemployment to unprecedented levels, the government was clearly pressed to come up with a swift solution.

2 Comparison of PES and Insurance Systems

Both countries introduced benefit systems based on insurance principles in which unemployment benefit is payable to the unemployed who have paid the required amount of insurance contributions. However, JSA of U.K. consists of two benefits which divide into contribution based JSA and income based JSA. The unemployed without records of contributions receive unemployment benefit according to a calculation of their financial resources and needs. The majority of JSA claimants receive income based JSA even though the proportion of claimants receiving contributory benefits has risen steadily. On the contrary, the unemployment benefit system in Korea restricts benefits strictly to those unemployed who have paid insurance contributions which results in a low beneficiary rate and makes the unemployment benefit system a weak social safety net for the unemployed.

In relation to the provision of unemployment benefit to the unemployed, both systems emphasise active factors in the process in order to expedite the

unemployed back into jobs. The unemployed are required to meet qualifying conditions such as "available for work, actively seeking work and capable for work" in order to receive an unemployment benefit in both systems. However, the degree of compulsory regulations appears to be different between both systems. The unemployed are obliged to seek work after registering as job seekers at a employment security centre to ask for the unemployment benefit in Korea's system, but there is no further compulsory measures by which the unemployed are forced to seek jobs, even though there are some regulations that employment security centre has the right to decide whether claimants comply with these qualifying conditions. On the contrary, more detailed compulsory measures are used in the U.K. system to encourage the unemployed to get into work. These measures includes jobseeker's interview, jobseeker's agreement and jobseeker's directions which are designed to enforces claimants to maintain job search activities and find out jobs with help from personal advisor. In particular New Deal Programmes supplement JSA in order to move the long-term unemployed out of benefit by providing a greater and more tailed range of support and provision.

The public employment service carries out integrated services in both countries. Jobcentre Plus in U.K. has brought together employment services and benefit services that delivered services to working age people. The employment security centre of Korea is in charge of carrying out employment insurance system and job placement services. However, the degree of involvement in labour market policies appears to be different between the two countries. Jobcentre Plus is designed to provide a work focused services for all people of working age which include the unemployed people and economically inactive people. The main objects of Jobcentre Plus are to help more people into work

and reduce poverty and workless by carrying out work-first-strategy emphasised by the government. Therefore, it is operated with the principle governed by a "performance and resources agreement" which lays out targets for the agency's management to achieve. In Korea, there are no incentives for the employment security centre staff to focus on such as promoting employment for disadvantaged workers. This results in an unbalance service between regular workers and non-regular workers, younger groups and elderly groups, where the non regular workers are effectively outside the system. Moreover, among even the recipients of the unemployment benefits, only a small portion of recipients succeed in being reemployment using the job broking functions of the employment security centre.

3 Active Labour Market Policies

There are good grounds for believing that the importance of education and training for labour market performance has increased. Education and training may enhance the potential benefits that individuals can reap from participating in the labour market. It can also raise productivity prospects for individual workers thereby stimulating labour demand. Global demand shifts associated with skill based technological and organisational change as well as international competition may have raised the risk of skill obsolescence while adding upward pressure on the demand for skilled labour. More generally the growth enhancing role of human capital suggests that the impact of education and training at the individual level might have positive economy wide implications for the employment rate.

While there is some agreement that education is important to employment and

participation it is not clear whether this is true about training in later life (Heckman, 2000 ; Blundell, 2000). Technical change may require some retraining. But even if there may be gains at the firm level from training, if there are displacement effects on other workers, it is not necessarily the case that there will be an increase in employment rates. Empirical analysis suggests that for the unemployed positive outcomes are found more often in the case of training schemes that include a job first strategy (Martin and Grubb 2001, OECD 2003 AA). Continuing education and training seems to matter particularly for women and older prime age workers. Training increases job security by increasing individual productivity. Training taken with the current employer can be expected to increase either potential wages or reduces the risk of job loss. To the extent that training is general this increases the probability of getting another job if made unemployed. However if the training is too firm specific and the competences gained are firm specific this may reduce the chances of re employment following being made unemployed and will thereby reduce the longer term returns

Employee training has an impact on wage growth in the case of young or highly educated employees. Conversely training appears to have a stronger impact on employment security in the case of both older and low educated workers. This latter finding suggests that for older and low educated workers training allows attaining and maintaining the competences required to bring productivity in line with market wages thereby sustaining employment prospects for these groups. Workers gain through increased wage or job security although this depends to some extent on nature of training.

Whether firms or the economy benefits depends in part on the level of training

costs and the extent labour costs rise if greater levels of training give rise to higher wage demands. From a wider economy point of view there may be gains in terms of overall competitiveness if the additional training leads to an overall increase in productivity rather than the training of one group displacing that (and hence the jobs) of others. The extent of the return from public funding of training and work placement is partly determined by the existence of deadweight i.e. whether the training would have happened without government support.

Having regard to what has been argued above both countries have adopted active labour market policies although the UK policy as with other Western European countries is further developed than that in South Korea. There are a number of issues that South Korea might need to address in further developing its active labour market policies along the lines of those in the UK. A distinction can be made between those active labour market policies, such as training and work placement programmes, which are seen as countering the disincentive effects of a generous benefit system enabling people to remain unemployed, and those that are about the long term development of human capital. A criticism of the New Deal programme in the UK is that it tends to be concerned with placing people in training or work so as to reduce the number of unemployed rather than considering the longer term human capital needs of the individual or the economy. There are however other elements of UK active labour market strategies such as those implemented through the Learning and Skills Council and Sector Skills Councils that take a longer term view of skill needs. There are similarities to The New Deal approach in the UK evident in South Korea's active labour market policies with an emphasis on reducing the numbers unemployed after the shock of the financial crisis in the late 1990s

rather than reacting to a more fundamental change in the structure of the economy.

The consequences of the financial crisis that affected South Korea have led to some groups not being able to find jobs as easily as in the past. Thus unlike in the UK where younger workers have been targeted some of the policies in South Korea have been targeted at older workers affected by the changes taking place in the economy. If well targeted on specific groups that are less successful in the labour market training can be effective in improving the relative labour market performance of these groups and therefore be part of a general strategy to reduce non employment rates as well as increase participation rates among mature and older workers. The targeting of older workers rather than younger workers reflects in part the difference in the success of the South Korean education system, compared to the UK, in producing well educated young people.

While market forces will play a major role through changes in relative wages to bring about adjustments in the labour market, intervention by the state to overcome market imperfections places a heavy demand on information. One of the lessons provided by the UK experience is that the operation of an active labour market policy requires considerable amounts of information as to what skills are in demand by employers and what current skills are held by the workforce, particularly those out of work. In the UK a number of organizations such as the Local Learning Skills Council and Sector Skills Councils are engaged in gathering, interpreting and putting into practice strategies to address skills mismatches. The additional information required covers such issues as what training is available, where and provided by whom to address these skills

gaps.

Resource constraints and a possible lack of political will in South Korea have meant that unlike the UK systems are not fully in place to gather and utilise the information required. As has been found in the UK the likelihood of active labour market policies operating effectively depends on the number and skills of staff recruited to implement the strategies, put in place, and the effectiveness of organisational and management structures. That is not to say that the UK system does not have its problems but that the considerable set up costs in providing such systems, with associated adjustment costs, have largely been dealt with in the UK as the system has evolved.

One of the problems that hindered the development of active labour market policies in UK has been the lack of employer engagement in the training process. Although active labour market policies may not be as developed in South Korea, at least in terms of governmental involvement, there is more positive involvement of the private sector particularly the larger multinational organizations. To address skill shortages and to facilitate training provision training institutions of large enterprises in Korea have pooled together resources to create joint training centres to cater for partners (i.e. suppliers, distributors and subcontractors) most of which are small and medium size enterprises. The benefit of this collaboration is to increase efficiency and quality of training delivery by sharing resources and know how of pre existing training institutions. The South Korean government provides support by subsidizing the consortia itself as well as partner enterprises and their employees as established by the Promotion of Vocational Training of Workers Act 2001. Examples of consortia include a Samsung Heavy Industries and

Volvo both who saw the benefit of working more closely with their partners.

The employment stabilisation programme in Korea primarily depends on voluntary participation from companies without the active mediation of employment security centre staff in matching the unemployed or disadvantaged workers to employers. In the UK there is considerable emphasis place on the mediation between the unemployed and employers through the role of the employment advisor. The employment stabilisation programme in Korea has many complicated and diverse subordinate programmes without considering the target groups who need some assistance. This structure of the programme makes some programmes difficult to implement and results in low utilisation rates for many employment stabilisation subordinate programmes.

In part the different form that training provision may take in South Korea and the UK reflects the different relationship between government and firms and the different formal and informal institutions in each country which has meant the policies implemented have evolved along different paths. In the UK there is a particular problem that individuals may want a particular type of training which differs from what the employers and the state desires for that individual. The problem for trainers such as colleges is which demand to meet. The habits and culture of South Koreans imbues individuals with a more societal view and thus more likely to see the merit of meeting the requirements of state and employers.

Another major difference between South Korea and the UK is that in the UK the current system and policy initiatives are less about unemployment and more about the development of human capital to enable a variety of groups to access

work opportunities. The emphasis is on worklessness which then includes lone parents, offenders, young people and more and more on helping those currently claiming incapacity benefit because of illness or disability to overcome their worklessness.

This is a much broader form of active labour market policy that is concerned with educating and training the labour force so that they can enter or reenter the labour force. This supply side policy emphasises the long run nature of labour market adjustments and goes much further in terms of active labour market policies than is the case in South Korea. By comparison the South Korean experience is a reaction to a demand side shock that, if the economy adjust towards its previous equilibrium position, is likely to see less emphasis placed on either unemployment insurance or active labour market policies and a return to reliance on economic growth to resolve unemployment issues.

Although problems remain in the UK in its operation of active labour market policies, not least the coordination of a range of national and local strategies and organisations, there are lessons that South Korea can take from the UK experience. The cost of targeted active labour market policies for the public budget and the possible deadweight loss and displacement effects of such policies need to be carefully considered in the design of programmes. For policy purposes it is also important to know whether skills gained through training are transferable across jobs and employers and will benefit the economy as a whole as well as the individual.

4 Conclusion

South Korea active labour market policies are still in their infancy and rely more on employers taking some action to train and retrain workers. Thus while there are some similarities in structures and content the emphasis and operation of the systems in South Korea and the UK differ substantially. The South Korean system would appear to be lacking in resources and has a different set of priorities that might be explained in part by the rapid introduction of the system but also the institutional legacy in place in the period pre 1997 where the results of economic growth seemed to reduce the need for an unemployment service.

The UK employment services and unemployment insurance system have evolved over time from the introduction in the early twentieth century. This has meant that over that period the system has been able to develop and adjust to changing circumstances, but always having as its basis the underlying principle of a welfare state. Unlike South Korea, the development of the employment service can be seen as an element in a package of measures that seek to reduce the loss of income following a life event such as illness, old age and unemployment. Understanding the current system requires an understanding of the historic development of the institutions. The existence of the institutional framework, that has developed over time, enable more proactive policy initiatives to be undertaken rather than the somewhat reactive policy forced upon the South Korean government following the Asian financial crisis in the mid 1990s.

Chapter 6 Conclusion

1 Introduction

The main objective of this research has been to understand how the unemployment benefit system and public employment system in South Korea has developed and performed. A comparison has been made between South Korea's system and the UK's system. This concluding chapter summarises the main results of this study and presents some policy suggestion for active labour market policies in South Korea. The limitation of this study and possibilities for further studies are also discussed.

2 Summaries of this study

A number of research questions were set out in the introduction to this thesis, which have been addressed throughout the various chapters. The first chapter reviewed the historical development and current position of the South Korean Employment Insurance System (EIS) and Public Employment Service (PES). This chapter indicated that South Korea had achieved high rates of economic growth since 1960s until it experienced a financial crisis in 1997 largely based on a set of economic development plans and an export oriented development strategy. There was close cooperation between the state and large enterprises and an emphasis on economic development that saw low levels of unemployment and the belief that a specific set of unemployment insurance policies were not required.

However, South Korea experienced an economic and financial crisis in 1997

due in part to the structural weakness of the Korean economy, a weak financial sector and overleveraged corporate sector. To overcome the crisis, the government carried out various reform policies including structural reforms in the financial sector, in the corporate sector and in the labour market in order to establish sound financial institutions, to facilitate merger of companies and to enhance labour market flexibility. The Korean economy has recovered quickly achieving increases in the GDP growth rate from 1999.

The Korean government introduced an unemployment insurance system and a public employment service to deal with the unemployment problem that occurred in the process of economic crisis and following structural reforms. The schemes started from 1998 and continued to 2002 and the measures vary from job maintenance support through vocational training and job placement service to livelihood protection. It is believed that the unemployment schemes reduced the unemployment rate and the number of the unemployed decreased from 1998.

However several new issues have emerged in the South Korean labour market. The economic activity participation rate is now lower than it was in 1997; the number of non-regular workers has increased making workers more vulnerable in the labour market; the ratio of long-term unemployment and youth unemployment to total unemployment have increased. This along with the impact of the crisis has led to the development of more active labour market policies.

The first chapter established the nature of the South Korean economy and the emphasis on economic growth. The development of a social welfare system

was not felt necessary while this growth was maintained. As was indicated in later chapters the somewhat rapid response to put an unemployment programme in place may have limited the impact that it had on the labour market.

The second chapter explored the theoretical and historical foundations of EIS and PES programmes and policies since an understanding of these issues provides a basis to understand the development of these institutions in South Korea. The chapter also provides a vocabulary of terms such as coverage and eligibility that are used in the rest of the thesis.

Unemployment insurance systems vary from country to country. In most countries unemployment benefit systems are generally governed by two basic principles which represent an insurance principle in unemployment insurance benefit systems and welfare principle in unemployment assistance benefit systems. The difference between the two principles depends on whether the benefits are financed by wage-linked insurance contribution or general taxation and the nature of eligibility conditions including benefit duration and benefit level. However, in practice, most countries maintain mixed unemployment benefit systems in which unemployment insurance benefit is a fundamental system and the benefits based on welfare take a role as supplementary means. The underlying theoretical rationale for public provision of unemployment insurance and public employment services were also covered in this chapter.

Public employment services are defined as the broad network of institutions that provide job-broking services, labour market information, unemployment and related benefits, referral to active labour market programmes and employment-

related welfare reform services. There has been greater emphasis placed on active market policies as well as those that promote equity for disadvantaged workers in the labour market.

The Job-broking function is a classical and fundamental function of PES, which provides job matching between job seekers and employers through diverse methods. Especially, PES are required to provide more intensive and personalised service to disadvantaged groups of job seekers such as the long-term unemployed, women, young people, and people with disabilities in the modern labour market. PES are involved in unemployment benefit directly or indirectly. Labour market adjustment programmes are used to adjust labour market emphasising welfare-to-work policies which often target specific client groups independent from unemployment benefit. These programmes include job search assistance, training/education programme and lifelong learning, direct job creation and work experience, and various integrated programmes managed by PES. The scope and range of involvement by PES are diverse according to a country's circumstances.

The third chapter examined the employment insurance system and public employment service in South Korea. Korea's unemployment benefit system was partially introduced in 1995 and employment security centres were established to manage the system taking a role as a public employment service. The employment insurance system is seen as being compulsory insurance system although a number of groups of workers including for example civil servants are not covered by the programme. Although in operation more success has been achieved through passive labour market policies such as the payment of benefits the South Korean system also has elements of active

labour market policies. The system consists of three main policies, the employment stabilisation programme, the job skill development programme and unemployment benefit programme, all of which were covered in detail in chapter 2.

The unemployment stabilisation programme aims to prevent unemployment and promote reemployment of workers who are vulnerable to be unemployed or have difficulties to be employed by assisting directly employers with subsidies when they employ these workers. The job skill development programme aims to foster and stimulate lifelong vocational training and job skill development by encouraging employers and employees, through financial support, to participate actively in the programme. The unemployment benefits programme aims to provide cash benefits to insured workers who lost their jobs and help the unemployed find suitable jobs. The programme consists of job-seeking allowance and employment promotion allowance.

The unemployment benefits programme has taken an important role as a social safety net in Korea's economic crisis. However even though the proportion of beneficiaries to the total number of the unemployed increases from 0.6 percent in 1996 to 14.8 percent in 2002, the majority of the unemployed remain outside of the social protection system because of the low ratio of insured employees to the total number of employees and strict eligibility rules for unemployment benefit.

The job-broking function of the employment security centre has failed in satisfy the demands of employers and job seekers. The average matching rate of vacancies and job seekers from 1998 to 2003 record 38.5 percent and 17.9

percent respectively and is in decrease trend from 2000 when the rates are 43.6 percent and 25.0 percent. The function of job-broking covered by employment statutes concentrates on regular workers rather than non-regular workers yet non-regular workers constitute above 50 percent of the labour market, which means that the centre fails to reflect the character of the South Korean labour market and tends to ignore the more disadvantaged workers.

When attempting to evaluate the measures taken by the South Korean Government to alleviate unemployment, one must recognise that the government's pre-crisis 'social safety net' was minimal. By the beginning of the financial and economic crisis in 1997 the formal social protection system consisted of a minimal social insurance system, supported by a livelihood protection system that provided stipends to the aged, poor and incapacitated along with rudimentary social welfare services. Most of the new employment policies pursued after the crisis have resulted in much wasted expenditure given the absence of an appropriate institutional capacity for implementing the policies. The level of administrative capacity and duties that had developed, under the existing system of social insurance, was severely constrained because of limitations in terms of manpower, training and restrictions on the exercise of authority. New benefit programmes often required significantly more staff to process claims because more complex forms of information-gathering and monitoring were required to verify the financial situation of claimants. There was a lack of attention - and appropriate resource commitments - to building the capacity (in terms of personnel and services) that was required to implement anti-poverty strategies. Some analysts have argued that by failing to build the state's capacity for market oversight, the government was unable to manage the adjustment from a relatively planned to a more

market-driven economy (Kim, H.R. 2000a; Lee 2000).

Although active labour market policies were first introduced after the crisis, passive measures have continued to receive higher budgetary allocations. What in principle appeared to be a compulsory insurance scheme operating in conjunction with a range of active labour market initiatives in practice turned out to be a partial scheme with a number of exclusions and a wide range of initiatives that have not been that successful. The performance of the employment insurance system and the public employment service is poor. The employment stabilisation programme is not fully utilised yet and the job skill development programme fails to induce workers in relatively small companies to participate in the programme. The unemployment benefit programme has a long way to go as a social safety net. The employment security centre is also ineffective in assisting relatively disadvantaged workers showing that it fails to reflect the character of the labour market in carrying out its functions.

The fourth chapter explored the unemployment benefit system and active labour market policies in U.K. The current basis of the system is JSA. The unemployed are required to be capable of working, available to work, and actively seek work to receive JSA. A number of rules cover the operation of JSA rules such as jobseeker's interview, jobseeker's agreement and jobseeker's direction with an adviser to encourage the unemployed people back to work.

The positive effects of JSA, in helping reduce unemployment, result not only from JSA itself but other UK active labour market policies, which are represented by welfare-to-work policies and New Deal Programmes. New Deal

Programmes consist of two main types, compulsory New Deal Programmes and voluntary New Deal Programmes which focus on unemployment benefit claimants and other non-employed groups respectively. The programmes are designed to provide the programmes' participants tailored incentives for employment such as JSA sanction, intensive advice and guidance, employment opportunity for some period, and education or training opportunities in order to promote employment and improve employability.

The operation of Jobcentre Plus is governed by a "performance and resources agreement" which lays down targets that the agency's management is supposed to achieve and be evaluated in each year. These targets include job entry, monetary value of fraud and error, customer service, employer outcome, and business delivery.

In chapter 5 a comparison was made between the South Korean and UK employment services. The UK employment services and unemployment insurance system have evolved over time from the introduction in the early twentieth century. This has meant that over that period the system has been able to develop and adjust to changing circumstances, but always having as its basis the underlying principle of a welfare state. Unlike South Korea, the development of the employment service can be seen as an element in a package of measures that seek to reduce the loss of income following a life event such as illness, old age and unemployment. Understanding the current system requires an understanding of the historic development of the institutions. The existence of the institutional framework, that has developed over time, enable more proactive policy initiatives to be undertaken rather than the somewhat reactive policy forced upon the South Korean government following

the Asian financial crisis in the mid 1990s.

Another major difference between South Korea and the UK is that in the UK the current system and policy initiatives are less about unemployment and more about the development of human capital to enable a variety of groups to access work opportunities. The emphasis is on worklessness which then includes lone parents, offenders, young people and more and more on helping those currently claiming incapacity benefit because of illness or disability to overcome their worklessness.

This is a much broader form of active labour market policy that is concerned with educating and training the labour force so that they can enter or reenter the labour force. This supply side policy emphasises the long run nature of labour market adjustments and goes much further in terms of active labour market policies than is the case in South Korea. By comparison the South Korean experience is a reaction to a demand side shock that, if the economy adjust towards its previous equilibrium position, is likely to see less emphasis placed on either unemployment insurance or active labour market policies and a return to reliance on economic growth to resolve unemployment issues.

3 Policy implications

Currently the performance of the South Korean employment insurance system and the public employment service is poor. The employment stabilisation programme is not fully utilised yet and the job skill development programme fails to induce workers in relatively small companies to participate in the programme. The unemployment benefit programme has a long way to go as

a social safety net. The employment security centre is also ineffective in assisting relatively disadvantaged workers showing that it fails to reflect the character of the labour market in carrying out its functions.

Several weak points have been identified in South Korea's employment insurance system and public employment service so that some policy recommendations can be made to improve the public employment policy of Korea.

Firstly, the employment stabilisation programme needs to be streamlined reducing the subordinate programmes that make up the main programme because some of the programmes are not working. The programmes should be shifted to a more customer-oriented set of programmes which focus on target groups who are vulnerable in the labour market and provide more intensive and tailored assistance for the unemployed. With this reorganisation of the programmes, employment security centre should take a role as a more active mediator in matching the unemployed with employers in order to increase the utilisation rate of the programmes and improve the net employment effects of the programmes.

Secondly, the unemployment benefit programme's role as a social safety net for the unemployed should be reinforced. In order to qualify as a social safety net, it would need to make some institutional reforms which possibly include expansion of employment insurance coverage, mitigation of eligibility requirements for the unemployment benefit and especially introduction of supplementary unemployment assistance system, which include all the unemployed into unemployment benefit system, even though they fail to meet

contribution conditions for unemployment benefit.

Thirdly, with the expansion of the social safety net, more active factors should be introduced in the unemployment benefit system in order to offset the negative effects of the unemployment benefit and encourage the unemployed to keep more active job search activities. The social safety net needs to contain positive and negative incentives that operated as a 'carrot and the stick' approach to the unemployed. Active regulations including enforcement of job interview and introduction of job agreement for the unemployment benefit, which occur in the U.K., could be introduced to encourage the unemployed to get into work. There is also some merit in having a work-first- strategy possibly along the lines of the New Deal Programme in the U.K which and could be focused on employment of economically inactive people considering the fact that economic activity participation rate is very low even though the number of the unemployed have decreased continuously in Korea.

Fourthly, even though it was indicated in Chapter 3 that the employment service has not been that effective in returning the unemployed to work, the role of the employment security centre should be re-enforced in order to provide more intensive services to the unemployed. While other job search methods are available it is the more disadvantaged unemployed who could be helped into work as in the U.K., through the integrated services of Jobcentre Plus, which provides the unemployed with more tailored services through job interviews with personal advisors and the operation principle focused on target groups. The employment security centre of Korea performs poorly on promoting the employment of disadvantaged workers. It needs to be re-organised to provide in-depth guidance and counselling to the unemployed through the introduction

of evaluation principles which emphasises disadvantaged workers in order to provide appropriate services to those with special needs such as the long-term unemployed, the aged, women, daily workers, and the disabled.

Lastly as a general rule it seems preferable to favour active labour market schemes with large leverage potential which have greater scope to minimize dead weight as well as the cost for the public budget. These schemes include regulatory and institutional arrangements that allow mobilising substantial private resources from both employers and employees with limited public co financing (e.g. apprentice contracts, company based learning accounts) as well as policy measures that favour the establishment of training consortia pooling together resources from different enterprises. In some respects, both the UK and South Korea have attempted, possibly with some implementation issues, to adopt the framework outlined above for the adoption of active labour market policies. The feasibility of undertaking more extensive active labour market policies depends in large part on the amount of resources allocated to the policies and the political will to carry out the necessary organisation changes.

4 Research limitations and further studies

Even though this study analysed the role of the employment insurance system and public employment service in Korea, focusing on the active labour market policies, there are some limitations to this study and these limitations can be overcome through future further studies.

This study depended on data sourced from "Employment Insurance Database" and "Work Net" which primarily collect information about insured workers or

regular workers and, therefore, fail to reflect the real character of Korea's labour market in analysing the effects of employment policy of Korea. In order to analyse and understand the real effects of labour market policy carried out by employment security centre, more detailed surveys on the entire workforce, including non-insured workers, will be required.

This study focuses on understanding the active labour market factors in the unemployment insurance system and public employment service of Korea through comparison with that of U.K. However, vocational training systems have not been compared between the two countries even though vocational training systems are one of the important factors in active labour market policies. In order to understand comprehensive effects of the public employment service, further research on job training system will be needed.

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