

Korean Labour Market and Social Safety-Net Reforms: Challenges and Policy Requirements*

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This paper argues that, despite Korea's impressive recovery from the 1997 crisis, now is not the time to reduce the momentum of labour market and social policy reforms. The country is still facing major challenges: (i) to adapt its industrial relations system; (ii) a high incidence of precarious employment; and (iii) a modest social safety net. To address these challenges, the paper calls for further action to improve education and training, expand the Employment Insurance System, scale back poorly-targeted programmes, adapt the public employment service, ensure that employers pay social contributions, reduce enterprise retirement allowances, and enhance basic workers' rights.

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1. INTRODUCTION

Korea has long registered one of the most impressive economic records of modern times. During the past four decades, GDP growth averaged more than 9 per cent on an annual basis, permitting current per capita income to reach 65 per cent of the OECD average.

The financial crisis which started at the end of 1997 brought the growth process to a sudden halt. The crisis forced the government to agree to a rescue package with the IMF. Unemployment rocketed from 2½ per cent to a peak of 8½ per cent in early 1999, and more than one million Koreans were thrown into poverty. The difficult economic and social situation provoked by the crisis forced the authorities to implement quickly a wide range of macroeconomic and structural reforms. The economy has now turned the corner, permitting the unemployment rate to fall rapidly to below 5 per cent, and short-term prospects point to a continuation of the solid recovery. In 1999, the economy grew by over 10 per cent and the latest OECD projections show a growth rate of 8.5 per cent this year, followed by 6 per cent in 2001.

This recovery owes a great deal to market forces – the significant depreciation of the Won that took place short after the start of the crisis, combined with significant nominal and real wage cuts in 1998, have improved international competitiveness, export performance and firms' profitability. But government policies have also played a role in ensuring the recovery. The Korean government has implemented over the past three years many structural reforms, not only in the areas of banking, corporate governance and financial markets, but also covering labour markets, industrial relations and social protection. Indeed, the range and scope of these reforms, together with the speed with which they were implemented, is unprecedented by the standards of other OECD countries.

Now that the recovery is well underway, it may be tempting to assume that the crisis was just a blip in an otherwise high-growth path and that, as a consequence, a pause in the reform agenda is called for. On the contrary, Section II of this paper argues that the Korean economy and society is still facing key challenges on the fronts of industrial relations, labour markets and social protection. Section III sets out reform proposals to tackle these challenges. The final section presents some concluding remarks.

2. OUTSTANDING PROBLEMS IN THE AREAS OF INDUSTRIAL RELATIONS, LABOUR MARKETS AND THE SOCIAL SAFETY-NET

OECD (2000a) highlights several outstanding problems in the areas of industrial relations, labour markets and social protection which need to be tackled if the Korean economy and society is to achieve its stated objectives. This section summarises the arguments based on a cross-country comparative approach, bearing in mind the limitations inherent in any comparison of labour market institutions and social protection systems across countries.

2.1. Reforms to Labour Laws to Bring Them into Line with Internationally Accepted Standards

When Korea joined the OECD in 1996, the Korean authorities made a commitment to the Organisation that they would reform existing laws on industrial relations in line with internationally accepted standards, including those concerning basic rights such as freedom of association and collective bargaining. The OECD's Employment, Labour and Social Affairs Committee has since been monitoring closely progress on labour law reforms in Korea in the light of that commitment.

The Korean authorities have taken a number of important steps over the past three years to meet this commitment, steps which have been welcomed by the OECD and the ILO. However, as documented in OECD (2000a) and in several recent reports of the ILO's Committee on Freedom of Association, there remain some outstanding problems. The most prominent are:

Prohibition of remuneration of full-time union officials: The 1997 Trade Union Act prohibits the remuneration of full-time trade union officers by the employer, as well as any financial payment for regular trade union operations. This clause is supposed to take effect by the year 2002.¹⁾

1) The law has thus incorporated employer concerns that they will at that time be forced to support large numbers of paid full-time union officials from both FKTU- and KCTU-affiliated enterprise unions. Already under current conditions, employer associations complain that their members are forced to pay an unusually high number of

It is not clear why the law should have to regulate this matter, rather than leaving it to be decided by collective bargaining. A survey of practices in other OECD countries shows that paid working time off for trade union representatives is a common feature of industrial relations systems. Additional time off for works council members (where these exist) is also widespread. In large enterprises, hours credits for both these functions often imply that many union officials devote their full time to union matters while being on the company payroll. In some countries, hours credits and time-off for union officials are regulated in detail through labour law, while in other countries the matter is left to collective agreements.

Union status of dismissed workers: According to the Trade Union and Labour Relations Adjustment Act, an organisation will not be regarded as a trade union when persons who are not workers are allowed to join it. In particular, dismissed workers are not allowed to retain their membership in a trade union as soon as the dismissal has become valid.

As the long drawn-out saga over the recognition of the second national trade union centre, the Korean Confederation of Trade Unions (KCTU) has shown, the fact that some trade union officials are dismissed or unemployed workers can lead to difficulties in securing legal recognition of a trade union by the authorities. If the law remains unchanged, this problem is bound to re-appear as new unions are formed and seek to register with government authorities.²⁾ This particular provision of Korean labour law has no counterpart in other OECD countries which consider qualifications for membership as a matter for the union itself to decide and not to be set down in legislation.³⁾

union officers in relation to the workforce members they represent compared with the situation in other OECD countries.

- 2) Although the February 1998 Tripartite Commission Agreement did recognise unemployed workers' rights to join a trade union or remain a union member (although not at enterprise level), a corresponding bill subsequently submitted by the government was rejected by the National Assembly. Despite repeated statements of intent by the government, no further bill has been submitted, as there seems to be disagreement among the Ministries concerned as to which groups among the unemployed might be allowed to join upper-level trade union organisations (in particular, as concerns the length of their unemployment spell).
- 3) Most trade unions in OECD countries have varying proportions of students, self-employed, unemployed and retired workers among their ranks (OECD, 1991, Chapter 4).

Multiple trade unions at the enterprise level: Though the revised 1997 *Trade Union and Labour Relations Adjustment Act* makes it legally possible to form multiple trade unions at industrial and national levels, on the enterprise level, multiple unions will only be allowed from January 2002 onwards.

Union rights of civil servants: Civil servants are not allowed to join trade unions. Following agreement in the Tripartite Commission in February 1998, the establishment of workplace associations in the public service is allowed since January 1999, but due to certain restrictions over one third of public service personnel is ineligible to join such associations.

The ILO has expressed concern over these restrictions, in particular that there is no timetable for allowing union rights to public servants.

Right to strike in the public sector: Strikes by workers in central and local government and those engaged in the production of military goods are prohibited, which is not unusual in OECD countries. However, the law also restricts the right to strike in the more broadly defined public sector, including regular public transportation services; gas, electricity and water; oil refineries and oil supply; hospitals and other medical services; banks and the Mint; broadcasting and communication.

The ILO has repeatedly asked the Korean government to ensure that restrictions on the right to strike only apply to essential services in the “strict sense of the term”, under conditions of an “imminent threat to the life, personal safety or health of the whole or part of the population” (ILO 1996; 1998).

Korea is not unique in restricting the right to strike in some public services. However, Korean labour law provisions seem to go farther than in other OECD countries in that they set out an unusually broad definition of “essential services” where a strike ban covering entire sectors is maintained.

2.2. Lack of Trust among the Social Partners

It is more necessary than ever to create a less confrontational and more consensual system of industrial relations if the Korean economy and society is to modernise and prosper. Trust and co-operation among the social partners can play an important role in fostering a dynamic, knowledge-based economy. Unfortunately, past confrontational attitudes

between the social partners have re-surfaced recently in a context of economic recovery. The result is that consensus on wage moderation and necessary reforms of employment conditions and workforce practices are increasingly difficult to achieve. Moreover, the social partners have not even agreed on a common agenda for discussions by the Tripartite Commission and the prospect for the Commission to find satisfactory solutions to outstanding issues seems rather remote at present.

One manifestation of these confrontational attitudes is the long-standing practice of arresting and imprisoning trade union leaders and members for violations of existing laws. This particular feature of industrial disputes in Korea is a matter of considerable concern to the OECD and the ILO. Successive waves of arrests of trade unionists not only represent a threat to fundamental workers' rights, but they also damage trust among the social partners. During the economic crisis and its aftermath, many union members reacted strongly to the announcement of business restructuring and collective dismissals. This included take-overs of plants and equipment, acts of violence and strike action in some essential services where, as noted above, Korean law prescribes conflict resolution through arbitration. These events gave rise to a sharp upsurge in arrests of workers and union officials.

The ILO's Committee on Freedom of Association has repeatedly urged the Korean government to take appropriate measures so that the persons detained or on trial as a result of their trade union activities are released or that the charges against them are dropped. It has objected, in particular, to the use of the clause in the Penal Code relating to "obstruction of business" as a basis for the arrest of union demonstrators and strike participants.⁴⁾ The Korean authorities, for their part, argue that the concerned trade unionists have been arrested on such grounds as violence during strikes, unlawful occupation of premises or serious damage to company facilities. They have also announced a plan to "minimise" the number of arrests through focusing mainly on strike leaders and through applying fines, but not detaining other participants.

In sum, although it is not possible to assess the extent to which these pending issues have undermined labour-management relations, it is likely

4) The OECD's Employment, Labour and Social Affairs Committee has repeatedly expressed the view that the definition of "unlawful activities" in Korea is unusually broad and encompasses union activities that would be regarded as lawful in most OECD countries.

that addressing them urgently will contribute to a better climate of trust between the social partners. This, in turn, is an essential element in fostering a less confrontational system of industrial relations. Not only would this benefit Korean workers and firms but it would also increase the attractiveness of Korea as a location for foreign direct investment.

2.3. A Low Employment-population Ratio

The sharp fall in the open unemployment rate recently (to 3.8 per cent in the second quarter of 2000) is most welcome news. However, there remains considerable room for increasing the number of jobs. Indeed, the employment-population ratio in Korea is relatively low by international comparison. In 1999, the overall employment-population ratio was less than 60 per cent – 5 percentage points below the OECD average (Table 1). The employment-population ratios of women and youth are particularly low by international standards.⁵⁾

In addition, though the open unemployment rate is currently below the OECD average, there is a substantial degree of labour market slack. This is illustrated by the high numbers of discouraged workers (the total participation rate in 1999 was 1.7 percentage points lower than in 1997) and participants in labour market programmes such as public works. Finally, economic restructuring among the chaebols is still underway and its completion may entail further significant job losses.

5) On the other hand, the employment-population rate of workers aged 55 to 64 is among the highest in the OECD area. Given the modest level of retirement pensions, Koreans tend to work until late in their lives.

Table 1 Employment/Population ratios,^a 1999

	Total				Men	Women
	All ages ^b	15 to 24	25 to 54	55 to 64	All ages ^b	All ages ^b
Australia	68.2	60.8	75.4	44.3	76.5	59.9
Austria	68.2	54.9	81.3	29.2	76.7	59.7
Belgium	58.9	25.5	76.4	24.7	67.5	50.2
Canada	70.1	54.6	79.2	46.9	75.5	64.7
Czech Republic	65.9	40.1	81.9	37.5	74.3	57.4
Denmark	76.5	66.0	84.4	54.2	81.2	71.6
Finland	66.0	38.8	80.3	39.2	68.4	63.5
France	59.8	20.8	77.0	34.2	66.8	52.9
Germany	64.9	46.8	78.2	38.5	73.1	56.5
Greece ^c	55.6	28.1	69.9	39.1	71.6	40.3
Hungary	55.7	35.7	72.3	19.4	62.6	49.0
Iceland ^d	84.2	65.1	90.9	85.9	88.2	80.2
Ireland	62.5	46.4	73.2	43.8	73.5	51.3
Italy	52.5	25.5	66.9	27.5	67.1	38.1
Japan	68.9	42.9	78.7	63.4	81.0	56.7
Korea, 1997	63.7	31.7	75.0	63.7	76.0	51.6
Korea, 1998	59.5	26.3	70.3	59.0	71.7	47.4
Korea, 1999	59.7	26.8	70.4	58.1	71.5	48.1
Luxembourg	61.6	31.7	76.7	26.3	74.4	48.5
Mexico	61.2	50.8	67.8	55.2	84.8	39.6
Netherlands	70.9	62.7	80.6	35.3	80.3	61.3
New Zealand	70.0	54.6	77.6	56.9	77.3	63.0
Norway ^d	78.0	57.8	85.5	67.3	82.1	73.8
Poland ^c	58.9	28.6	75.0	32.3	65.8	52.2
Portugal	67.3	43.2	80.8	50.8	75.5	59.4
Spain ^d	53.8	33.9	65.6	34.9	69.6	38.3
Sweden ^d	72.9	43.8	82.6	64.0	74.8	70.9
Switzerland	79.7	64.7	85.2	71.7	87.2	71.8
Turkey	51.9	42.6	57.8	42.6	71.7	32.0
United Kingdom ^d	71.7	60.8	79.7	49.4	78.4	64.9
United States ^d	73.9	59.0	81.4	57.7	80.5	67.6
Total OECD ^e	65.9	46.7	75.9	48.9	76.6	55.4

a) Employment/population ratios refer to persons in employment divided by the working-age population for the relevant groups.

b) "All ages" refers to 15 to 64.

c) Data refer to 1998.

d) Age group 15 to 24 refers to 16 to 24, and "All ages" refers to 16 to 64.

e) For above countries only.

Sources: OECD, *Employment Outlook*, June 2000, Statistical Annex, Tables B and C.

2.4. An Extremely High Degree of Labour Market Duality

More fundamentally, Korea has one of the most “dual” labour markets in the OECD area, as illustrated by the following facts:

In 1999, more than half of all employees had either a temporary or a daily contract, the remaining having a "regular" (*i.e.* open-ended) contract. In international comparisons, Korea has the highest share of non-regular jobs in total employment, followed by Spain, while the number of workers holding a permanent job is the lowest among OECD countries, followed by Turkey (Table 2). Younger and higher-educated men hold most regular jobs, while the incidence of non-regular work is particularly high among women, older workers and the lower-educated (Figure 1). The incidence of self-employment is among the highest for OECD countries together with Mexico and second only to Turkey. Unpaid family workers make up about 10 per cent of total employment in Korea, while this figure varies between 0 and 3 per cent in most other OECD countries.

Reflecting the high incidence of non-regular employment, average job tenure (*i.e.* the length of stay in the same enterprise) is low by international comparison. In 1998, the average Korean worker stayed slightly over six years with the same employer – in 1995, the figure was almost ten years in the case of the European Union and over eleven years in Japan (Table 3). Average tenure is even lower in Korea than in the United States. Job tenure is especially low for Korean female workers. Average job tenure for men was almost seven years in 1998, while average job tenure for women was just over four years in 1998 – by contrast, in 1995, the unweighted average for OECD countries was 10.4 years for men and 8.4 years for women. It also appears that workers with a college degree enjoy longer job tenures than lower-educated ones. However, tenure is higher for the lower-educated (those with educational attainment of middle school and below) than for those with high-school education or junior college – signalling problems in the school-to-work transition.

Regular workers tend to work in large firms. This is important because the wage gap between large and small firms has been growing in recent years (Figure 2). Working in a large firm entails other benefits to workers: a) in 1995, the unionisation rate in firms with more than 300 workers

exceeded 80 per cent, whereas it was only 5 per cent in firms with less than 100 workers (and probably almost nil in small businesses); *b*) workers in large firms are covered by both the Employment Insurance System and the National Pension System which, despite government efforts to expand coverage, is far from being the case in small firms; and *c*) in 1999, nearly 40 per cent of workers in large firms received in-plant training, compared with less than 3 per cent in small firms.

While there are probably many factors which account for such a pronounced degree of duality in the Korean labour market, employment protection is an important part of the story. Indeed, regular workers enjoy a relatively high level of employment protection. For instance, severance pay amounts to one monthly wage per year of seniority (with no maximum) and dismissal procedures remain complex and cumbersome despite recent reforms.⁶⁾ In addition, the preconditions for dismissals based on economic reasons (advance notification to a trade union, verifiable efforts to avoid dismissal, etc.) make conditions in Korea resemble closely those in other high-protection countries such as Japan, Portugal, France or Germany. Finally, the new provisions on notification of collective dismissals to the Ministry of Labour correspond to the strict regulations in force in EU countries. Overall, the OECD has ranked Korea as the second strictest country out of 27 Member countries in terms of protection of regular (or permanent) employment contracts.⁷⁾ By contrast, employers are under no obligation to provide severance pay to temporary and daily workers who stay less than one year in their enterprise.

Another possible explanation is the structure of product markets. Competition among large firms is weak (domestically), reflecting cartel-type arrangements. At the same time, large firms have managed to subcontract work to small ones, to remain competitive. As noted above, regular workers are concentrated in large firms, implying possibilities for rent-sharing between them and their employers.

6) While the one-month notice period, even for workers with high tenure, is low by international standards, the legal severance pay requirements applying to regular workers would seem to be relatively onerous.

7) For details, see OECD (1999a, Chapter 2).

Table 2 international comparison of employment by status of workers, 1998^a

	Percentage of total employment				
	Employees			Unpaid family workers ^b	Self- employment
	Total	Permanent/Regular	Non- permanent/Non regular		
Australia	86	63	23	1	14
Austria	86	80	7	3	11
Belgium	82	75	6	3	15
Canada	82	73	10	0	17
Czech Republic	86	80	7	0	13
Denmark	91	81	9	1	8
Finland	86	71	15	1	14
France	89	77	12	0	11
Germany	89	78	11	1	10
Greece	55	48	7	12	33
Hungary	85	81	5	1	14
Iceland	82	73	9	0	18
Ireland	79	72	7	1	20
Italy	72	65	6	4	24
Japan	83	73	10	6	12
Korea, 1997	63	34	29	9	28
Korea, 1998	61	32	29	10	29
Korea, 1999	62	30	32	9	29
Luxembourg	93	90	3	0	7
Mexico	61	51	10	10	29
Netherlands	88	77	11	1	11
New Zealand	80	1	19
Norway	92	81	10	1	8
Poland	70	5	26
Portugal	71	59	12	2	27
Spain	77	52	25	3	20
Sweden	89	78	11	0	10
Switzerland	87	77	10	2	11
Turkey	44	35	8	25	31
United Kingdom	87	81	6	1	12
United States	92	0	8

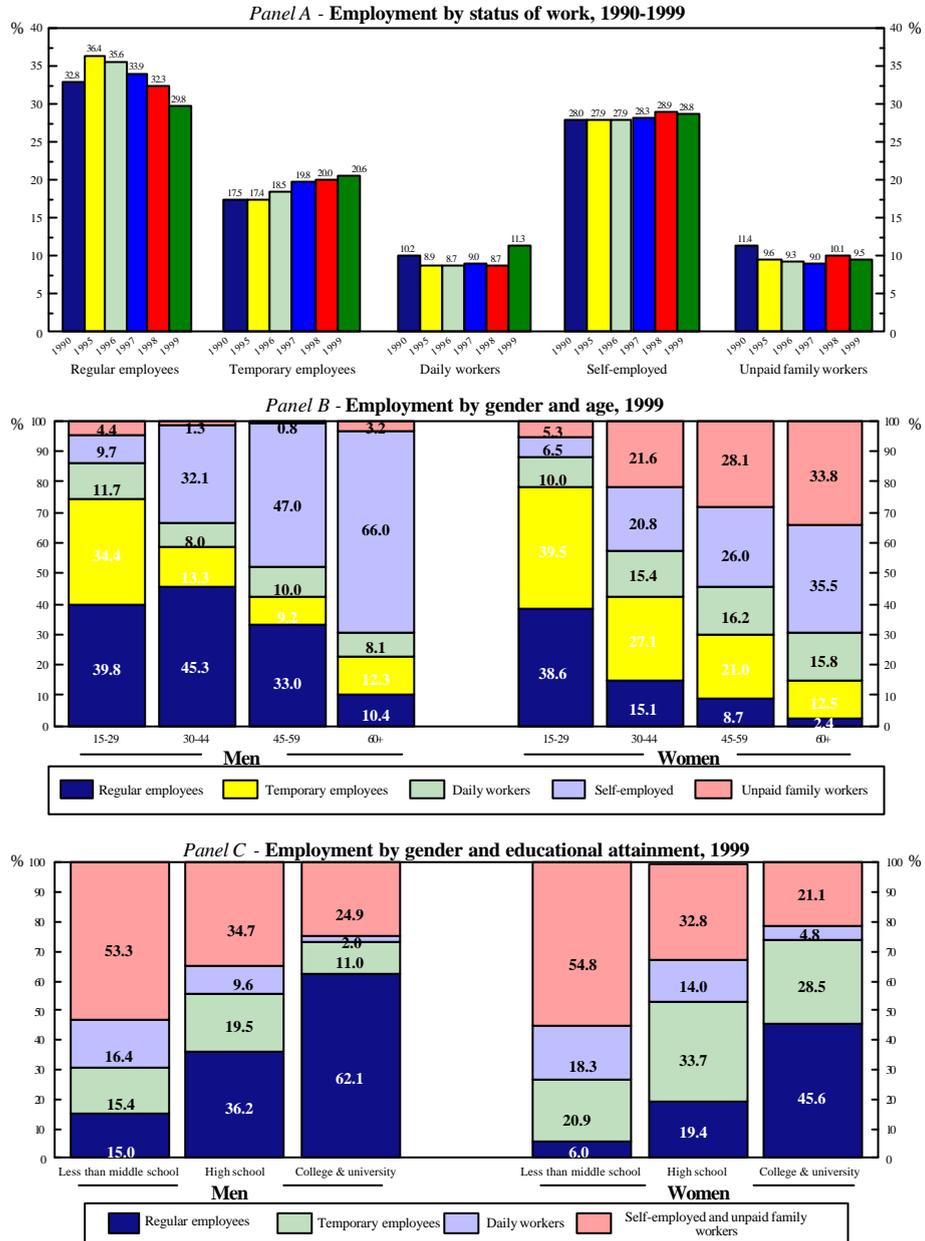
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a) Data relate to 1997 for Greece, Ireland, Luxembourg and Portugal; and as indicated in the case of Korea.

b) Figures less than 0.5 appear in the column as zeros in italics.

Sources: **Korea**: National Statistical Office, *Annual Report on the Economically Active Population Survey*, 1997 and 1998 issues, and *Monthly Report on the Economically Active Population Survey*, December 1999; **Japan**: Ministry of Labour, *Year Book of Active Population Labour Statistics*, 1998; and for **other countries**: OECD, *Labour Force Statistics*, 1999 (for data on total employees, unpaid family workers and self-employment), and OECD/DEELSA Statistics and Indicators Division, temporary-work database (for the breakdown of permanent/non-permanent work).

Figure 1 Composition of employment by status of work



Sources: **Panel A:** National Statistical Office, *Annual Report on the Economically Active Population Survey*, 1998; and *Monthly Report on the Economically Active Population Survey*, December 1999. **Panels B and C:** Direct submissions by the Korean authorities.

Table 3 Job tenure in Korea and selected OECD countries

Average number of years with the same employer

	Korea		European Union ^{a,b}	Japan ^a	United States ^a	
	1996	1997	1998	1995	1995	
Total employees	5.4	5.7	6.1	9.8	11.3	7.4
Men	6.1	6.3	6.8	10.5	12.9	7.9
Women	3.7	4.0	4.3	8.8	7.9	6.8
Middle school and below	5.7	6.1	6.4	10.1	15.3	5.8
High school	5.1	5.4	5.8	9.4	11.4	7.9
Junior college	4.5	4.6	5.1	10.1	9.5	7.4
College and university and over	6.2	6.5	7.0			

a) Averages for different levels of educational attainment are based on weighted averages of mid-points of tenure classes. The two highest educational levels are not shown separately and correspond to some or completed tertiary education. These data were published in Table 5.6, *OECD Employment Outlook*, July 1997.

b) Unweighted average on the different breakdowns of tenure for the 15 member countries.

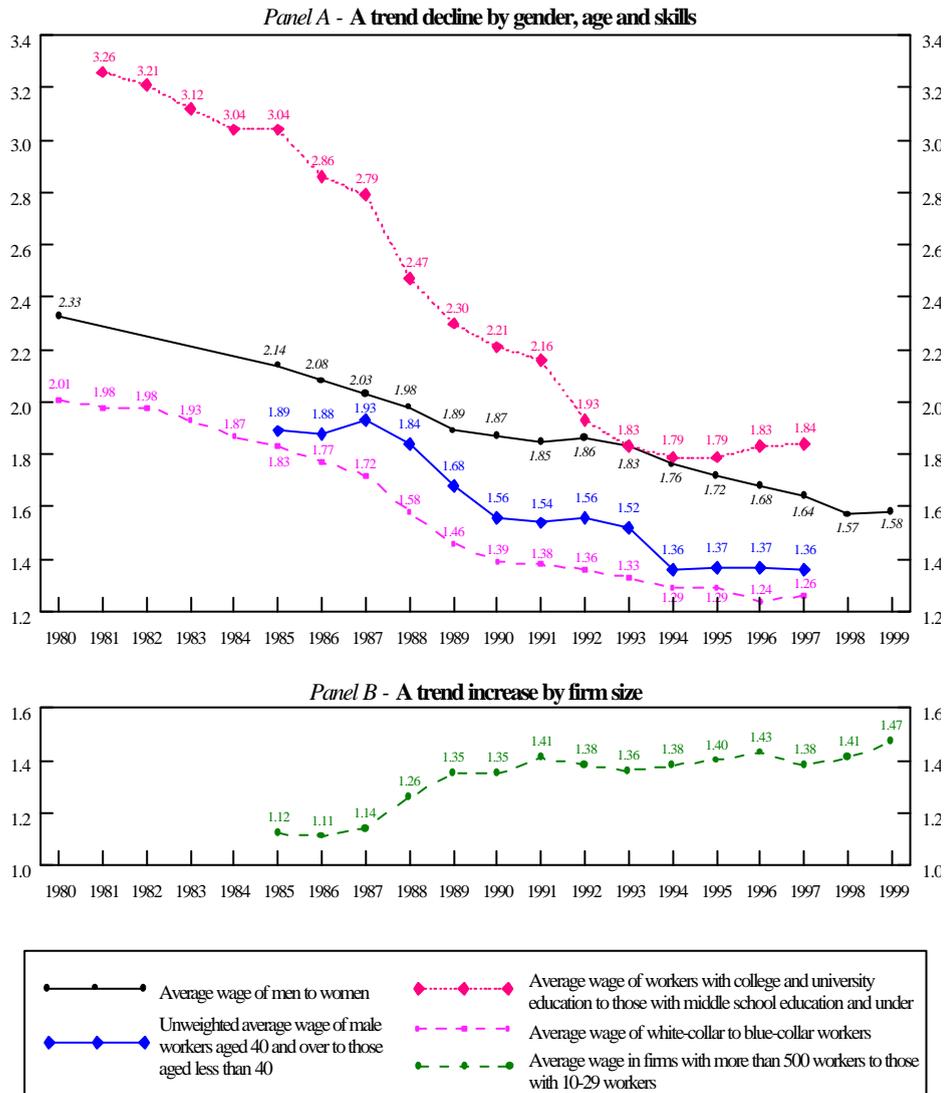
Sources: **Korea**: Direct submissions by the Ministry of Labour on the basis of the Report on Wage Structure Survey; **other countries**: OECD, *Employment Outlook*, July 1997, Table 5.6.

If the recovery continues, the expectation is that employers will become more confident about future economic prospects and that, as a result, they will be less reluctant to convert non-regular jobs into regular ones. However, it should be stressed that the incidence of regular employment did not increase much in 1990-97, a period characterised by near-full employment. Thus, job precariousness seems to be a structural characteristic of the Korean economy, which is problematic not only from the social point of view, but also for reasons of economic efficiency. Indeed, as noted earlier, job precariousness seems to be associated with a relatively low incidence of vocational training (in particular in small businesses), in turn inhibiting productivity growth.

2.5. A Relatively Modest Social Safety Net

As part of its response to the crisis, the Korean government implemented many temporary measures such as public works programmes and

Figure 2 Wage differentials^a
Ratios



a) Average annual wages including all wage components as in Chart 2.3, referring to establishments with 10 workers or more.
Sources: Ministry of Labour, *Survey Report on Wage Structure*, various issues, for data by gender, age groups and educational attainment; *Monthly Labour Survey*, various issues, for data on firm size; and direct submission from Korea Labour Institute for data on occupational status. Figures for 1998 and 1999 are provisional estimates supplied by the Korean authorities.

temporary social assistance support in order to provide income support to displaced workers and their families. Despite this welcome expansion of the social safety-net, OECD (2000a) concludes that it is still too modest relative to equity and social insurance considerations in the following dimensions:

The Employment Insurance System (EIS), which is the main pillar of the social safety net, was created in 1995 and, despite the recent extensions of its coverage, still does not cover all eligible workers. According to the latest available data, 71 per cent of workers eligible for the EIS are actually insured (Table 4). Reflecting the legal eligibility requirements as well as practical difficulties in increasing the coverage of the EIS, the proportion of unemployed workers who receive an unemployment benefit is very low: in the first half of 1999, only one in eight of the unemployed (Table 5). In all other OECD countries for which data are available, the share of the unemployed that receive benefits is significantly larger – in certain countries, almost all unemployed workers are granted an unemployment benefit.

Table 4 Coverage of the Employment Insurance System(EIS)

Number of workers in thousands				
	July 1995	January 1998	July 1999	February 2000
Paid workers	12 824	12 500	12 603	12 819
Eligible workers	4 280	5 190	8 342	8 700
Insured workers	4 204	4 309	5 876	6 172
<i>As a proportion of eligible workers (%)</i>	<i>(98.2)</i>	<i>(83.0)</i>	<i>(70.4)</i>	<i>(70.9)</i>

Sources: Direct submission by the Korean authorities, and Secretariat estimates.

Not only is EIS coverage limited by comparison with other OECD countries but, in addition, benefits are rather modest for the limited number of unemployed workers who receive them. The (daily) job-seeking allowance amounts to 50 per cent of the so-called "basic daily wage" at the

**Table 5 Characteristics of unemployment benefit recipients
in the first semester of 1999**

	Unemployed workers	Number of unemployed workers who acquired the right to receive unemployment benefits	
	(000s)	(000s)	Percentage of unemployed workers
Total	1 592	187	11.7
<i>Gender</i>			
Men	1 071	126	11.8
Women	521	61	11.7
<i>Age</i>			
Less than 30	617	42	6.8
30 to 39	403	57	14.1
40 to 49	326	40	12.3
More than 50	246	47	19.1
<i>Educational attainment</i>			
Primary school and under	179	12	6.7
Middle school education	262	21	8.0
High school education	844	94	11.1
College and university	307	60	19.5
<i>Firm size</i>			
Less than 10 workers	971	27	2.8
10 to 299 workers	530	102	19.2
300 workers and over	91	58	63.7

Sources: National Statistical Office, *Monthly Report on the Economically Active Population Survey*, February 2000; and KLI (1999b).

time of separation.⁸⁾ The maximum duration of payment of unemployment benefits ranges between three and eight months, depending on the age at

8) job-seeking allowance is subject to a ceiling and it cannot fall below a minimum level. The ceiling for the job-seeking allowance is set at 30 000 Won per day, i.e. approximately US\$25 per day or 56 per cent of the average daily wage. Since January 2000, the minimum job-seeking allowance has been raised to 90 per cent of the minimum wage (up from 70 per cent before January) or about US\$9.5. The minimum job-seeking allowance is now slightly above the minimum cost of living, which in December 1999 was officially estimated at 268 500 Won per month, or US\$7.5 per day.

the time of job loss of the recipient and the period of contribution to the EIS (the insured period).⁹⁾ OECD (2000a) shows that, in most respects, benefits provided by the Korean unemployment insurance system are less generous relative to expected earnings than is the case in the majority of the other OECD countries where such benefits exist.

Training programmes for the unemployed were expanded considerably during the crisis.¹⁰⁾ In both 1998 and 1999, more than 350 000 unemployed attended a training course, accounting for roughly one fifth of the unemployed in the period considered. However, most training programmes

9) It is, however, possible for a job seeker to obtain an extension of the payment of benefits – thereby lengthening the maximum duration of benefit payment. This possibility arises in three circumstances. *First*, the Employment Security Centre may decide to extend the payment of benefits for a period of up to two months to any qualified recipients who have exhausted their ordinary benefits and face particular difficulties in finding a job – this is termed "individual extended benefit". The job-seeking allowance for recipients of the individual extended benefit is 70 per cent of the ordinary job-seeking allowance, *i.e.* 35 per cent of the basic daily wage at the time of separation. But this is subject to the same floor as in the case of the normal job-seeking allowance, *i.e.* 90 per cent of the minimum daily wage. *Second*, in special circumstances such as when unemployment increases markedly, the Minister of Labour can decide to provide unemployed recipients who have exhausted their benefits with "special extended benefits" for a period of up to two months. The level of the special extended benefit is calculated as in the case of the individual extended benefit and is therefore subject to the same floor. *Third*, a recipient who participates in a training programme on recommendation of the Employment Security Centre can receive 70 per cent of the job-seeking allowance until the end of the programme. The "training extended benefit" is paid for the entire duration of the training programme, with a limit of two years.

10) The main training programmes available to the unemployed are *a)* re-employment training of the unemployed, a programme targeted to workers dismissed from enterprises covered by the EIS, independently of whether these workers are entitled to unemployment benefits or not; *b)* training for employment promotion, which focuses on dismissed workers not previously insured under the EIS, *i.e.* mostly temporary, daily and part-time workers; *c)* training for unemployed new entrants into the labour market (but most young unemployed have been granted internships under public works programmes, as discussed below); *d)* training for business start-ups, targeted at elderly unemployed, disabled individuals and school drop-outs; and *e)* manpower development training, which comprises initial training for craftsmen and training for "3-D" jobs. Of these, only the first programme is set up under the EIS and therefore funded by the Employment Insurance Fund. The others are financed out of the general government budget.

for the unemployed appear to be insufficiently targeted at disadvantaged labour market groups. Available evidence suggests that unemployed workers covered by the EIS are more likely to receive training than other unemployed individuals and they also receive a higher training allowance than other trainees. Moreover, training programmes for the unemployed tend to suffer from relatively high drop-out rates, while re-employment probabilities of those who complete the courses are low – the estimated drop-out rate for the first six months of 1999 was over 23 per cent (Kang, 1999). This suggests some mismatch between the contents of the courses and labour market requirements. Finally, public training institutions have suffered from the fact that the increase in the number of trainees has not been accompanied by a corresponding increase in staff members, so that the average number of trainees per instructor has increased considerably. As a result, the quality of public training may have worsened.

In the face of the sudden rise in unemployment and given the low coverage of unemployment benefits and training programmes, the Korean authorities decided to expand considerably public works programmes. Available data suggest a certain success in terms of number of participants. In 1998, almost half a million people were involved in these programmes and the figure was 50 per cent higher in 1999. However, the implementation of the programmes has been criticised on different grounds. First, selection criteria for participation have been applied with some laxity. In contrast with the official targets, the incidence among total participants of well-educated individuals and prime-age workers has been relatively high. Second, some individuals have allegedly participated in a public works programme while continuing to receive unemployment benefits or other public income support. Third, these programmes may have crowded out private-sector jobs. Indeed, wages paid to participants on public works programmes are higher than market wages for certain occupations in agriculture and 3-D jobs. The average daily wages of public works participants vary between 19 000 Won for basic skills work and 29 000 Won for professional and skilled jobs. This is much higher than the minimum wage, which is currently set at 12 800 Won per day. In addition, it comes close to the average wage in occupations for unskilled workers, which is about 25 000 Won per day.

Second, social assistance programmes do not cover adequately those in need and benefits are below the poverty line. The number of beneficiaries of the main social assistance programmes – Livelihood Protection Programme (LPP) and Temporary Livelihood Protection (TLP) – is close to 2 million in 2000, or about 4.4 per cent of the population. Nevertheless, coverage of LPP and TLP beneficiaries did not exceed 55 per cent of the poverty population in 1999 – the remaining 45 per cent do not receive any social assistance benefits. To some extent, the relatively low coverage rate can be explained by the fact that some would-be beneficiaries do not apply for benefits because either they are not aware of their existence or receiving benefits entails a certain stigma. However, other factors have also played a role, notably the relatively strict eligibility criteria, the low level of benefits and benefit administration problems:

Strict eligibility criteria: Benefits under both the LPP and TLP are subject to means-tests based on specific family income criteria. But in the case of the LPP, the means-test is based on the capacity (to earn) of extended-family members.¹¹⁾ Among OECD countries, this is an unusually strict interpretation of family support criteria. The usual practice is that actual income is taken into account – as, for example, in Switzerland (OECD, 1999b).

The low level of benefits: The level of social assistance payments depends on the type of programme, but also on family and income criteria. At maximum, social assistance payments are equivalent to 60 per cent of the official poverty line (Table 6). Income support to recipients who are supposed to be unable to work (*i.e.* the recipients of *home-care* and *institutional-care* support) is more generous than payments to able-bodied recipients (*self-support care* recipients – see grey-shaded area in the Table). In addition, income support to *home-care* beneficiaries under the LPP is provided throughout the year, whereas *self-support care* clients receive

11) Thus, under present rules, a person with an income barely above subsistence level may not be entitled to social assistance benefits if the combined earnings' capacity of the individual and his/her family exceeds a certain threshold. It is unclear, however, how the earnings' capacity (as opposed to actual earnings, which are easier to verify) is assessed in practice.

Table 6 Monthly benefit levels per household, under the livelihood protection programme in 2000^a

percentage of the monthly minimum cost of living

Benefit	1999	2000
Basic benefit	100	100
Medical benefit	100	100
Funeral benefit	100	100
Education benefit	100	100
Other benefits	100	100
Total	100	100

benefits during six months only (October to March).¹²⁾ Benefits provided to able-bodied recipients amount to about one quarter of social assistance payments in Switzerland, and half of what a Czech family in a similar situation would receive (OECD, 1998a, and 1999b).

The impact of restricted public budgets on the adequacy of welfare provisions: Each year, each local government is provided with a budget for social assistance programmes. As the budgetary allocations awarded by the Ministry of Planning and Budget are generally considered short of what is needed to serve all the poor, there is inevitably some rationing in benefit awards. Clients may therefore receive less than what they might have been legally entitled to and, in certain cases, they will receive no benefits at all.

Because of these deficiencies, social assistance programmes have not counteracted the increase in income inequalities – over the past three years, average incomes of the poorest 20 per cent of households have declined by over 8 per cent, while average incomes of the richest 20 per cent of households have increased somewhat. Nor have they eradicated poverty. In 1999, 8 to 12 per cent of Koreans (depending on the source) were officially estimated to live in poverty – based on a minimum monthly cost of living representing the equivalent of US\$ 350 (in purchasing power parity terms). While it is the case that the extended family has long provided an effective source of income support in Korea, the supportive role of the extended family has weakened in recent years and the public social safety-net has not expanded sufficiently to take up all the slack.

12) About 30 per cent of self-support care clients receive these benefits. The remaining 70 per cent can receive education benefits, medical aid and funeral grants.

2.6. Weak Multi-factor Productivity Gains

The prospects for continuing convergence in Korean living standards towards the OECD average depend crucially on continuing rapid economic growth. Economic growth, in turn, is mainly determined by *a*) the investment effort; *b*) the extent to which unused labour supply can be mobilised in the economy; and *c*) multi-factor productivity growth, which is a measure of the underlying efficiency gains recorded by firms. As is well-known, the fast growth recorded until 1997 was mainly based on the first factor, namely a spectacular investment effort. Thus, over the period 1990-96, Korea devoted 37 per cent of its yearly national income to real fixed capital accumulation. On the other hand, over the 1990s, multi-factor productivity practically stagnated, whereas it grew in nearly all other OECD countries (Table 7).¹³⁾ This is all the more surprising because multi-factor productivity is generally expected to grow faster in countries such as Korea which are catching-up on the most advanced OECD countries.

It is therefore essential that future policy strategies focus on improvements in productivity, as well as a greater mobilisation of individu-

13) See Pilat (1993) for a similar finding.

Table 7 International comparison of multi-factor productivity growth,^a 1980-1998

Average annual growth rates (based on trend series)		
	1980-1990	1990-1998 ^b
Australia	0.8	2.1
Austria	1.0	0.6
Belgium	1.1	0.7
Canada	0.3	0.7
Denmark	0.8	1.9
Finland	2.1	3.1
France	1.5	0.9
Germany ^c	1.1	1.0
Greece	0.0	0.4
Iceland	..	0.4
Ireland	3.3	3.5
Italy	1.2	1.2
Japan	1.6	0.8
Korea	1.3	0.0
Netherlands	1.1	1.1
New Zealand	0.6	1.0
Norway	0.6	1.8
Portugal	0.9	1.9
Spain	1.4	0.7
Sweden	0.9	1.7
Switzerland	0.1	-0.1
United Kingdom	1.9	0.4
United States	0.8	1.1
<i>Memorandum items (Korea)</i>		
Investment to GDP ratio (%)	30.0	37.0
Total employment growth	2.8	2.3
Business-sector capital stock growth	10.9	11.5

.. : Data not available.

- a) Multi-factor productivity is calculated as the weighted average of capital and labour productivity, with the weights measured as average factor shares: the weight attached to labour productivity equals the ratio of total compensation of employees to GDP averaged over the period under consideration; the weight attached to capital productivity equals one *minus* the weight attached to labour productivity. No adjustment has thus been made for the imputed wage income of the self-employed.
- b) ~~1997~~ for Australia, Belgium, Canada, Italy, Japan, Norway, Spain and the United States; ~~1996~~ for Austria, Finland, Greece, Ireland, Korea, Sweden and the United Kingdom; 1995 for New Zealand and Switzerland; 1992 for Iceland and Portugal.
- c) For Germany, data relate to 1991 instead of 1990; Western Germany before 1991.

Sources: Secretariat estimates. For Korea, estimates for the capital stock of the business sector were supplied by Professor Hak K. Pyo.

als who are presently on the margins of the labour market. The experience of other OECD countries suggests that effective training, labour and social policies, which are reviewed in the next Section, are vital ingredients in such a strategy.

3. POLICY REQUIREMENTS

Addressing the outstanding problems identified in the previous section would contribute to creating a more stable socio-economic climate, while also making the growth process more socially sustainable. In order to achieve this, this section puts forward a range of possible policy reforms.

However, before examining these policy issues in some depth, it is essential to stress the fact that Korea's relatively high degree of labour-market duality and small social safety net are problematic only to the extent that they lead to socially-undesirable outcomes – such as wider income inequalities during the crisis and weak multi-factor productivity gains. This paper has not established precise links between labour-market institutions, the industrial relations climate and such outcomes – suggesting the need for care and modesty when discussing policies. However, the empirical evidence presented is suggestive of such links. Finally, as many authors have noted, there is no universal model for policy reform. Instead, what is needed is to understand how the experiences of other OECD countries can guide Korean policy makers, taking into account the specific traditions and historical context of the country.

3.1. Freedom-of-association and Collective Bargaining Rights

As noted above, there is no doubt that recent legislative reforms have shifted Korean labour laws significantly in the desired direction. Major examples include the recognition of the principle of trade union pluralism at the industry and national levels, the legalisation of teachers' unions, freedom for many civil servants to engage in workplace associations, some reduction of the list of so-called "essential services" where compulsory arbitration applies, as well as the recent recognition of the KCTU as the

second national trade union centre. In addition, the government has decided to allow trade union pluralism at the enterprise level from 2002.

However, Section II also highlighted some outstanding issues and resolving them would probably contribute to create a climate of trust between the social partners. *First*, civil servants are not allowed to join trade unions and bargain collectively. *Second*, trade unions face legal and practical impediments in deciding who to accept as members and these should be removed. *Third*, the law will, as of 2002, prohibit the payment of full-time union officials. On these three issues, the government, in consultation with social partners, should explore avenues for amending the relevant provisions of the law. Finally, over the past few years, waves of militant trade union action and subsequent arrests and imprisonments of trade unionists have succeeded each other. It will thus be particularly important for the Korean authorities to take all the necessary steps to avoid large-scale arrests and detentions of trade unionists. In particular, legal provisions, which are often used to arrest trade unionists engaged in the pursuit of what other OECD countries consider legitimate trade union activities, need to be revised or used with utmost restraint.

Alongside further progress on the legislative front, the present climate of industrial relations in Korea at both the national and enterprise levels must be improved. The repeated withdrawals by both labour and business representatives from the Tripartite Commission and the lack of any agreed agenda and timetable for its discussions are disturbing. In order to foster social dialogue and mutual trust in the Tripartite Commission, the government could take the lead by presenting reform proposals for discussion in the Commission. Needless to say, the government should also make appropriate efforts to act upon compromises reached within the Commission (as required by the 1999 Tripartite Commission Act), while the social partners need to recognise the futility of “empty chair” attitudes and come forward themselves with constructive proposals rather than always looking to the government to solve deadlocks. Perhaps more importantly from the point of view of Korean productivity performance, tripartite agreements at the national level need to be supplemented by active labour-management consultation and effective co-operation at the enterprise level.

3.2. Labour Regulations and Public Pensions

Dismissals of regular workers have long been heavily regulated in Korea. In the past, employers faced considerable legal and practical difficulties for laying off workers. An amendment to the Labour Standards Act adopted in 1998 makes it possible to dismiss workers for “urgent managerial needs”. However, while the new lay-off provisions are clearly a step in the direction of increasing numerical flexibility in firms, “regular” workers still enjoy a relatively high degree of employment protection compared with their counterparts in other OECD countries.

There would, therefore, seem to be room for easing the legal severance pay requirements for regular workers. This reform, however, should take place gradually, and be dependent on *a*) the Employment Insurance System (EIS) becoming more firmly established in coming years (see below); and *b*) the public pension system being adequately funded, which is far from being the case at present, and pension benefits providing sufficient income support.

Relaxing relatively strict employment protection for regular workers, under the above conditions, could also help ease job instability for temporary and daily workers (who form the core of “outsiders” in Korea). This would hopefully encourage employers to convert more non-regular contracts into regular ones, thereby reducing the degree of labour market segmentation, which is presently very pronounced, and laying the ground for greater investment by both workers and firms in on-the-job training.

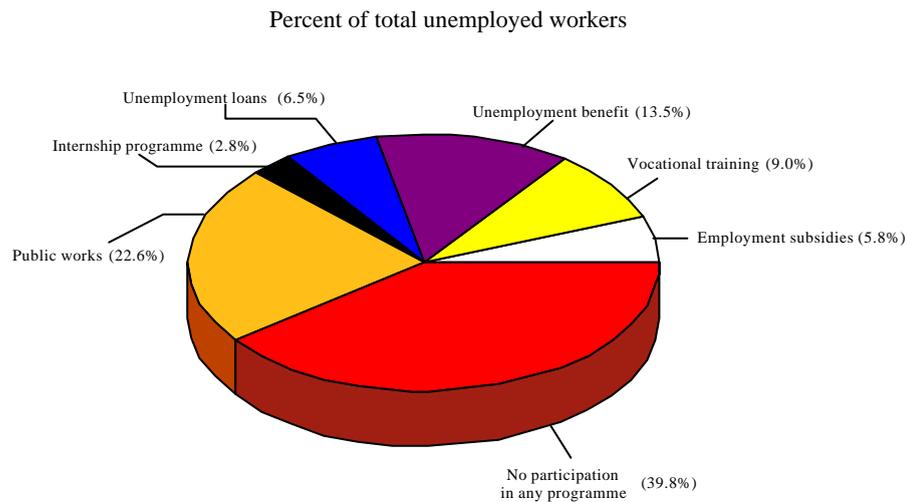
At the same time, it would be highly desirable to undertake more research on the causes and implications of the marked duality that presently exists in the Korean labour market. For instance, it would be useful to examine workers’ perceptions of the non-regular forms of employment – certain workers may prefer temporary jobs rather than permanent ones. In addition, labour market duality has gone hand-in-hand with a stagnant multi-factor productivity performance – itself one of the symptoms of the 1997 crisis, and more attention should be devoted to the possible causality at work. Analysing the transition between non-regular and regular jobs would help to determine which groups are at greatest risk of getting trapped in non-regular jobs. Finally, the possible links between

the stringency of employment protection legislation and the lack of competition in product markets on the one hand and the incidence of non-regular forms of employment on the other should be investigated.

3.3. Labour Market Programmes and The Public Employment Service

Labour market programmes have to be evaluated in the light of their twin objectives, namely *a*) to provide income support to the unemployed; and *b*) to foster the future employment and earnings prospects of unemployed workers, while minimising the dead-weight, substitution and displacements effects often associated with such policies.

Figure 3 participation of unemployed workers in different labour Market programmes in 1999



Source: Korea Labour Institute estimates.

Regarding the first objective, the portfolio of labour market programmes in Korea has been expanded considerably in the past two years. However, as noted above, only one in eight of the unemployed receive

unemployment benefits (in addition, Figure 3 shows that less than half participate in some type of labour market programme, the others being potential clients for social assistance benefits). It has recently been decided to expand the scope of the EIS to cover daily workers, but there remain serious implementation problems, in particular among small firms which often evade the payment of social contributions. The current situation is not satisfactory and the government should assign a high priority to increasing the coverage of the EIS and ensuring that vulnerable groups are not left unprotected, as is presently the case.

As to the effects of active labour market programmes (ALMPs), it is not possible to draw clear-cut conclusions in the absence of any systematic evaluations. However, based on the examination of specific design features of the programmes, the following observations can be made:

There is a general lack of targeting in many of the programmes. As a result, it is unclear whether they really reach disadvantaged groups, such as unemployed workers not covered by the EIS and young unemployed workers. Targeting is especially important in the case of subsidies to SMEs, given that this programme is the largest in terms of government spending on ALMPs;

despite a general lack of targeting, some of the programmes are not much used. This suggests that some consolidation of programmes may be called for, notably in the area of employment maintenance subsidies;

now that a brisk recovery is underway, there is a strong case for scaling back substantially public works programmes. International evidence (see Martin, 2000) suggests that these programmes, unless they are well targeted on hard-to-place groups, are particularly susceptible to large dead-weight losses;

there may be cases where work does not pay – leading to a risk that some benefit recipients prefer to stay in the programme rather than look actively for a low-paid, private-sector job. For instance, as noted in Section 2.5, remuneration in public works programmes competes with market wages in certain unskilled occupations;

training institutions have had difficulties in coping with the rapid and massive expansion of training programmes. In addition, the type of training provided by some of them may not be closely tied to the requirements of a

complex, modern economy such as Korea. For these reasons, there is a good case for a greater involvement of the social partners at the local level in programme design, while also expanding the training capacity; and the outcomes of the programmes should be monitored and evaluated rigorously.

Finally, the role of the public employment service (PES) in the design and implementation of ALMPs could be enhanced. The concept of the "one-stop office" is a good one, and should be generalised by integrating the separate networks of Employment Security Centres and Manpower Banks. Also, while it may have been useful in the period of rising unemployment to operate another chain of placement offices under the authority of municipalities and other local governments, the rationale behind the co-existence of two types of "public employment services", one operating under the Labour Ministry and the other under local government, that are involved in the same types of tasks (apart from benefit payment), should be reviewed.

As mass unemployment declines, PES officers will need to devote more efforts to counselling and monitoring of those job-seekers who are at high risk of long-term unemployment and benefit dependency – at present there is little "profiling" of the unemployed. Needless to say, the efficiency of the PES crucially depends on the quality of its staff and the high turnover of counsellors is problematic in this respect. In present circumstances, improving training and job prospects for the PES staff might be more important than increasing the number of officers. The steep decline in unemployment should provide the necessary breathing space to concentrate on improving the quality of PES staff.

In addition, Korea should seek to take advantage of the extensive network of private employment agencies that presently exist. Even after the recent expansion of the PES, private employment agencies outnumber PES offices by a factor of twelve to one. These agencies have an excellent intermediation record in the unskilled labour market and the PES could seek complementarities with them, for example by contracting out the placement of low-educated unemployed. Many OECD countries are beginning to rethink the role of the PES and expand the opportunities for market forces to improve its effectiveness. Given that Korea already has a

large infrastructure of private employment agencies in place, the authorities should seek to exploit this potential to the maximum.

3.4. Social Assistance Programmes

The weaknesses of the present social assistance system (see Section 2.5 above) have prompted the Korean authorities to enact a new system, namely the National Basic Livelihood Security Law (NBLS), to take effect as from 1 October 2000. The concept underlying the new social assistance law is that of "productive welfare", *i.e.* the purpose is to provide adequate income support while also encouraging benefit recipients to participate in the labour market. Thus, it is officially estimated that the proportion of individuals living in poverty who will receive benefits will be increased to two thirds after the new law comes into force. In addition, the level of benefits will be raised.

However, it is important to stress that many low-income individuals will still remain unprotected under the NBLS. This partly reflects the fact that benefit entitlement is subject to unusually strict income criteria, based on the income capacity (and not the actual income) of the extended family. This particular provision of the law may have to be revised if the official target of providing benefits of last resort to all those in need is to be reached. Also, despite their increase, benefits will remain very modest. The authorities should consider raising them further, perhaps in stages, so that they reach at least the official poverty line.

In addition, making productive welfare a reality requires local government officials responsible for the delivery and administration of the system to screen recipients on their work ability and provide them with effective employment-oriented counselling services. Based on the experience of other OECD countries, it is possible to identify certain policy avenues which could help meet these goals:

at present, there are about 250 recipients to each welfare officer, compared with an OECD norm of 80 to 120 recipients per officer. Korean welfare officers simply do not have the time to screen and adjudicate clients on their work-ability or provide intensive job-counselling services. The authorities have undertaken to hire additional welfare officers so that

the number of recipients per welfare officer declines to 200, but many more would need to be hired and trained in order to arrive at an acceptable caseload;

welfare officers will require adequate funds to provide a range of effective employment services. In this regard, the authorities could consider the implementation of pilot projects, allowing private agencies to tender for the provision of employment services to NBLs clients;

to encourage job search, it may be helpful to introduce in the NBLs a mechanism of earnings disregards which permits recipients to keep their benefits while at the same time earning some work income, up to a certain threshold. Such a system would have to be rather different from the one embodied in the current set-up. Indeed, the present system is such that social assistance clients do not always have an incentive to accept a job – at points B and C of Figure 4, a small rise in earnings leads to a disproportionate reduction in benefits, translating into lower total income (represented by the drops to B' and D, respectively). In order to avoid this, benefits should be withdrawn only gradually. For example, Figure 4 (dashed line) illustrates the case of benefits being withdrawn by one Won for each two additional Wons of earnings.

Figure 4 Financial incentives to work for social assistance clients, 2000

Thousands, Won

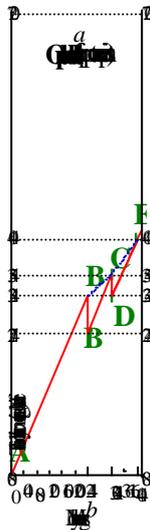


Figure 1
 The relationship between the
 variables a and b

Current financial arrangements between different levels of government may be conducive to a waste of resources. At present, most of the budget for social assistance benefits comes from central government, while local governments (and their welfare officers) are in charge of the delivery of benefits. In such a setting, local governments have a weak incentive to enforce the different eligibility criteria and they might therefore be inclined to provide benefits to whoever asks for them. Up to now, the central government has addressed this problem by announcing strict budget limits, effectively imposing hard-budget constraints on local governments. It seems desirable to maintain the current budgetary “grant-based” system and not give the certainty to local governments that their financial demands will always be satisfied.

3.5. Education and Training

The average educational attainment of the Korean population and work force has increased spectacularly over the past decades, contributing to the

rapid growth performance. Practically one fifth of the total Korean population has a college degree, the highest figure in the OECD after the United States and the Netherlands (OECD, 1999*b*).

At the same time, however, this rising educational attainment has not come cheaply. OECD (2000*b*) shows that in 1997 Korea spent 7.4 per cent of GDP on education, the highest proportion in the OECD.¹⁴⁾ There is also a need for improving the quality of this heavy investment in education and training, in order to raise labour and multi-factor productivity and allow Korean firms to compete effectively in the 21st century. In particular, vocational education curricula should be made more relevant to labour market requirements.

3.6. Financing of Programmes

Some of the measures advocated above will exert upward pressures on government spending, raising the issue of how they can be financed. In the case of an expansion of the EIS, extending the coverage of benefits to workers of small enterprises, which often do not pay the required social contributions, risks creating a deficit in the EIS. In order to prevent this, it is essential that the government steps up its efforts to make all firms pay their social contributions. Otherwise, the government may face pressures for subsidising the EIS from general revenues. In the case of programmes financed by central government, notably social assistance benefits for which an expansion is also planned, resources can be found by scaling down programmes such as public works and unemployment loans. Further savings could materialise if rigorous evaluations of ALMPs were carried out and resources shifted to the most cost-effective programmes, thereby reducing the risk of waste of existing resources.

Should these savings prove insufficient, the government could consider raising tax revenues. Preferably, this should be done by enlarging the tax base (through an intensified campaign against tax evasion and a reduction of the generous tax allowances and exemptions that presently exist) rather

14) This figure covers public and private spending on educational institutions. In terms of public spending alone, Korea spends below the OECD average: 4.4 per cent of GDP compared with an OECD (unweighted) average of 5.1 per cent.

than raising marginal tax rates which, at between 10 and 40 per cent, are not particularly low by OECD standards. In any case, general government revenues represent about 25 per cent of GDP which is, after Mexico, the lowest figure among OECD countries for which comparable data exist.

4. CONCLUDING REMARKS

In sum, despite the recovery, now is not the time to reduce the momentum of reforms. Korea has managed to catch-up rapidly vis-à-vis other OECD countries, but further progress may be more difficult than is often thought. Indeed, future improvements in living standards may have to rest on using resources more efficiently, rather than more intensively as was the case before the 1997 crisis. A more qualitative approach to the development strategy may be called for, encompassing an increased emphasis on enterprise training, a reduced labour-market duality and the establishment of a well-functioning social safety-net that covers all individuals. More analytical work is needed to understand the various factors at work and how policy reforms may improve the long-term socio-economic performance – and in the absence of this work, policy options have to be discussed with due caution. With this caveat in mind, the policy analysis presented suggests that it is particularly important to *a)* improve the quality of education and foster enterprise training; *b)* expand effectively the coverage of both the EIS and social assistance benefits, while scaling back some ALMPs adopted as a temporary response to the crisis; *c)* ensure that employers pay their contributions to the employment security and public pension systems and, provided that is the case, gradually reduce enterprise retirement allowances for regular workers, thereby helping to reduce the marked duality that presently exists and laying the ground for higher productivity gains; *d)* better target ALMPs, enhance the quality of the PES staff and undertake rigorous evaluations of the programmes; and *e)* make sure that work continues to pay in Korea.

Obviously, these measures need to be adopted in a context of full respect for basic workers' rights and, in this sense, resolving remaining industrial relations' issues should rank high on the policy agenda. In a modern,

productive economy, it is important that all social actors be involved in the reform process in a climate of mutual respect and trust.

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