

Social Protection in South Korea

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Abstract

Korea has grown rapidly since the early 1960s, and its GNI (Gross National Income) per capita was at US\$8,910 in 2000, thereby classifying it as one of the upper middle-income countries. Other standards of living have also improved greatly as seen by positive changes in the literacy rate, school enrollment, the infant mortality rate, life expectancy, and other human development indicators. Political conditions are better and the Korean people enjoy most democratic rights.

Despite these improvements in socio-economic and political conditions, benefits are not equally distributed among the different social groups and the population. In particular, women, the elderly, and the youth are vulnerable to various risks. Although the traditional social protection system has been expanded and strengthened in the aftermath of the 1997 financial crisis, the current system still has many problems. To cite a few: exclusion of many socially weak from social security and/or social assistance benefits, insufficient levels of support and lack of an effective connection of social security and social assistance programs.

These problems arise partly due to strict eligibility, lack of coordination between government departments themselves and with NGOs, and insufficient financial resources – or government budgets, which, in turn, are caused by administrative inefficiency, inability to secure honest tax reports, and over-commercialization of health care. Underlying these problems, though, is the government's philosophy of social protection and social policy. The current social protection system in Korea is based on the dual principles of residualism and work-linked welfare, emphasizing the precedence of individuals' and/or their families' responsibility over the government's responsibility for social assistance and the obligation of the persons concerned (i.e. unemployed) to seek a job. This dual system is compelled partly by financial difficulties and partly by prevailing perceptions held by government decision makers and by the majority of the populace.

Reforming the fundamentals of the current system presents a formidable challenge: those undertaking the task must implement a new system, which will take much time. In the meantime, therefore, efforts have to be made to improve the current system by persuading key decision makers as well as the public to accept new principles and/or philosophies of the social protection system and by making up for its deficiencies.

Since most of the decision makers and the populace are preoccupied with traditional ideas of social protection, NGOs must play a leading role, and cooperate towards this common goal.

* The exchange rate of the won to the US dollar at the time of writing was US\$1 = 1400 won.

1. Institutional Framework

1.1 General Political, Social, and Economic Framework

The Republic of Korea was one of the least developed countries in the 1960s. However, after three decades of industrialization, it has grown so rapidly that its GNI per capita had risen to US\$10,823 in 1995, making it the thirteenth largest trading nation in the world and classifying it as an upper middle-income, fast industrializing country. The financial crisis in 1997 pulled down its GNI below US\$7,000 in 1998, but as the economy recovered from the recession, GNI per capita began to rise again, reaching US\$8,910 in 2000 (see Table 3, Appendix).¹

In fact, economic output grew 9.4% annually during the 1980–90 period and despite the financial crunch in 1997, 5.7% annually during the 1990s (see Table 3, Appendix). In 1996, Korea was granted membership in the OECD in recognition of its economic achievement.

Rapid economic growth has made the Korean populace an affluent society. An absolute majority of the populace reside in urban areas (see Table 1, Appendix), and service industry sectors have expanded rapidly alongside manufacturing sectors (see Tables 3 and 5, Appendix).

As of 1999, the population of Korea amounted to 46.4 million, increasing by 1.1% each year during the period 1975–99. Although the infant mortality rate has steadily decreased and life expectancy at birth has progressively risen, the projected rate of population growth is expected to increase very slowly due to the low fertility rate. This trend is reflected in the age structure: While the age group of 15 years old and below is expected to decrease to 17.2% of the total population in 2015, dropping from 21.2% in 1999; the age group of 65 years old and above will increase to 11.6% in 2015, from 6.8% of the total population in 1999. As a consequence, the total dependency ratio (people aged 0–14 and 65+, as a percentage of those aged 15–64) will skyrocket to 53.3% by 2030, from 39.3% in 2000. In particular, the old dependency ratio, estimated to reach 27.7% in 2030, will pose a serious challenge to the current old-age pension scheme (ILO 2000, see also Table 1, Appendix).

A rising proportion of students have enrolled in higher educational institutions, and more women have a higher educational attainment (see Table 2, Appendix) and participate in economic activities (see Tables 6 and 7, Appendix).

A spectacular economic growth is usually attributed to several concomitant factors: an export-oriented industrialization within the state-directed government-big conglomerate-bank nexus, an expanding world economy along with a relatively well protected domestic market, a cheap and docile workforce with a relatively high level

¹ The Korea National Statistics Office gives different figures for GNI per capita; see Table 3 in the Appendix.

of education, and so on. After the financial crisis of 1997 and the subsequent IMF intervention, Korea has become a more open and market-dominated economy. Foreign direct investment, then amounting to a meager 0.5% of PPP GDP in 1989, rose to 2.1% in 1999 (see Table 3, Appendix) and in 2001, total foreign investments reached 10% of GDP. As a consequence, foreign companies, numbering some 4,700 in 1998, climbed to 8,100 in 2000. The Korean government has removed a variety of regulations relating to business activities.

These post-crisis economic changes, together with political change as a result of democratization in 1987, transformed Korean society. First, the Korean economy has continued to grow although growth halted for a short period immediately after the crisis. Second, the state-civil society relationship has changed favorably. Civil society organizations, including private and public interest NGOs, have proliferated and become increasingly influential. Third, small and medium companies, together with foreign companies, have produced a larger portion of commodities although some 30 big conglomerates are still dominant in the economy (see Table 4, Appendix). In addition, public interest NGOs have been playing an increasingly important role in forming public opinion and in influencing government policies and, frequently, business decisions.

Thus, the Korean economy continues to grow even after the financial crisis and is becoming healthier than before. Moreover, state power has been weakened and civil society's role and influence have increased. Alongside these positive changes, however, negative effects have also been felt. A relatively high unemployment rate (see Tables 6, 7, Appendix), higher job insecurity, and an increasing socio-economic inequality (see Table 8, 9, Appendix) are some of the consequences. That is, a larger portion of the population has become vulnerable to social risks such as unemployment, old age, poverty, and accidents.

As required to do so by international financial institutions like the IMF and the World Bank, the government improved the traditional social protection system in order to cope with the negative effects of neoliberal reform immediately after the financial crisis. It increased budgets for that purpose and expanded the coverage and benefits of social security and social assistance programs (see Table 10, Appendix). As we will see later, however, the current social protection system, though much improved, does not yet provide an adequate level of social welfare for the socially weak (see Table 13, Appendix).

Both electoral and parliamentary politics have been dominated by the two major parties and one minor party, which compete in electoral politics on the basis of provincial loyalty and not of policy stance. The Democratic Party for the New Millennium, currently in government and very similar to the British Labour Party or the American Democratic Party in its ideological and policy stance, includes some pro-labor and/or pro-welfare state politicians, but they do not have much influence in policy making due to their minority position within the party. Moreover, the party occupies roughly a third of the seats in parliament, thereby making it necessary to compromise on governmental policy with other parties. The other major party is the Grand National

Party, which is currently in the opposition, but is the largest party in parliament, taking a majority of seats. It is an anti-communist or anti-socialist party, resembling the British Conservative Party or the American Republican Party and opposes any legislation favoring labor and/or the socially weak. The last party, Alliance for Free Democracy, holds a much stronger stance in anti-communism or anti-socialism and is as antagonistic towards developing a welfare state as the Grand National Party.

For this reason it is difficult to expect that deficiencies of the current system will be repaired in the foreseeable future. Furthermore, the ruling party, a pro-welfare state party, shares a neoliberal belief system with other parties – that economic recovery and growth will automatically do away with these negative effects and that creating more jobs to have the poor work is the best policy. Although there are non-parliamentary parties – such as the Democratic Labor Party and Socialist Party – and NGOs (which are either labor or socialist, thus pro-welfare state, and have some influence among the public), they cannot directly affect governmental policies because they do not have a single seat in parliament.

1.2 Availability and Quality of Data

Most of the data used here can be obtained from the government and also from international organizations. Some data, for example relating to income distribution and the poverty level, are not available from the World Bank or other international organizations but they can be found from Korean government sources. Most of the data are reliable and/or comparable, but some data are not. This is largely due to the fact that the Korean government uses different criteria than western democracies. One example is data about the employment/unemployment rate and the ratio of atypical employment. In official statistics, unemployed persons are those who, among people aged 15 and above, have both the ability and willingness to work but have not worked at all. In this case, the most important difference from western countries is the fact that those who have the ability to work but give up searching for jobs due to difficulties in doing so are not considered as unemployed.

1.3 Existing Institutional Framework

Political democratization in 1987 gave birth to numerous NGOs including trade unions, which are free from government control. As of 2000, there were 5,698 unions and 6,000 non-union NGOs active in civil society. Trade unions have a membership of 1,526,000 and NGOs have a membership of some 200,000. There are some NGOs which are heavily dependent on financial and moral support from the government and collaborate with it, but most NGOs formed after 1987 try to keep away from the government and are critical of it. There are two types of NGOs: public interest NGOs and private interest NGOs. The former pursues the public's common interests such as a clean environment, clean politics and participative democracy, and women's rights. The latter usually includes trade unions, employers' associations, medical doctors' associations, pharmacists' associations and so on to pursue their members' common (occupational) interests. Foreign companies, which numbered around 8,100

as of 2001, have their own organization in order to defend and expand their interests in Korea.

NGOs in Korea enjoy most civic and political rights in the same way as their counterparts in western democracies. Trade unions were once prohibited from engaging themselves in politics, especially in electoral campaigns and in political fund-raising, but since 1998 they have been allowed to campaign in elections and to raise political funds. However, non-union NGOs are prohibited from getting involved in electoral campaigning and political fundraising.

NGOs play an important role, especially in forming public opinion, and thereby pressure the government and/or political parties to adopt or not to adopt certain policies. One of the pre-eminent examples which show NGOs' influence on governmental policy is the introduction of the Real Name Account Act in 1993, which was made possible due to the Citizens' Alliance for Economic Justice's (CAEJ: *Kyungshilyon*) long-time campaign.² A recent example is the Campaign for Minority Shareholders' Rights initiated by the Solidarity for Participative Democracy (SPD: *Chamyeoyonda*) in 1998. Most recently, trade unions and other NGOs, including SPD and CAEJ, launched an alliance for solving the problem of atypical employment in 2000. In 2001, some NGOs also formed an alliance to pressure the government to provide an adequate level of social assistance for the poor, leading to the enactment of a new Basic Livelihood Protection Law. In general, NGOs, including trade unions, are (although informally) consulted by the government, thereby being able to exert some influence in the policy-making process.

However, employers' associations, in particular foreign companies' associations such as the American Chamber of Commerce in Korea (AMCHAM), have a stronger influence on the government in making economic policy than any other NGOs. According to a survey conducted by a weekly journal in April 1999, elite groups in Korea find the IMF, foreign companies and big conglomerates most influential. But at least in the area of social protection-related policy, medical professionals' associations such as medical doctors' and pharmacists' associations exert a strong influence.

Social policy issues such as employment security, industrial restructuring and social protection are to be discussed and agreed on in the Tripartite Commission, composed of the same number of representatives from trade unions and employers' associations, and some government-appointed commissioners. However, because of their conflicting interests it is rare to reach consensus, thereby leaving room for intervention by the government.³ However, the government has almost always succumbed to medi-

2 A Real Name Account is referred to as 'a bank account in which the account holder is identical with its real owner.' It was widespread practice until 1993 in Korea for the real owner of a bank account to borrow his/her relative's or friend's name for the purpose of evading tax or concealing illegal transactions like bribery.

3 The current form of the Tripartite Commission was established by Kim Dae Jung's government in January 1998, in order to consult and to reach a consensus on a whole variety of issues relating to IMF conditions. In the beginning, it was merely a consultative organ which was not supported by laws and could consult the President, but later it was reestablished as a formal organ after a law concerning the Labor-Management Government Commission was passed in parliament in May 1999. With a two-

cal professionals' groups – i.e. medical doctors' associations and/or pharmacists' associations.

Cooperation between the different NGOs (i.e. trade unions, employers' associations, and public-interest NGOs) is rare, although each of them sometimes cooperates with the government. Public interest NGOs are usually hesitant to work together with the government because they are afraid of becoming dependent on it.

Most government bureaucrats tend to be anti-labor (but pro-business) and anti-welfare. As a result, trade unions have to rely on collective action in order to put pressure on these bureaucrats and parliamentary delegates. Even mass strikes do not make any significant difference. This is largely due to political circumstances unfavorable to labor as well as to its organizational weakness. As discussed above, parliament is overwhelmed by conservative parties, which are anti-labor and anti-welfare. Trade unions organize merely 10% of the workforce and, worse, are divided into two national umbrella organizations – the Federation of Korean Trade Unions (FKTU) and the Korean Confederation of Trade Unions (KCTU).

1.4 Government Support

The current Korean government has made a commitment to create a fully equipped social protection system. It has overhauled and/or expanded the traditional system including unemployment insurance, industrial accident compensation, national pension, and national health insurance. However, it has at the same time firmly committed itself to making Korean society free market-dominated. In order to implement the IMF agreements and also to respond to employers' demands, the government has launched a neoliberal reform, which, if successfully implemented, will make Korea fully open to foreign products and capital and dominated by markets free from government regulation. Such a dual commitment – to a full social protection system and to a free market – has led the government to adopt an Anglo-Saxon model of social welfare, namely a work-linked welfare system. A work-linked welfare system stresses self-support rather than full employment. Furthermore, it links the provision of social assistance and/or social security to the beneficiaries' willingness to work. As a result, the Korean government prefers pushing the unemployed back into the labor market through developing human capital to guarantee them a minimum income.

The current government has a limited capacity to make and implement policies, particularly those related to social protection. First of all, it is a divided government where the government party is a minority in parliament. Second, it has a narrow constituency, partly due to the fact that its electoral support is based on a minority region, and partly due to the fact that its neoliberal labor market policies have made traditional allies such as trade unions turn their backs. Third, it has limited control

thirds majority vote, it can deal with and make a decision on employment security and working conditions, principles and directions of corporate restructuring, institutions and practices of industrial relations, and other related industrial, economic and social policies. It can ask related government organs to implement its decisions (Law Concerning the Establishment and Operation of the Labor-Management Government Commission 3 May 1999).

over bureaucrats who are responsible for implementing government decisions but have mostly conservative mindsets.

The only support for its reform efforts comes from international society, i.e. the IMF, World Bank, Western countries, and so on. External actors support the Korean government in overhauling the traditional social protection system as well as in reforming the economy. However, the kind of social protection system that external actors have in mind is the Anglo-Saxon type, and not, for example, the Swedish productivist welfare system. Moreover, the Korean government is vulnerable to pressure and lobbying by private-interest NGOs such as medical doctors' associations. Furthermore, a number of politicians and bureaucrats are corrupt and look only after their own private interests. Overall, the Korean government is firmly committed to preparing for a full-scaled social protection system, but it prefers to link social welfare benefits to beneficiaries' willingness to work or to find jobs, and is limited in its capacity to implement the policies due to its weak constituency and rampant corruption.

1.5 Traditional and Contemporary Perception of the Social Protection System

The traditional social protection system in Korea has been characterized as being residual. Residualism in Korea's social assistance system means that it was strictly means-tested and highly targeted. Some of the programs were simply underdeveloped so that they could not provide any meaningful protection against risks and insecurities brought about by the market. As a consequence, Korean people tended to rely heavily on private welfare, which could be purchased in the market or provided by private sector employers.

The social protection system under the Kim Dae Jung government has been greatly improved, compared to the traditional one. Nevertheless, not a few socially weak persons are left out without any adequate protection. This is partly due to the underlying dual principles of work-linked welfare and residualism the government adopts. It can also be attributed to cultural values and the mentality most Korean people have toward the social protection system.

According to a survey conducted by the government in July 1996, 45.5% of 1,500 respondents believe that individuals and families are responsible for caring for the elderly. On the other hand, 73.3% of the respondents think the government is responsible for assisting the poor and 61.8% feel it is responsible for helping the handicapped. Opinion about who must solve women's problems is evenly divided into individuals and/or families, NGOs, and government, at 25.6%, 37.1%, and 34.7% respectively. Thus, public perception of who is the most responsible for the socially weak varies according to the problem area and is much divided. Korean people have very strong loyalty to their family, and their loyalty diffuses to other social groupings – such as alumna, a group of persons from the same village or province – which are mostly formed on the basis of personal ties. Within these groups, personal relationships are paternalistic and patriarchal. At the same time, they are

very individualistic and do not trust (groups of) persons who do not belong to the same group. According to a survey conducted by Sejong Institute in 1995, a majority of respondents believe that anyone who works hard can live an affluent life; that it depends on him/herself whether one is poor or rich; and income inequality is legitimate. Around 80% believe that personal ties to decision makers are the most important factor contributing to one's success.

2. Review of the Existing System

2.1 Social Protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

The formal sector in Korea can be defined as a group composed of largely well-qualified workers, remunerated in the form of regular wage payments, and protected by labor related laws. Thus, this group can be referred to as regular employees. Table 1 shows how the ratio of workers in the formal sector in Korea has changed. It illustrates that after the economic crisis, the structure of employment has deteriorated along with the structural adjustment carried out by most firms. One of the most evident findings is the increase of temporary and daily workers. The ratio of this group to total paid employees increased to 51% in 2001 from 46% in 1997. Thus, it can be said that the size of the informal sector is growing in Korea.

Table 1: Employment Status of Paid Workers (unit: thousands)

	Paid workers			
	Total	Regular employees	Temporary employees	Daily employees
1990	10,950	5,938	3,171	1,840
1992	11,618	6,617	3,233	1,778
1995	12,784	7,429	3,545	1,809
1997	13,226	7,151 (54.1)	4,182 (31.6)	1,892 (14.3)
1998	12,191	6,457 (53.0)	3,998 (32.8)	1,735 (14.2)
1999	12,522	6,050 (48.3)	4,180 (33.4)	2,289 (18.3)
2000	13,141	5,252 (47.6)	4,511 (34.3)	2,378 (18.1)
2001	13,410	6,519 (48.6)	4,599 (34.3)	2,292 (17.1)

Source: Korea National Statistical Office, various years c.

There is a big difference in the level of wages according to the size of enterprises in the formal sector. Table 2 shows that in October 2001, workers in firms with 500 or more employees could earn about 70% more compared to workers in firms with 5 to 9 employees. In particular, it is worth noting that this gap tends to widen. In fact, the Gini coefficient in Korea has gone up since the economic crisis of 1997. According to the Korea National Statistical Office, the Gini coefficient of an industrial worker's household living in an urban area had been 0.283 in 1997. Yet, it was 0.320 in 1999 and 0.319 in 2001 (see Table 9, Appendix).

Table 2: Level of Wage According to the Size of Enterprises (per cent)

	October 1999	October 2000	October 2001
5 – 9 workers	100.0	100.0	100.0
10 – 29	115.0	117.2	119.2
30 – 99	118.9	121.8	123.9
100 – 299	129.4	133.2	131.6
300 – 499	148.0	151.5	156.9
500 workers or more	164.7	169.6	170.1

Source: Korea National Statistical Office, various years c.

Korea has experienced dual labor market problems in the formal sector. Most Korean workers are very reluctant to work in '3D' (dirty, dangerous, difficult) workplaces. Employers in 3D industries suffer from a shortage of labor. As a result, foreign workers, who are paid far less than domestic workers, have substituted Korean workers in most of the 3D jobs. However, there has been an oversupply of labor in the big corporate sector.

Korea experienced a dramatic increase in real wages during the period 1989–94. Interestingly, Taiwan, possibly one of Korea's main competitors in trade markets, also experienced a significant growth in real wages at that time. However, since 1991 the hourly labor cost in manufacturing industries in Korea had started to exceed that of Taiwan. As a consequence, Korean firms, which had enjoyed a comparative advantage mainly due to considerably lower costs, began finding it increasingly difficult to maintain their competitiveness.

2.1.2 Social Insurance and Savings Schemes

The Korean social security system consists of the four main social insurance programs present in Western welfare states using the social insurance model. They have been gradually built up since the mid-1960s: Industrial Accident Compensation Insurance (1964), Medical Insurance (1977), National Pension Insurance (1988) and Employment Insurance (1995). Korea has gradually extended the compulsory coverage of the four main social insurance programs, considering the administrative difficulties in collecting the insurance premium in very small enterprises.

Industrial Accident Compensation Insurance, introduced in 1964, was the first significant social security program in Korea. Initially, the program covered only those working in mining and manufacturing industries with more than 500 employees. Thereafter, the program was gradually extended and finally covered all workplaces from July 2000 onwards. The program is funded entirely out of contributions from employers, with the government paying for a portion of the administration costs. On this point, the Industrial Accident Compensation Insurance is rather a state-administered insurance for employers who are liable for the compensation of industrial accidents.

The Medical Insurance Program took effect as a compulsory social security program in 1977, covering just the employees working in large firms with 500 workers or

more. After several reforms for expanding its coverage, the Medical Insurance Program finally became a universal system by covering the self-employed in urban areas in July 1989. Three types of medical insurance systems (for industrial workers, the self-employed, and public and school employees) were integrated into this unified national system, National Health Insurance (NHI), in 2000.⁴ Though there is no difference in the benefit package among the insured, the insured have to pay contributions determined on the basis of different methods. For the employed (including industrial workers and public and school employees), the level of wages is the only basis for deciding on contributions. The contribution rate, which should be less than 8% of the monthly wage, is equally paid by employers and employees. However, the contribution of the self-employed is decided on the basis of income, property and the number of dependents. In particular, the government gives subsidies amounting to 50% of total expenditure for the insurance scheme for the self-employed.

The National Health Insurance in Korea has a co-payment system. The patient has to pay a very high proportion of the medical service fees. As for outpatient care, the co-payment rate is decided from 45% to 60%, varying according to medical institutions. Inpatient care is 20% of the medical service fees. Consequently, despite there being a universal national health system, Korean citizens have to pay nearly one half of the total for medical expenses directly out of their own pocket.

As for National Pension, there are four kinds of pension schemes in Korea: National Pension Program (NPP), Pension for Government Officials, Pension for Military Personnel and Pension for Private Teachers. The pension scheme in Korea was initially introduced for public officials and military personnel in the early 1960s. The National Pension Program, as a compulsory scheme for private firms with ten or more employees, was introduced in 1988. In 1992, the compulsory coverage was expanded to cover workplaces with five or more. In July 1995, the compulsory coverage was extended further to cover the self-employed living in rural areas, including farmers and fishermen. Finally, the pension program has been extended to cover the self-employed living in urban areas from April 1999. Thus, the NPP covers most of the population by now.

The NPP has different contribution methods as well as different benefits for specific groups. In the case of the employed, contributions are charged equally to employers and employees on the basis of fixed rates. Currently, the contribution rate for the employed is 9% of the monthly wage of the insured: 4.5% from the employer and 4.5% from the employee. The contribution rate paid by farmers and fishermen as well as the self-employed in urban areas is 5% of standard monthly earnings at present. It is worth noting that the government has provided financial support only for farmers and fishermen, which amounts to one-third of the contributions paid by the insured of the first lower earnings class. The government will provide these subsidies for farmers and fishermen until 2004.

⁴ Since the integration of medical insurance systems, the NHI consists of two categories: 40% of the employed are called 'enterprise insured person' and 60% of the self-employed are called 'regional insured person'.

The level of income replacement for a pensioner who has contributed for 40 years is 60%. On the other hand, as with the NPP, it is important to note that there is a group that gets more benefits than another. The amount of pension received consists of two parts: the basic and the additional amount. The basic amount is decided according to the average monthly wages of all insured persons, which is aimed at income redistribution, while the additional amount is based on the average amount of the monthly standard wages of the insured individual, which is aimed at income proportional distribution. Thus, the NPP can be said to combine the earnings-related system with the redistributive benefits schedule. In the NPP, the insured who are less well-off receive more benefits in relation to the contributions they paid.

The employment insurance system (EIS) is mandatory for all enterprises. The EIS was initially implemented in enterprises with 30 employees or more for unemployment benefits, and enterprises with 70 employees or more for the ESP (Employment Stabilization Program) and the JSDP (Job Skill Development). However, faced with a rapidly increasing unemployment rate, the coverage of EIS has been extended. On October 1, 1998, all enterprises were covered by EIS regardless of their size. Therefore, all employees in any enterprise are covered by EIS with some exceptions (see 2.3).

The insurance costs for unemployment benefits are financed by equal contributions from both covered employees and employers. However, employers are responsible for financing the costs of both the ESP and JSDP because employers get direct benefits from them. The contribution rates of each program in EIS are determined considering the financial situation of the Employment Insurance Fund and the prospects of economic and labor market situations. Since the economic crisis resulted in a high unemployment rate and a sharp increase in expenditures for unemployment benefits and active labor market programs, the government increased the contribution rate of each program. As of 1999, the contribution rate for unemployment benefits is 1.0% of the total payroll, the rate for the ESP is 0.3%, and that for the JSDP ranges from 0.1% to 0.7%, depending on the size of the firm.

The programs and benefits under the Employment Insurance System will be discussed in detail in Section 2.3. In this section, we will only mention that unemployment benefits in Korea are hardly generous. The level of unemployment benefits is 50% of previous earnings. The duration of the benefits ranges from three months to seven months, depending on working periods and the age of the unemployed. Moreover, unemployment benefits in Korea were designed without consideration of family circumstances, such as number of dependents. Thus, not only the level but also the duration of unemployment benefits in Korea are insufficient to alleviate hardship for unemployed persons.

On the other hand, the government has encouraged individuals to have tax-favored individual savings. In particular, in a situation where social security benefits are hardly sufficient to provide a reasonable protection for workers, tax-favored individual savings accounts are expected to play an important role in maintaining income in case of economic threats.

2.1.3 Social Assistance and Services: Benefits and Transfers

There were two main social assistance programs for the poor before the economic crisis of 1997: the Livelihood Protection Scheme and Medical Assistance. They are all means-tested benefits. The Livelihood Protection Scheme was launched in 1969. It aimed at providing a minimum level of relief to the poor. However, it had very strict entitlement conditions and provided living allowance only for those unable to work.⁵ To be eligible for benefits, claimants had to prove a loss of income-earning ability and an absence of private support from relatives.

On the other hand, the Medical Aid Scheme was put in operation in 1977 and had two different categories. The first category covered indigent people who did not have the means to pay for health care. They were entitled to government full-financed medical treatment including both out-patient and in-patient care. The second category was low-income groups who became entitled to receive out-patient medical care, which was paid for completely by the government, and in-patient care for which 30% was defrayed by the government and the remaining 70% was provided by no-interest, long-term government loans. Their entitlement conditions and benefit systems have been reformed but their basic form remains unchanged. In 1996, the Livelihood Protection Scheme covered 3.3% of the population, and Medical Assistance reached 3.8%.

In the wake of the 1997 crisis, in order to make the Livelihood Protection Scheme play a key role in the creation of a social safety net, the Kim Dae Jung government reformed the entitlement condition as well as the benefit systems. First, the Temporary Protection Scheme was introduced to provide benefits for those who could not afford to maintain a decent standard of living due to unemployment or a drop in income. The number of temporary recipients was extended to around 750,000 people by early 1999. Thus, the ratio of the total recipients of Livelihood Protection in the population increased to 4.2% in 1999 from 2.6% in 1997. Second, the means-tested conditions were relaxed by revising the requirement of the maximum assets from 29 million won to 44 million won. Finally, there was a change in the benefit structure. The living allowance, which had been paid only to those unable to work for general living costs was provided for all others covered by Livelihood Protection, including temporary recipients for the winter term of six months.

In addition, since October 2000, the Basic Living Protection Scheme has replaced the Livelihood Protection Scheme. Under the new scheme, the government has provided living allowances for all of the people whose monthly income is less than the minimum living costs decided by the government. This means that all recipients of the Basic Living Protection Scheme are entitled to a living allowance, which increasingly makes the Korean government play a key role in welfare provision. In other words, this new scheme has strengthened the nature of social rights embodied in the

⁵ Both personal incomes and assets had to be lower than amounts annually specified by the government. In 1995, the necessary level of monthly income for entitlement to public assistance remained less than 16% of the average monthly cash wage of an industrial worker.

social assistance program. In August 2001, the Basic Livelihood Protection Scheme covered 151,000 people, amounting to 3.2% of the population.

In addition, the Korean government moved to increase the level of social assistance to the lower-income elderly funded through earmarked budgetary resources. In 1998, the amount of this benefit, known as old-age allowance, was 40,000 won for persons between ages 65–79 and 50,000 won for those over age 80. However, Korea does not have any other social assistance benefits that can be seen in other welfare states, such as family allowance.

Recently, on the other hand, as of 2002, the government expanded the period of maternity leave from 60 days to 90 days. The benefit of an additional 30 days will be provided from the Employment Insurance Fund and governmental general expenditure. In addition, women can take a year off after delivery to care for their child. In this case, they will receive a grant amounting to 200,000 won provided from the Employment Insurance Fund equivalent to US\$150. There are also special measures in the Employment Insurance System to promote women's employment. A grant is instituted to promote re-employment of female workers who have left the workforce because of pregnancy, childbirth or childcare. In addition, the grant is instituted to foster employment of mothers who support their own household.

2.2 Social Protection in the Informal Sector

If we accept a catalogue of criteria by which ILO defines the informal sector, then laborers in the self-employed category and family workers or those persons employed in establishments with less than ten people may be counted as part of the informal sector. In Korea, there are such business organizations or persons employed by them that share some of the characteristics described by the ILO. For example, family members work in a business, less than ten people are employed, there are no regular working times, and so on, but most of them are under lawful regulations and their work is not seasonal. Most importantly, the government and scholars do not provide data or analysis about the informal sector. Moreover, most of non-wage laborers are supposed to be covered by a formal social protection system – for example by a national health insurance program administered by about 200 regional insurance societies. Furthermore, expanding atypical employment is assumed to be a more serious and important problem than informal sector employment. Here, therefore, the term atypical employment will be utilized, instead of the informal sector. Thus, after having examined the conditions – i.e. wages, working conditions, and social benefits under which regular or standard employees work, the problem of atypical employment will be described.

2.2.1 Categorization of Atypical Employment

Conceptually, atypical work is commonly characterized by its contingency, transitoriness, different working conditions (compared to regular workers in the same job), and precariousness of employment. There are several types of atypical employment, such as part-time employees, dispatched workers, temporary or contractual workers,

and workers in special employment arrangements. In all cases, their numbers are increasing sharply.

The Labor Standards Act (hereinafter LSA) states that the term part-time worker means ‘an employee whose contractual working hours per week are shorter than those of full-time workers engaged in the same kind of job at the pertinent workplace’ (LSA Article 21). A second type of atypical employment is contractual work. Coupled with meritocratic labor practices or the performance pay system, which came into being with the introduction of the annual pay system, it has now become common in every industry. A third type of atypical employment is worker dispatch, a form of subcontracted employment. Worker dispatch refers to ‘a system in which an employment agency, while maintaining the employment relations after hiring a worker, has the worker engage in work for an employer in compliance with the employer’s direction and orders in accordance with a contract on worker dispatch’. Lastly, workers in special employment relations in Korea are ‘those who provide labor under subcontracts or on commission’. Such workers include golf caddies, private tutors, insurance salespersons and express couriers.

These four groups of laborers are only similar in that they are hard to define by the traditional definition of worker. They provide a different kind of labor compared to that of conventional workers, who provide labor under the direct and specific directions and orders of an employer at the employer’s workplace during fixed working hours.

2.2.2 Problems and Features of Atypical Employment

Since the late 1980s, atypical or irregular employment has become much more commonplace, particularly in the wake of the economic crisis in Korea at the end of 1997. In the 1980s wage labor increased rapidly – from 47.2% in 1980 to 60.5% in 1990 – with the main portion of the increase incurring in regular jobs. Since then, though, the portion of wage labor has stabilized and atypical work, including both daily and temporary work, has steadily expanded. This tendency has accelerated, especially after 1993. The percentage weight of atypical work, 41.2% in 1993, rose up to 45.7% in 1997. Moreover, the expansion of atypical employment proceeded largely in the form of temporary work rather than of daily work. Both replacing regular employment and filling new positions with temporary employees have already been widespread phenomena since the early 1990s.⁶

However, it was the financial crisis of 1997 and the subsequent IMF economic stewardship that facilitated this process. In order to cope with the financial crisis and pressure from the IMF, the Kim Dae Jung government passed legislation for legalizing non-standard employment.

Right after the economic crisis, a large number of firms went bankrupt and most of the surviving firms laid off their employees en masse and stopped new recruitment. Such downsizing was targeted at regular employment. At the end of 1998, the num-

6 Joyup Ahn 2001, ‘What have we learned about alternative employment arrangement in Korea: Definition, trends, and their characteristics’, Paper presented at the Korea-China Joint Workshop on ‘Trends of Atypical Employment and Policy Tasks’ in Seoul, 19 October 2001.

ber of regular workers was reduced by 1.1%, while that of atypical employees increased by the same amount. More important is the fact that workers in atypical employment outnumbered regular workers at the very time when the government implemented a comprehensive employment policy in 1999. The total number of employees rose by 1.4%, and wage laborers increased by 2.7% compared to the previous year. Among wage laborers, the number of regular employees declined by 6.3% and temporary workers rose by 4.6%, while daily workers climbed by 31.9% in 1999. In other words, non-standardization of the labor market proceeded largely in the replacement of regular employees with daily workers as their share increased rapidly. As a consequence, the proportion of atypical employees among wage laborers climbed to 51.7% in 1999, from 47.0% in 1998.

Irregularization of employment continued and the portion of atypical workers reached 52.4% in 2000. The number of temporary workers increased, while daily workers decreased. That is, in the year 2000, non-standardization of the labor market went on mainly in the form of rising temporary employment. Compared to the previous year, the total number of employed people increased by 3.8% (778,000), and 79.4% (618,000) of this occurred in wage employment. Among the increase in wage employment, temporary workers amounted to 53.1% (328,000) and daily workers were only 14.2% (88,000). At the same time, the number of regular workers increased by 3.3% (202,000) and employers also increased by 7.2% (100,000).

Non-standardization of employment has been prevailing in almost every industry sector and in almost every occupational group. It has expanded most rapidly in wholesale and retail trades and in the occupational categories of service workers and unskilled job workers (see Table 11, Appendix). More importantly, atypical employment has expanded more rapidly and is most prominent among the socially weak groups like women, youth and the elderly, and among those with lower educational attainment (see Table 12, Appendix).

Concerning the wage differentials, an average hourly pay for regular employees is estimated to be 8,200 KR won, whereas temporary employees receive 4,300 KR won (a bit more than half of the regular workers' hourly pay) and 3,800 KR won (46% of the regular workers' hourly pay) are paid to daily workers.

2.2.3 Social Assistance and Services: Benefits and Transfers

The Korean social protection systems has gradually expanded its coverage, beginning first with old-age pension for government employees and for military servicemen and their dependents in 1960, and finally covering all the populace by the end of the 20th century (see Figure 1). In the process, the financial crisis of 1997 and the following IMF economic stewardship accelerated the expansion of the social insurance system. The economic crisis, accompanying the depletion of foreign exchange, and the rise of the financial crisis in 1997 radically increased the working poor as well as the number of unemployed persons, leaving them vulnerable to various kinds of social risks. In these circumstances, not just international financial institutes (i.e. IMF, World Bank) but also Korean government policymakers came to be aware that

Korea should establish social safety nets in order to proceed smoothly with economic restructuring and also in order to avoid a serious social disruption or disintegration.

At any rate, Korea succeeded to establish all the necessary institutional frameworks of social insurance by July 2000, thereby having virtually all the occupational groups covered by four social insurance programs. There are some groups of people excluded, but the government plans to include both the self-employed (including those involved in truck or taxi driving) and atypical workers (such as insurance salespersons or private tutors) in the Industrial Accident Compensation Insurance Scheme from January 2003.⁷ The government also plans to include daily laborers, working less than a month and currently excluded, into the employment insurance program from January 2003 (*ibid.*).

Nevertheless, the majority of atypical employees are not yet covered by the current social protection system (see Figure 2).⁸ Although all employees, regardless of their employment status, are supposed to be covered, atypical employees are excluded from it, partly due to administrative rules, which stipulate their non-eligibility, and partly due to employers' non-cooperation.

The following employees are not eligible for the employment insurance program: workers employed in enterprises with four or less employees in agriculture, forestry, and housing industries; daily workers employed for less than a month; workers employed in household services; workers age 65 and over; part-time employees working less than 18 hours a week; public servants; and private school teachers. In the case of national pension, workers, even if they are employed by firms with five or more employees and eligible for national pension, working less than three months; fixed-terms workers with less than a three months contract; and temporary workers employed less than three months are not eligible.

In the case of national health insurance, both workers employed less than two months, even if they are employed by firms with five or more employees, and fixed-terms workers with a less than three months contract, as well as temporary workers are not eligible. In addition, as of March 1998, those who are unemployed one year or more lose eligibility for regional health insurance (before that time, the eligible unemployment period was six months). In the case of industrial accident compensation insurance, temporary workers, even if they are employed by firms with five or more employees, are not eligible.

Thus, due to these government regulations, a majority of atypical workers are not covered by one or more of the four social insurance programs.

Looking at the details, as of end 1999, industrial accident compensation insurance applied to 59.4% of total wage workers while employment insurance covered 48.3%

⁷ *Chosun*, daily newspaper, 13 December 2001.

⁸ It is difficult to accurately find out the proportion of atypical workers that are excluded from social insurance programs, largely due to their conditions of employment such as frequent closing down of establishments, frequent job changes, irregular employment, and difficulty in verifying their earnings. For this reason, it can only be estimated in an indirect manner. Figure 2 shows the proportion of the population excluded from social insurance benefits.

of them; national pension covered 52.4% of the total employed age 15 and above, and health insurance covered 95.0% of the whole population. If we include the poor covered by Medical Aid programs, it can be said that the whole population is protected by some sort of health insurance program. However, many persons are excluded from other social protection programs. In particular, this is preeminent among atypical workers.

If we look at employer-provided social security programs, about 50% of all the employees, irrespective of employment status, are covered. To be specific, for national pension 49.5%, for health insurance 52.1%, and for unemployment insurance 44.1% of employees respectively are covered.

However, there are great differentials depending upon an individual's employment type. While 70% to 90% of regular employees are covered by some sort of social insurance, the proportion for atypical workers amounts to only 22% to 25% (see Table 13.1, Appendix). Within the category of atypical employment, there is also a huge discrepancy. While the coverage of employer-provided social insurance programs for temporary workers amounts to 20% or higher, it is only 5% for daily paid workers (see Table 13.2, Appendix). Thus, a majority of atypical workers, in particular daily paid workers, do not benefit from any employer-provided social insurance program.

Thus, due to these government regulations a majority of atypical workers are not covered by one or more of the four social insurance programs. They are also excluded from the current social protection system for other reasons. For example, since July 2000, regardless of employment size, all firms have to pay premiums for both employment insurance and industrial accident compensation insurance,⁹ but only about 70% have paid premiums for the two insurances.¹⁰

Of course, atypical workers, who are excluded from employer-provided social insurance programs, are eligible for regional insurance programs such as medical insurance and national pension. However, they cannot benefit from other social insurance programs such as employment insurance or industrial accident compensation insurance. Moreover, it frequently appears that atypical employees who are eligible for regional (or residential) insurance programs cannot afford to pay monthly premiums. This is implied by a very low coverage of national pension or health insurance.¹¹

9 For industrial accident compensation insurance, workers of all employment types are eligible for the benefit from July 2000, whether their employers pay premiums or not. <http://www.hani.co.kr>.

10 *Hankyoreh*, daily newspaper, 9 May 2001.

11 According to the Ministry of Health and Welfare, 66.1% of eligible insured residents have not paid premiums for national pension insurance for a month or more, and more than 200,000 out of 6 million residents in the health insurance program did not pay premiums. The same source informs us that among 5,795,000 insured by the regional pension scheme, excluding those (4,385) who are unemployed or cannot pay premiums for other unavoidable reasons, 33.9% pay premiums at a scheduled date and the remaining 66.1% pay later. Among the latter, 26.1% have not paid even once. High-income, self-employed earners like doctors and real-estate dealers are included among those who do not pay premiums. *Chosun*, 20 & 24 February 2002. It is noteworthy that many workers employed in firms with four or less employees are also excluded from the current social protection system. The government has urged the employers of these small firms to join both employment and industrial accident compensation insurance schemes since October 1998 and, as a consequence around 730,000 to 740,000 additional employees have joined the programs. But the coverage is still about 42%. (Yonmyong Kim, 2000).

Figure 1: Expansion of Social Insurance Programs

Year	National Pension	Health Insurance	Industrial Accident Compensation Insurance ¹	Employment Insurance ²
1963–70	– Government employees (1960) – Military (1960)		Firms with – 500 or more (1964) – 200 or more (1965) – 150 or more (1966) – 100 or more (1967)	
1971–75	– Private school teachers (1975)			
1976–80		Firms with – 500 or more (1977) – 300 or more, government employees & teachers (1979)		
1980–85		Firms with – 100 or more (1981) – 16 or more (1989)	– Firms with 10 or more (1982)	
1986–90	– Firms with 10 or more (1988) – Firms with 5 or more (1992)	– Firms with 5 or more (1988) – Farmers and fishermen (1988) – Firms with 4 or less, urban self-employed (1989) ³	– Firms with 5 or more (1988)	
1991–95	– Farmers and fishermen (7/1995)			– Firms with 30 or more (7/1995)
1996–	– Urban self-employed (4/1999)	– Integration of regional societies and government employees & teachers' programs (10/1998) – Complete integration including workplace programs (2000)	– Education service workers and social workers (1996) – Financing and insurance workers (7/1998) – Firms with 1 or more (7/2000)	– Firms with 10 or more (1/1998) – 5 or more (3/1998) – 1 or more and part-timers (10/1998)

1 Applies differently depending upon sectors.

2 Only for unemployment benefits. For employment stability and occupational training, 70 or more (1995), 50 or more (1/1998), and 5 or more (7/1998).

3 Both groups are integrated into the regional health insurance scheme.

Figure 2: Occupational Groups Excluded from Social Insurance Benefits

	Occupational groups	National Pension			Health Insurance			Industrial Accident Compensation Insurance			Employment Insurance		
		1	2	3	GE & T ⁴ insurance								
Wage laborer	Government employees & teachers				GE & T ⁴ insurance								
	Clerical workers												
	Manual workers	R ⁵	A	A	R	A	A	R	A	A	R	A	A
	Firms with 5 or more workers												
Firms with 4 or less workers													
Self-employed	Farmers & Fishermen				Regional Health Insurance Programs								
	Urban self-Employed												

Note: Dark areas indicate groups of people excluded from social insurance benefits. Solid lines separate occupational groups by law.

- 1 Government employee pension.
- 2 Private school teachers pension.
- 3 Military pension.
- 4 GE & T: Government employees & teachers health insurance.
- 5 R: Regular workers, A: Atypical workers.

Looking at social benefits other than the above social insurance programs, which are also provided by employers, the following observations can be made. A majority of atypical workers are excluded from fringe benefits such as severance allowances and bonuses. Article 34 of the Labor Standard Act (LSA) states that employers must pay severance allowances worth one month of wages to those employees who have worked longer than one year for his or her company. The same law also stipulates that there should not be any discrimination. Article 10 of the LSA says that this law is applicable to all workplaces employing five or more workers and partially to workplaces with four or less employees. About half of all wage laborers benefit from the system of severance allowance. Moreover, there is a great differential between workers, depending on his or her employment status. Almost 90% of regular employees, but only 20% of temporary workers and a meager 5 % of daily workers benefit from the system. The proportion of bonus recipients is generally higher than the proportion of those who receive severance allowance. However, there is a huge differential between employees, according to his or her employment status (see Tables 13.1 and 13.2, Appendix).

Thus, a majority of atypical employees have been discriminated against in a variety of social insurance schemes, wages and other fringe benefits, even though they do the same jobs and perform in the same manner as regular workers. Worse, they are also excluded from varying social assistance programs only because they hold jobs and/or own their homes. As a consequence, they have become the working poor and occupy a marginal position in between those that are employed and unemployed.

Recognizing this, several NGOs have pursued some strategies to help the working poor. There are two kinds of roles NGOs purport to play in order to help them. One is the role of NGOs as a pressure group, which aims to put pressure on the government to reform the current social protection system so that it can provide an adequate level of social security and/or social assistance for the poor. Most public-interest NGOs belong to this category. The other role which NGOs assume is that of a service provider and/or a fund-raiser, which collects funds and distributes them to (civil) social welfare organizations. Since the NGOs' role as a pressure group has been discussed above, we will examine those NGOs functioning as a service-provider and/or a fund-raiser.

As of 2002, there are now several NGOs which collect funds from the public and allocate them to welfare facilities or the needy. For example, in order to provide social assistance for the poor and the disabled, the Community Chest of Korea (*Sahoibokji-kongdong-mokeumhoi*) was launched in November 1998. It was established by law, but is an NGO, which originated from the 'Central Association for the Promotion of Helping the Poor', formed in 1992 by economic and social NGOs in order to raise and allocate funds collected from the public for social welfare works. There are many other NGOs and campaigns of a similar nature supporting welfare facilities or specific groups such as the poor, the disabled, or the elderly. These NGOs merely play a complementary role in providing social assistance to the socially weak.¹²

2.2.4 Voluntary Schemes: Savings, Credit and Micro-insurance Schemes

In Korea, most of the population are involved in the formal sector either through wage relations or through exchange relations in the market and are covered by formal social protection schemes. Therefore, voluntary schemes do not play any significant role in providing social protection. In fact, no community-based social insurance or savings schemes have been identified.

2.2.5 Integration of the Informal Sector (Atypical Employment)

In 2000, trade unions and other NGOs formed an alliance for the purpose of pressuring the government and employers to standardize atypical employment and integrate it into a formal social protection system. The government and employers face two difficulties if they are to integrate atypical workers into the current system. First is the problem of international competitiveness of domestic products. Second is the problem of honest reporting of income. The former may have to be tackled in cooperation with foreign actors, especially with international organizations. The latter has to do with the problem of cultivating popular loyalty to the law, which, in turn, necessitates both 'clean politics' and the 'rule of law'.

12 Before 1997, the Ministry of Health and Welfare took a leading role in raising and allocating funds by taking control of charitable contributions. Such a system revealed some problems, for example: firstly, funds were used in areas which should have been financed from the government budget; secondly, the government frequently used the funds for a political purpose. This is why the task of fundraising and its allocation has been transferred to NGOs.

2.3 Labor Market Policy

During economic growth periods, employment expansion was of central importance in protecting individual welfare. It is notable that since the early 1960s when the Korean economy made a flying start, Korea achieved not only dramatic economic growth, but also a rapid expansion of employment as shown in Table 3. It is true that the remarkable economic growth together with near full employment enabled Koreans to avoid a number of possible social risks and reduced the demand for social welfare.

Table 3: Unemployment and Underemployment: 1963–2000 (Unit: percentage)

	1963	1968	1973	1978	1983	1988	1993	1996	1998	2000
Unemployed	8.2	5.1	4.0	3.2	4.1	2.5	2.8	2.0	6.8	4.1
Underemployed*	8.7	5.4	3.8	1.0	0.5	1.0	1.3	1.4	2.4	2.8
Sum	16.9	10.5	7.8	4.2	4.6	3.5	4.1	3.4	9.1	6.9

* Underemployment refers to those who worked less than 18 hours per week.

Source: Korea Statistical Office, 2000.

However, a dramatic increase in real wages in Korea since the end of the 1980s was one of the main constraints in maintaining the competitiveness of domestic firms in world markets. In addition, Korean firms started to experience a worker shortage from around that time. In this situation, the Korean government did not only introduce the Employment Insurance System in 1995, but also tried to increase labor market flexibility.

The Employment Insurance System is designed not only to help unemployed workers by giving them unemployment benefits, but also to enhance employment stabilization and employability of workers. The EIS has three major programs: i) Employment Stabilization Program (ESP), ii) Job Skill Development Program (JSDP) and iii) Unemployment Benefits. The first two programs are active labor market measures, whereas the last one is a passive measure. Thus, Korea's EIS is a combination of traditional unemployment benefits and active labor market programs. This is why Korea refers to its system as an employment insurance system rather than an unemployment insurance system.

Korea has experienced, in particular after the economic crisis, an increase in temporary and daily workers, which leads to the deterioration of the employment structure. The ratio of temporary and daily workers in total wage workers was 47% in 1997, but it went up to 51% in 2001. There is structural unemployment among low-skilled workers including long-term unemployed, disabled, and middle-aged persons. An active labor market policy for them is supposed to improve their opportunities to find jobs.

2.3.1 Active Labor Market Policy

The Korean Employment Insurance System has adopted various measures for an active labor market program in the ESP and the JSDP.

The ESP seeks to prevent massive layoffs, stimulate reemployment and expand job opportunities by providing economic incentives to employers who avoid massive unemployment and employ displaced workers. To improve job matching, it also seeks to promote job placement by providing accurate information on the labor market and administering vocational counseling and guidance. In order to pursue these aims, the ESP is composed of four sub-programs: Employment Adjustment Assistance, Regional Employment Stimulation Grants, Employment Facilitation Assistance, and Labor Market Information and Job Placement Services.

First, Employment Adjustment Assistance supports employers who stabilize employment i) by taking proper measures for employment maintenance such as a temporary shutdown, reducing working hours, employment maintenance training, dispatching employees, leave of absence, and employee relocation, or ii) by hiring displaced workers. Second, Regional Employment Stimulation Grants were created to expand employment opportunities in designated regions with serious employment conditions by subsidizing employers who created employment in those regions. Third, Employment Facilitation Assistance helps employers who promote employment of marginal workers, such as the elderly and women breadwinners who are the head of the family. Finally, Labor Market Information and Job Placement Services aim at i) improving job placement and shortening the spell of unemployment by providing job seekers with quick, active and tailored services for new jobs; and ii) improving efficiency in the labor market by supplying appropriate, prompt and accurate information to all participants of the labor market.

Before the financial crisis, the expenditure for ESP was meager, only 8.5 billion won in 1996, mainly due to the stable economy and labor market conditions. However, ESP began to be widely utilized from 1998 onwards by employers as a measure for reducing massive unemployment during the process of structural adjustment and for promoting employment of marginal workers. The expenditure for ESP dramatically increased, reaching 184 billion won in 1999. It is also notable that most of the expenditure for ESP was allocated to employers who undertook measures for maintaining current employment.

On the other hand, in order to enhance the quality of the labor force, Korea's EIS has a series of programs for supporting vocational education and training in JSDP. JSDP is an incentive system set up to encourage employers and employees to participate in lifelong vocational training and education through providing financial support. It seeks to foster and stimulate vocational training for new entrants to the labor market and to develop the job skills of employees and displaced workers. When the EIS was introduced in 1995, JSDP was applied only to firms with less than 1,000 employees.¹³ Enterprises with more than 1,000 employees were allowed to pay a training levy to the government instead of training. However, the experience from 1995

13 From 1976 to 1998, Korea maintained the training levy system based on the Basic Law on Vocational Training. Under the levy system, enterprises with 150 employees or more had two choices: either to invest a certain percentage of total wages in training their employees and/or new entrants to the labor market, or to pay a training levy to the government instead of training.

to 1998 illustrated that the incentive system through JSDP was more effective in inducing employers to participate in vocational training than the compulsory training levy system. Consequently, the government changed its vocational training system from a compulsory levy system to an incentive system of voluntary training by switching the Basic Law on Vocational Training to the Vocational Training Promotion Law on 1 January 1999.

JSDP is composed of three major sub-programs: Assistance to Employers, Assistance to Employees, and Assistance for Training the Unemployed. First, Assistance to Employers is composed of the subsidies for training costs and loans for training facilities. Second, Assistance to Employees is composed of vocational training subsidies for insured employees and loans for tuition. Third, Assistance for Training the Unemployed provides free training opportunities and training allowances for displaced workers and new entrants to the labor market. It is composed of Aid for Retraining Displaced Workers and Aid for Youth Training.

The performance of the JSDP is astonishing. In 1997, 200,000 insured employees developed their job skills in 9,000 firms through the JSDP. After the crisis, the number of firms and employees that participated in JSDP increased significantly. Those who developed their job skills with the support of JSDP amounted to 977,000 in 1999. Firms that benefited from JSDP totaled 43,000 in 1999.

In addition, there have been supplementary measures to establish the social safety net, such as job creation by the government. In particular, the public work program has become a crucial income source for daily workers (accounting for about 350,000), as they are not entitled to unemployment benefits. Thus, a monthly average of 300,000 unemployed people participated in the public work program from May 1998 until the end of 2000.

2.3.2 Passive Labor Market Policy

The passive labor market policy consists mainly of unemployment benefits in the EIS. Unemployment benefits are composed of the job-seeking allowance (JSA) and employment promotion benefits (EPB). The former is the core of the unemployment safety net, designed to stabilize the living conditions of the unemployed and their families, thereby facilitating active and unobstructed job seeking activities. The latter aims at fostering and stimulating reemployment of the insured individuals by providing job search assistance. Hence, EPB is complementary to JSA, and eligibility is restricted to those who qualify for JSA. EPB consists of an early reemployment allowance, vocational training promotion allowance, nationwide job-seeking allowance and moving allowance.

The duration of JSA varies depending on the insured employment period and the age of the claimant, ranging between a minimum of 90 days and a maximum of 240 days. Since Korea's EIS was implemented on 1 July 1995, the insured employment period of each covered employee cannot exceed seven years. Thus the actual duration of JSA is 90 to 210 days, as Table 4 illustrates.

Table 4: Duration of JSA (2001, unit: days)

		Insured employment period				
		Less than 1 year	1-3 years	3-5 years	5-10 years	10 years or more
Age	Less than 30	90	90	90	150	180
	30-50	90	120	150	180	210
	50 or older and disabled	120	150	180	210	240

Source: Ministry of Labor, various issues.

The expenditure for unemployment benefits was negligible before 1998, since Korea enjoyed near full employment at that time. However, the economic decline, corporate crisis and a credit squeeze resulted in lay-offs, real wage declines, and weak demand for new labor market entrants. Unemployment in Korea reached 7.6% in July 1998. As a consequence, the expenditure for unemployment benefits increased dramatically, reaching a peak of 0.53% as a portion of GDP in 1999 as shown in Table 5. Nevertheless, the unemployment benefit recipients account for only 13.1% of unemployed persons on average in 1999.

Table 5: Public Expenditure on Labor Market Programs

	1996	1997	1998	1999	2000
ALMP ¹ /GDP (%)	0.03	0.04	0.51	0.88	0.47
PLMP ² /GDP (%)	0.00	0.03	0.26	0.53	0.30
Total	0.03	0.07	0.77	1.41	1.07

1 ALMP is the expenditure for active labor market programs.

2 PLMP is the expenditure for passive labor market programs.

Source: Ministry of Labor, various issues.

On the other hand, the minimum wage system, which took effect for firms with ten or more employees in 1988, was finally extended to all workplaces in November 2000.¹⁴ The level of minimum wage is determined annually by the Committee for Minimum Wage, composed of governmental representatives, business representatives and labor representatives. The amount of minimum wage was 1,865 won per hour between September 2000 and August 2001.

3. Assessment of the Effectiveness and Efficiency of the Existing System

In this section, we are going to assess the existing social security system in terms of the effectiveness and efficiency in running the systems. We set the criteria for comparison as follows:

¹⁴ Disabled persons, internship workers and workers in training are not eligible for the minimum wage system, given that the employer had sought permission for the exemption of minimum wage issued by the Ministry of Labor.

3.1 Coverage

In response to the economic crisis in Korea, the social security reforms have not been limited to the establishment of social safety nets. Rather, they have been developing towards a more comprehensive welfare system. The current Korean government, the Kim Dae Jung government, has tried not only to redesign but also to expand them with the following measures: the extension of the Unemployment Insurance Scheme to all workplaces in October 1998; the extension of the National Pension Scheme to cover the self-employed living in urban areas in April 1999; and the integration of the medical insurance societies into a unified national health system as well as the extension of the Industrial Accident Compensation Insurance Scheme to all workplaces in July 2000.

As we can see in Table 6, all regular workers in Korea are in principle covered by the four main social insurance programs. However, it is noteworthy that temporary and daily workers, who are not covered by the EIS, are the most vulnerable to economic threats. In fact, since the economic crisis, temporary or daily workers have been the worst affected. Given that they are not eligible for unemployment benefits, the pain of unemployment has been further aggravated.

Table 6: Coverage of Social Insurance Programs According to Employment Status

Employment status	National Pension	Health Insurance	Employment Insurance	Industrial Accident Compensation
Regular workers	Covered	Covered	Covered	Covered
Temporary workers	Covered	Covered	Partially covered	Partially covered
Daily workers	Covered	Covered	Partially covered	Partially covered
Self-employed	Covered	Covered	Not covered	Not covered

Furthermore, the real coverage rates in the four main social insurance programs show a very different picture from the principle shown above in Table 6. For example, the National Pension Program (NPP) was expanded to cover the self-employed in urban areas in April 1999. This means that the NPP in Korea began to cover all of the economically active population over 18 years old; however, more than 50% of the people who should affiliate themselves to the NPP deny making contributions for it. In addition, though the government has extended the coverage of the EIS and IACIS (Industrial Accident Compensation Insurance System) to all workers, there are many workers who are not covered by both programs. Most of them are working in firms with less than five workers because their employers are usually reluctant to pay for the insurance premiums of both programs, owing to great concern about increasing labor costs. Yet, the NHI covers all Korean people except for the poor who are covered by Medical Assistance. Consequently, with respect to coverage, the reality is different from the law though there is the exception of the NHI. Korea still has to make more effort to expand the coverage of social insurance programs.

3.2 Feasibility

It is true that after the economic crisis the social security system in Korea has evolved into a more comprehensive system. However, owing to the insufficient preparation for such rapid expansion of social security programs, there are some problems in implementing the social security reforms. In particular, the integration of three types of medical insurance systems into a unified national system has resulted in a new social conflict between the employed and the self-employed concerning the amount of contributions paid. The National Pension Program, which also covers employees as well as the self-employed, has the same kind of problem as the National Health Insurance. This conflict has occurred mainly due to the fact that the income of the self-employed in Korea is not sufficiently assessed in taxation.

As a consequence, though the three types of health insurance systems are integrated, their financing is still separate. Financial integration was scheduled for implementation from 1 January 2002, but it was deferred for 18 months because of strong political objection from the main opposition party. Thus, at this moment, financial integration has achieved horizontal equity only among the self-employed and among employees, not across the entire population.

With respect to the policy-making process of social security, it is worth noting that since the economic crisis, the workforce's demand for social security has been increasing. In fact, in order to obtain popular agreement on ways of overcoming the economic crisis, the Kim government urged both management and labor to participate in the tripartite committee, known as the Labor-Management-Government Committee. All social security reforms after the economic crisis in Korea were indeed approved for implementation by the tripartite committee. The committee made an accord to integrate the four social insurance programs in Korea into a unified social security system. However, the financial integration of Medical Insurance is uncertain, as is the feasibility of integrating four social insurance programs, since the present government is nearing the end of its term. Furthermore, the growing conflict between employees and the self-employed over the contributions for the social insurance programs will be another factor that hampers the government from implementing its social security reforms.

3.3 Financial Sustainability

There has been a great deal of doubt about the financial sustainability of some social insurance programs. First of all, the NHI has been suffering from financial collapse since 1997. Not only the unification of three health insurance systems, but also the new health service division between doctor and pharmacist, introduced in 2000, have been particularly blamed for this financial bankruptcy. Currently, overcoming this liquidation is the most urgent task with respect to running NHI. To tackle this problem, the government has announced several measures, including the establishment of the earmarked tax on tobacco, the increase of governmental subsidies, and the increase of the contribution rate. The latter two measures will not be easy to implement.

Another big concern about financial sustainability has been raised with NPP. The possibility of a financial crisis in the pension scheme is essentially ascribed to the improper institutional design of the program, the promise of too generous pensions with a relatively low level of contributions and the emergence of an ageing society. In 1998, the level of income replacement for a pensioner who contributed for 40 years was reduced from 70% to 60%. The pension age of 60 years will be increased as of 2013 by one year every five years to reach 65 years. Contribution rates of employers and employees rose to 4.5% of the monthly wage. In the case of the self-employed, the contribution rate is to be annually increased by 1% from 2000 to 2005, that is, from 3% to 9%.

In addition, as the three separate occupational pension schemes for civil servants, teachers and the military are more mature when compared to NPP, these schemes are rapidly approaching fiscal imbalances and are projected to run deficits some time during the next decade despite their already high contributions.

3.4 Gender Equity

It is acknowledged that the welfare state in Western countries was generally built up on the basis of the male breadwinner model. That is, women were expected to stay at home and do housework whereas men were expected to work outside of the home.

Given the tradition of Confucianism in Korea, the idea of the male breadwinner might influence the labor market as well as the social security system. It is true that female workers are not equally treated in the labor market when compared to male workers. In the case of the new entrants to the labor market, female youth have more difficulties in finding jobs compared with male youth. Furthermore, female workers are more likely to be employed in the informal sector. As for female workers working in the formal sector, their wages are far lower than those of male workers, as we have seen earlier.

However, it is rare in Korean social security laws that gender inequality is encouraged with respect to benefit or eligibility. The Employment Law for Gender Equality, legislated in 1987, guarantees a leave of absence for child rearing in firms that employ more than five workers. Therefore, the employer must allow a leave of absence for childrearing when requested by employees whose child is under one year old. The total period of the leave of absence for childbearing and rearing may not exceed one year, as specified in the Labor Standard Law, Article 72. This period includes paid maternity leave and leave of absence for childrearing.

3.5 Costs of Administration

The government established quasi-governmental organizations to run the social insurance programs; the National Health Insurance Corporation for National Health Insurance; the National Pension Corporation for National Pension; the Korea Labor Welfare Corporation for Employment Insurance; and Industrial Accident Compensation Insurance. The first two are under the control of the Ministry of Health and

Welfare and the latter is under the Ministry of Labor. The chief executive of each quasi-governmental organization is appointed by the state.

The Korean government has mainly provided subsidies for the administration costs of each social insurance program, though it also provides subsidies for the Regional Health Insurance Fund for the self-employed and for pension contributions paid by farmers and fishermen. However, the government has tried to cut administration costs. For example, administration costs for the Medical Insurance Programs are 6.5% of total expenditures in 2000. They were recorded at 8.5% in 1997. This decrease may be ascribed to the integration of medical insurance societies. Though the integration of the four social insurance programs into a unified social security system will greatly contribute to the reduction of administrative costs, its feasibility is very uncertain.

3.6 Targeting

With respect to the issue of targeting, we shall first look at the social assistance program, particularly the Employment Insurance System (EIS), before examining the social insurance programs.

Social assistance programs in Korea can be defined as formal safety nets targeted at the poor with the objective of raising living standards to an acceptable social minimum. Under the Basic Living Protection Scheme, the government has provided living allowances for all people whose monthly income is less than the minimum living costs decided by the government. In August 2001, the Basic Livelihood Protection Scheme covers 151,000 or 3.2% of the population. However, due to the strict eligibility conditions of the scheme, there are still many households who should be covered but are not.

With the expansion of EIS coverage, the number of employees and enterprises actually covered is increasing. The actual number of covered employees was 4.2 million on 31 December 1995 and 6.2 million on 28 February 2000. However, the number of insured employees was only 70.9% of employees that should be entitled to the EIS by law as Table 7 shows. The EIS does not reach 30% of the target group. From this figure, it can be said that the EIS is not effective.

Table 7: Coverage in Number of Workers (thousand)

	July 1995	January 1998	July 1998	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
As a portion of eligible workers	98.2	83.0	70.4	70.9

Source: Ministry of Labor, 2001.

There are several reasons for this gap. First, although employers have a duty to register at the public employment office and pay EIS premiums for their employees, many employers of very small enterprises neglect to do this. Second, it is extremely diffi-

cult for the public employment offices to identify very small enterprises and their employees and collect insurance premiums from them because small businesses open and close down constantly. Third, most daily and temporary workers are not effectively covered by the EIS even though they should be covered by the system if their employment periods are one month or longer. Therefore, how the government can effectively identify very small enterprises and their employees and collect insurance premiums is a big issue in improving targeting of the EIS.

3.7 Accountability and Transparency

The Korean government has to be responsible for the sound management of four social programs. This means that the government should not only control the programs, but also be in charge of maintaining the fiscal stability of each program. Thus, the government has monitored and supervised the management of the insurance funds on a regular basis and made the process of allocating money and benefits open and transparent to the public.

For instance, in order to manage a sound Employment Insurance System, all of the contributions for EIS are deposited into the Employment Insurance Fund (EIF), which is a special account in the Bank of Korea. EIF has a separate account for each program of EIS and should have a sufficient reserve fund in order to pay unemployment benefits and implement active labor market programs in the event of a serious economic downturn and high unemployment rate.

As for the Pension Fund, the mismanagement of the reserve fund, in particular with respect to government borrowing from the fund, was increasingly criticized. From 1988, when the NPP was introduced, to 1996, the government borrowed more than 50% of the total reserve fund, and by the end of 1998 this amount had reached 75%. The interest rates of all these governmental borrowings remained lower than those of financial institutions, which substantially accounted for differentials from 1.5% to 4%. Therefore, the reforms by the new government in 1998 were initiated not only to redesign the pension program, but also to increase the transparency and efficiency of the pension fund management. In order to ensure transparency and to increase returns with respect to managing the funds, reforms were implemented so that the details of the fund management have to be announced to the public and the government has to pay higher rates of interest than other financial institutions.

4. Development of Innovative Programs and Alternative Social Protection Schemes

Besides political and administrative barriers, the current social protection system in Korea has a fundamental problem. The assumption that growth promulgated in the functioning of free markets and considerations of economic efficiency are unquestionably essential prerequisites for achieving improvements in the well-being of all people is underlying the principle of work-linked welfare, which the government espouses as a rationale for the current social protection system. The government and

employers insist that without the recovery and/or growth of the economy, an adequate level of social protection, say, for the poor, will not be achievable.

The principle of residualism also has to do with this growth-oriented strategy. Any support given above the level of minimum subsistence, it is argued, will produce welfare dependency. The Korean government is not alone in holding such an assumption. The discussion on social protection and/or social safety nets, widely recommended by international organizations, is by no means advocating anything near to an even modest welfare state. Rather, it is intended to be nothing more than a minimum base-line for cushioning adverse social and potentially political side effects of economic depression or neoliberal restructuring.

However, if we are to stick to the principle of putting economic growth first and advocating trickle-down effects and the work-linked welfare principle, then many groups of socially weak, i.e. the elderly, the disabled, the unskilled, and many others who may not be perceived as necessary for overall economic development cannot but be excluded from adequate social protection. Moreover, historical experiences show that the allocative efficiency of free markets has never been realized in the real world due to imperfect market conditions, market failures, and imperfect information.

Therefore, we cannot wait and see if the free market produces sufficient resources for social protection and the fruits of economic growth trickle down. Rather, we should put the current social protection system on a completely different principle: namely, that it is everyone's inviolable right to be protected by an adequate level of social welfare. Since rights must be protected and fulfilled, governments and employers have an obligation to give them first priority and guarantee them by all means. Economic development, market mechanisms and economic efficiency are not intrinsically good or desirable, but they must primarily and foremost help improve the well-being of all people and, therefore, be oriented towards that goal.

Once the principle of social protection as a socio-economic right is established, we have to redesign the current social protection system completely. First of all, those legally and de facto excluded from social security benefits, i.e. atypical workers, have to be incorporated into the system. Second, benefits have to be raised up to a level which enables welfare recipients to live a decent life. Third, policy makers' and the public's traditional perception of social protection has to change so that they can support the principles of social protection as an inviolable human right and the precedence of social rights over growth.

Related to this, some thoughts must be given to the question of whether the Anglo-Saxon model of an economic system, which the IMF has recommended to the Korean government and which underlies most government policies, will go hand in hand with these principles. It is questionable whether it will help to change policymakers' and the public's traditional perception of social protection. It has yet to be proved that the Anglo-Saxon model of a business system performs better than any other model, such as the Rhine model, not only in terms of social protection but also even

in terms of economic growth. Moreover, socio-economic institutions cannot be easily transformed because they are intertwined with other political institutions, to the extent that without simultaneous changes in these institutions, they alone cannot be changed.

The Anglo-Saxon model of an economic system has close affinity with a system of work-linked welfare and residualism, which leaves many socially weak with inadequate social protection. It is also dubious whether this model will help Korea to enjoy sustainable development. It seems Korea's traditional values and orientations have more commonalities with continental European countries than with Anglo-Saxon countries. In addition, continental European countries tend to provide better social welfare for their people. Therefore, Korea may have to reroute social and economic policies in a different direction, away from the current one.

This will give rise to the problem of feasibility because, most of all, the Korean government and major political forces may not be persuaded. Therefore, redesigning the current social protection system on new principles may have to be reserved as a long-term goal. For the present, both preliminary work for the future and a complementary job for the current system have to be done concurrently.

As far as preliminary work for the future is concerned, it is most important that a new concept of social protection be diffused among policy makers as well as the public. As stated previously, a majority of Korean people believe that the first responsibility for assisting the socially weak or those facing social risks should be laid on individuals themselves and/or their families. With this perception, there will be no room for the concept of social protection as an inviolable right. Therefore, the prevailing perception of social rights must be changed more than anything else. Since the government and political parties are swayed by the prevailing idea of social protection, NGOs may have to take on this responsibility.

Tasks for complementing the current system are varying and not easy to achieve. The current social protection system implemented in its present form has many problems and difficulties. It has improved greatly, compared to the traditional system, but it still shows many deficiencies. To cite a few: exclusion of many socially weak from social security and/or social assistance benefits, insufficient level of support, and lack of an effective connection between social security and social assistance programs.

These problems have arisen partly due to strict eligibility, lack of coordination between government departments themselves and with NGOs, and insufficient financial resources or government budgets, which, in turn, are caused by administrative inefficiency, inability to secure honest tax reports, and over-commercialization of health care. Therefore, in order to reform the current social protection system for the purpose of providing many socially disadvantaged people with an adequate level of support, these underlying factors must be effectively tackled.

Keeping this in mind, we will discuss in the final section some of the policy recommendations which would help improve the current system of social protection.

5. Policy Recommendations

In theory, the current social protection system will provide an adequate level of social security or social assistance to the employed and the needy. However, more than a few workers and needy are excluded from social welfare benefits due to several inherent problems. Here are some policy recommendations to help in solving these inadequacies:

First, in order to improve the effectiveness of the National Basic Livelihood Security Act (1999) – one of the most important programs with which the government aims to extend public assistance to a larger segment of the poor – it is necessary to substitute a new set of criteria for the current one by which beneficiaries are determined. In implementing the Act, the government has made eligibility stricter than in the previous program by using criteria such as work capability (or willingness) and amount of income and assets, thereby leaving many of the needy unprotected. For example, the lower echelons of middle-income earners, most of whom are temporary or part-time workers, workers in tiny businesses, or self-employed, are left unprotected by the current social protection system. This is because they are not eligible for the NBLSA (National Basic Livelihood Security Act) due to their employment and because their employers do not provide social security benefits due to their employment status. This makes the Act's original purpose debatable. It is therefore necessary to substitute a new set of criteria (i.e. an optimum level of welfare) for the current one.

Second, in the case of health insurance, the major problem is high user fees stemming from high coinsurance arrangements within the plans and also from full direct payment for non-insured services. This is caused largely by the fact that health care has become a business. Affordability and access are affected greatly by the growth of profit-driven corporations in the health care field. Providers refuse to serve those who cannot pay, will only promote services with a reasonable monetary return, raise prices to the extent the market will bear, increase utilization to maximize income, and aggressively promote excessive and irrelevant services that may not address patients' basic health needs. Commercialization is threatening the ethos of health care. As a result, the commercialized health-care system leaves out destitute people who are in need of it, and raises health-care costs, which, in turn, will eventually push up insurance premiums.

To tackle these problems, the government must provide a financial means that helps poor people who cannot afford costly health care; manage technology diffusion and its utilization; regulate pharmaceutical pricing and marketing; and take measures to reduce fraudulent medical claims and tax evasion. However, since the government has been captured by medical professionals' associations, NGOs may have to play an important role.

One of the most important tasks to be addressed is a perception gap between the public and health-care leaders in issues as fundamental as the following:

- What is social health insurance about and what can be expected from it?
- How is health care different from other goods and services?

- What is the health care system aiming for?
- How is the excluded population group handled by the system?

In addition, the current medical insurance program comprising three types of insurance schemes – for employees in private firms; for the self-employed; and for government employees and private school teachers – were merged to form one organization, the National Health Insurance Corporation, in July 2000. The financing and methods of calculating contributions of the three schemes are still separate and different, thereby causing serious problems in terms of finance and fairness. Each medical insurance society has imposed different amounts of contributions on the insured. This occurs because premiums are calculated on the basis of different criteria; for example, for wage workers premiums are calculated on wages alone, whereas for the self-employed, premiums are calculated on both total income and property and the number of dependents. Different kinds of benefits depending upon each society's financial situation are provided.

This situation has given rise to unfairness for the beneficiaries and financial difficulties for workplace insurance societies which are disadvantaged. Although employees in private sectors contribute less than in other sectors (i.e. self-employed), they receive more benefits, thereby causing a problem of unfairness. This has also contributed to the deterioration of the financial situation. Private-sector employees receive insurance benefits of more than 31% of their contributions, while self-employed receive benefits just 3% higher than their contribution. Moreover, the former pay lower premiums than the latter. Thus, the current system of separated insurance societies was a major cause of a huge deficit of 1,835,300,000,000 KR won for the fiscal year of 2001.¹⁵ The government party and opposition parties previously agreed on the integration of distinctive health insurance societies, but the latter changed their stance and pushed for a new legislation, which has left the system just as financially separated as before.¹⁶

Third, in the case of both the health insurance and national pension schemes, the equity problem has to be solved. It may not be easy to maintain an equitable system if the total incomes of the self-employed are not accurately documented. To evade tax, it is not uncommon that the self-employed, including doctors, lawyers, and restaurant owners do not report their incomes honestly. Reported incomes sometimes amount to a meager one-tenth of total incomes. Since insurance premiums are calculated on the basis of reported incomes, this gives rise to an equity problem, and also causes financial deficiency. This poses a more serious problem in the case of the national pension program. Therefore, the government must give priority to tackling

15 *Hankyoreh* Daily Newspaper, 28 January 2002. Deficits in national health insurance are caused by several factors. Some examples are an aging population, the increasing role of general and tertiary-care hospitals, lack of incentives for the provider of medical resources, and the abrupt increase in the costs of pharmaceuticals and medical supplies.

16 Opposition parties' positions comprise a majority in parliament. The labor side is divided into two opposing blocs. KFTU, a long-standing and more conservative trade union confederation, supports the separate system, while KCTU, a recently formed and more radical national center, supports an organizational and financial unity of separate societies. *Hankoyreh* Daily Newspaper, 24 December 2001.

this problem. Fourth, the absence of private pension coverage may pose a problem because public pensions provide protection with the expectation that other sources of income and supportive mechanisms will provide an adequate level of support. The problem becomes more serious because the replacement ratio is expected to be lowered as financial difficulties increase due to the aging of society. An alternative would be to convert the current severance allowance scheme offered by corporations into an occupational private pension scheme, which would supplement public schemes.

Lastly, in order to solve the problems of inefficiency and/or accountability, at least three things have to be done. One is coordination and/or integration of varying social welfare programs and/or projects scattered among government departments, which in some cases overlap. Here, it is important to integrate and unify the programs into one system, which will facilitate the establishment of the 'equal contribution (or premium) equal benefit' principle. It is also necessary to set up a unitary system of premiums or benefits in which premiums and benefits (i.e. social assistance) are calculated on the basis of total and honest earnings. For that purpose, the integration of two different health insurance societies and a merger of the four social insurance programs may be needed. In addition, the job of imposing and collecting contributions has to be switched over to the National Tax Office.¹⁷ Some emphasis should also be put on the cooperation between the government and NGOs or between NGOs, without which it is difficult to provide the one-stop service for potential beneficiaries. The last field for reform is an increase in professional manpower, i.e. qualified public social welfare officials, which is a prerequisite for the effective implementation of a social protection system.

¹⁷ Yonmyong Kim 2000, 'Social protection of atypical workers and policy implications', Paper presented at the seminar jointly organized by KFTU and KCTU (17 October 2000).

Appendix

Table 1: Demographic Trends

Population	Total (million)		1975	35.3
			1999	46.4
			2015	50.6
	Age (as % of total)	15 and under	1999	21.2
			2015	17.2
		65 and above	1999	6.8
		2015	11.6	
Urban (as % of total)		1975	48.0	
		1999	81.1	
		2015	88.2	
Population growth rate	Average annual growth rate (%)		1975–1999	1.1
			1999–2015	0.5
	Age (%)	0–14	1999–2015	–0.9
		15–64		0.6
		Above 65		3.8
Life expectancy	Total fertility rate (per woman)		1980–1985	2.5
			1995–2000	1.7
	Infant mortality rate (per 1,000 births)		1970	43.0
			1980–1985	23.0
			1995–2000	10.0
			1999	5.0
	Life expectancy at birth (in years)		1970–1975	62.6
			1995–2000	74.3
	Total		1980	65.9
			1995	72.4
	Male		1980	63.6
		1995	68.8	
Female		1980	71.1	
		1995	76.0	

Source: UNDP, 2001.

Table 2: Education

Literacy	Adult literacy (% age 15 and above)		1999	97.6
	Female			96.2
	Male			99.1
	Youth literacy (% age 15–24)		1999	99.8
	Female rate (% age 15–24)		1999	99.8
	Female rate as % of male rate			100.0
Enrollment	Net primary enrollment	Ratio (%)	1995–97	93.0
		Index (1984–87=100)		97.0
		Female ratio (%)	1999	93.0
		Female ratio as % of male ratio	1995–97	101.0
	Net secondary enrollment	Ratio (%)	1995–97	97.0
		Index (1984–87 = 100)		114.0
		Female ratio	1995–97	97.0
		Female ratio as % of male ratio		100.0
	Combined primary, secondary and tertiary gross enrollment ratio (%)	Female	1999	85.0
		Male		95.0
	Children reaching grade 5 (%)		1995–97	98.0
	Gross tertiary enrollment (%)	Female ratio	1994–97	52.0
		Male ratio		82.0
	Tertiary students in science, math and engineering (as % of all tertiary students)		1994–97	34.0

Source: UNDP, 2001.

Table 3: Economy

Economic performance	GDP	US\$ Billions	1999	406.9
		PPP US\$ Billions		736.3
		per capita (PPP US\$)		15,712
	Growth of output (average annual % growth)		1980–90	9.4
			1990–99	5.7
	GDP	per capita % growth	1999–2000	7.8
	Average annual change in consumer price index (%)		1990–99	5.3
			1998–99	0.8
	GNI	Billions of dollars	2000	421.1
		Per capita dollars		8,910
PPP GNI	Billions of dollars	2000	820.0	
	Per capita dollars		17,340	
Integration with the global economy	Trade in goods	% of PPP GDP	1989	35.7
		% of goods GDP	1999	35.9
	Growth in real trade less growth in real GDP (%)		1989–1999	7.1
	Gross private capital flows (% of PPP GDP)		1989	3.3
			1999	9.1
	Gross foreign direct investment (% of PPP GDP)		1989	0.5
1999			2.1	
The structure of trade	Imports of goods and services (as % of GDP)		1990	30.0
			1999	35.0
	Exports of goods and services (as % of GDP)		1990	29.0
			1999	42.0
	Primary exports (as % of GDP)		1990	6.0
			1999	8.0
	Manufactured exports (as % of merchandise exports)		1990	94.0
			1999	91.0
Terms of trade (1980 = 100)		1998	99.0	

Note: The Korea National Statistics Office gives different figures. According to the statistics office, GNI per capita amounted to US\$10,823 in 1995; 11,380 in 1996; 10,307 in 1997; 6,723 in 1998; 8,551 in 1999; and 9,628 in 2000. <http://www.nso.go.kr/eng/>.

Source: UNDP, 2001.

Table 4: Ratio of Small and Medium Sized Enterprises and Large Conglomerates

	1995	1997	1998	1999
Number of establishments	99.0	99.1	99.2	99.2
Number of workers	68.9	69.3	70.5	73.0
(large conglomerates)	(4.4)	(4.1)	(3.7)	(2.9)
Gross sales	46.5	46.3	46.3	47.5
	(46.0)	(45.9)	(46.5)	(42.4)
Value added	46.3	46.5	48.0	48.3
	(15.0)	(12.0)	(12.0)	(10.2)

Source: Korea National Statistics Office, various years a.

Table 5: GDP by Kind of Economic Activity

	1985	1990	1995	1997	1998
Agriculture, forestry, fishing and hunting	12.8	9.1	6.2	5.4	4.9
Mining	1.0	0.5	0.5	0.4	0.4
Manufacturing	30.3	29.2	29.4	28.9	30.7
Electricity, gas and water	2.8	2.2	2.1	2.1	2.3
Construction	7.7	12.9	11.3	11.6	10.1
Wholesale and retail trade	12.2	11.3	12.5	11.4	10.6
Hotels and restaurants					
Transport, storage and communication	7.6	7.1	6.6	6.6	6.9
Banking, insurance, real estate & business services	11.8	13.8	18.1	19.1	19.6
Other community, social & service activity	4.1	4.0	4.6	5.0	5.0

Source: Korea National Statistics Office, various years a.

Table 6: Labor Market

Labor force participation rates of population at age 15-64 (%)	Total	1980	64.0
		1995	67.1
	Male	1980	77.6
		1995	79.1
	Female	1980	50.2
		1995	54.7
Youth and elderly labor force participation and total economic dependency ratio (%)	Labor force participation of persons at age 10-15	1980	0.4
		1995	0.0
		2000	0.0
		2010	0.0
	Labor force participation of persons older than 64	1980	23.8
		1995	23.4
		2000	22.2
		2010	20.5
	Economic dependency ratio (number of economically inactive persons per 100 active)	1980	14.5
		1995	10.4
		2000	9.6
		2010	8.7

Table 6 (Cont'd)

Gender inequality in economic activity	Female economic activity rate (age 15 and above)	Rate (%)		1999	53.0
		Index (1985=100)			110.0
		As % of male rate			69.0
	Employment by economic activity	Agriculture	Female	1994-97	13.0
			Male		10.0
		Industry	Female		21.0
			Male		38.0
		Services	Female		66.0
			Male		52.0
	Contributing family workers	Female	(as % of total)	1994-97	88.0
Male			12.0		
Unemployment in OECD countries (1999)	Unemployment	Rate (% of labor force)		1999	6.3
		Average annual rate (% of labor force)		1990-98	2.9
		Female rate as % of male rate		1999	73.0
	Youth development	Rate (% of labor force aged 15-24)		1999	14.2
		Female rate as % of male rate			66.0
	Long-term unemployment (as % of total unemployment)	Female			1.9
		Male			4.7
Unemployment as a percentage of the labor force	Total	1990		2.4	
		1995		2.0	
		1997		2.6	
		1999		6.3	
	Male	1990		2.9	
		1995		2.3	
		1997		2.8	
	Female	1990		1.8	
		1995		1.7	
1997		2.3			
1999		5.1			
Value added as % of GDP	Agricultural		2000	5.0	
	Industry		2000	44.0	
	Services		2000	51.0	

Source: UNDP, 2001.

Table 7: Summary Table of Economically Active Population

	1990	1995	1997	1998	1999
Population age 15 & above (thousand) (% of female)	30,887 (51.7)	33,664 (51.6)	35,362 (50.8)	35,362 (51.5)	35,765 (51.5)
Economically active population (thousand) (% of female)	18,539 (40.5)	20,853 (40.3)	21,662 (41.0)	21,456 (39.9)	21,634 (40.4)
Economic activity participation rate (%) (female)	60.0 (47.0)	61.9 (48.3)	62.2 (49.5)	60.7 (47.0)	60.5 (47.4)
Unemployment rate (%) (female)	2.4 (1.8)	2.0 (1.7)	2.6 (2.3)	6.8 (5.6)	6.3 (5.1)

Note: In official statistics, unemployed persons are those who, among people aged 15 and above, have both the ability and willingness to work, but have not worked at all. On the other hand, employed persons are defined as (i) those having worked for more than one hour a week for the purpose of obtaining income, profit, salary or wage, or (ii) family members working more than 18 hours a week for a farm or an enterprise run by other family member(s), or (iii) temporarily unemployed due to illness, bad weather, or vacation (Korea Labor Institute, 2000a).

Source: Korea National Statistics Office, various years b.

Table 8: Distribution of Income and Allocation of Budget

Poverty and income distribution	Population below the national poverty line (%)	Rural		n.a. ¹
		Urban		n.a.
		National		n.a.
	International poverty line (%)	Below \$1 day	1993	<2.0
		Gap at \$1 day		<0.5
Below \$2 day		<2.0		
Gap at \$2 day		<0.5		
Inequality in income or consumption	Survey based on income (I) or consumption (C)		1993	C
	Share of income or consumption (%)	Poorest 10%		2.9
		Poorest 20%		7.5
		Richest 20%		39.3
		Richest 10%		24.3
	Inequality measures	Richest 10% to poorest 10%		8.4
		Richest 20% to Richest 20%		5.3
Gini index			31.6	
Structure of consumption and investment	Household final consumption expenditure % of GDP		2000	56.0
	General government final consumption expenditure % of GDP			10.0
	Gross capita formation % of GDP			31.0
	External balance of goods and services % of GDP			3.0
	GDP implicit deflator average annual % growth		1999–2000	5.0

¹ No data available.

Source: UNDP, 2001.

Table 9: Income Distribution

	1992	1995	1997	1998	1999
1st 10%	3.3	3.3	3.2	2.6	2.7
2nd	5.2	5.2	5.1	4.7	4.6
3rd	6.3	6.2	6.3	5.9	5.8
4th	7.3	7.2	7.3	6.9	6.8
5th	8.2	8.2	8.3	8.0	7.9
6th	9.3	9.3	9.4	9.1	9.1
7th	10.6	10.6	10.8	10.6	10.5
8th	12.2	12.3	12.4	12.3	12.3
9th	14.7	14.9	15.0	15.0	15.0
10th	22.9	22.6	22.3	24.8	25.3
Gini coefficient (index of concentration)	0.2836	0.2837	0.2830	0.3157	0.3204

Source: Korea National Statistics Office, various years b.

Table 10: Budgets and Expenditures by Function

	1990	1995	1997	1998	1999 ³
Total budgets (billion KRW)	—	—	—	—	83,685.1
Total expenditures ¹ (billion KRW)	27,436.7	51,498.0	63,962.1	73,226.0	—
Ratio to GNP (%) ²	25.0	26.6	28.8	32.2	32.0
General administration (%)	10.2	10.6	10.7	10.0	9.3
National defense	25.0	22.1	21.3	19.3	17.1
Social development	8.9	8.1	9.2	9.8	11.0
Education & culture	—	—	—	1.0	—
Manpower development & population	—	—	—	0.5	—
Health & environment	—	—	—	1.7	—
Social security	—	—	—	6.6	—
Housing & local community development	—	—	—	0.1	—
Education	20.4	18.9	18.9	16.6	13.7
Economic development	14.1	22.3	25.5	30.3	26.9
Grants to local government	10.1	10.6	10.6	9.6	8.0
Repayment of debt & others	11.3	7.3	3.8	4.4	13.9

1 Net expenditure; 2 from 1995, to GDP; 3 Gross expenditure.

Source: Korea National Statistics Office, various years (d).

Table 11: Employment Status by Industry (unit: %)

	1996			2000		
	Regular	Temporary	Daily	Regular	Temporary	Daily
Total	56.6	29.4	14.0	47.1	34.4	18.5
Agriculture & forestry	14.1	23.9	62.0	8.3	14.6	77.1
Mining	61.4	26.3	12.3	74.0	16.9	9.1
Manufacturing	66.2	24.9	8.9	57.7	29.8	12.6
Electricity, gas & water	92.5	5.3	2.2	74.6	14.9	10.5
Construction	28.8	15.8	55.4	25.2	17.7	57.1
Wholesale & retail trades	35.6	54.4	9.9	23.7	56.3	20.0
Transportation & communication	80.9	16.0	3.2	71.8	21.6	6.6
Banking, insurance & real estate	68.6	28.6	2.8	54.9	39.1	6.0
Social & personal services	68.3	25.6	6.1	57.0	29.4	13.5

Source: Korea National Statistics Office, various years b.

Table 12: Employment Trends by Gender (unit: %)

		1996	1997	1998	1999	2000
Total	Regular	56.6	54.3	53.2	47.8	47.1
	Temporary	29.4	31.0	32.7	33.0	34.4
	Daily	14.0	14.7	14.1	19.2	18.5
Male	Regular	66.2	64.7	65.1	59.5	58.9
	Temporary	20.9	22.2	23.1	25.0	26.4
	Daily	12.4	13.1	11.9	15.5	14.7
Female	Regular	40.7	38.2	34.2	30.1	29.8
	Temporary	42.8	44.6	48.1	45.0	46.2
	Daily	16.5	17.1	17.7	24.9	24.0

Source: Korea National Statistics Office, various years b.

Table 13-1: Employer-provided Social Insurance by Employment Types

Employment types	National pension	Health insurance	Employment insurance	Severance allowance	Overtime pay	Paid vacation	Bonus
Total	49.5	52.1	44.1	50.2	40.0	40.5	50.7
Regular	88.0	90.7	74.2	90.0	73.1	75.5	89.5
Atypical	22.1	24.6	22.6	21.9	16.5	15.6	23.0
L.T. ¹	17.9	20.6	19.7	18.1	13.2	11.7	20.5
S.T. ²	24.4	26.3	22.4	23.4	20.0	19.1	22.5
P.T. ³	4.9	5.6	5.0	4.7	6.1	3.0	4.5
O.C. ⁴	5.4	6.5	5.5	5.0	5.9	4.3	5.0
O.A.S.E. ⁵	22.2	23.6	22.4	19.0	12.6	14.8	21.2
D. ⁶	36.8	41.2	36.8	36.0	26.5	25.0	33.8
C.O. ⁷	43.8	51.3	44.2	40.3	17.5	20.8	35.1
H. ⁸	1.6	1.6	2.0	1.6	0.4	0.8	0.8

1 Long-term temporary; 2 Short-term contract; 3 Part-time; 4 On-call; 5 Own-account self-employment; 6 Dispatch; 7 Contract-out; 8 Home work.

Source: Korea National Statistics Office, various years b/2000. Original data, manipulated by Yuson Kim, 2001.

Table 13-2: Employer-provided social insurance by employment types
(unit: 1,000 persons, KRW/hour, %)

KLI Typology	NSO Typology	Contract period	Number of persons	Hourly Pay	Health insurance	Employment insurance	Severance allowance	Bonus
Total	Total	Total	12,975	6,601	52.1	44.1	50.2	53.7
		Regular	6,231	8,225	89.8	73.9	88.7	88.0
		Temporary	4,439	4,251	23.7	22.3	20.5	23.7
		Daily	2,305	3,811	4.9	5.2	3.4	5.0
Direct employment	Regular work	Total	10,875	6,401	58.3	49.2	56.8	59.4
		Regular	5,922	8,356	90.4	74.0	89.5	88.9
		Temporary	3,730	4,224	24.2	23.2	21.7	25.2
		Daily	1,223	3,798	7.4	7.9	5.6	7.7
Indirect employment	Dispatch work	Total	136	4,163	41.4	36.5	35.8	36.3
		Regular	48	5,181	83.4	74.3	78.6	69.5
		Temporary	55	3,549	27.2	22.4	19.7	23.9
		Daily	33	3,765	4.6	5.5	0.7	2.6
	Contract-out work	Total	308	3,597	51.2	44.2	40.2	38.8
		Regular	86	4,108	85.7	78.2	74.9	71.6
		Temporary	141	2,975	55.0	43.9	39.9	32.5
		Daily	81	4,142	8.2	8.9	4.2	4.7
Special employment	On-call work	Total	954	4,033	6.2	5.3	4.7	8.8
		Regular	46	7,244	78.0	63.1	73.5	75.8
		Temporary	115	3,698	13.7	12.0	7.1	10.1
		Daily	793	3,901	1.0	1.0	0.3	0.6
	Own-account self-employment	Total	553	5,687	24.8	23.4	20.9	23.4
		Regular	127	6,545	72.1	70.9	69.2	67.9
		Temporary	335	5,633	11.8	9.9	6.8	11.9
		Daily	91	4,662	6.4	6.7	4.8	1.9
	Home work	Total	148	2,447	2.3	3.0	2.4	1.5
		Regular	2	7,169	51.9	73.7	100.0	37.8
		Temporary	63	3,047	3.7	4.6	2.2	1.9
		Daily	83	1,848	0.0	0.0	0.0	0.0

Source: Korea National Statistical Office, various years b/2000. Original data, manipulated by Joyup Ahn, 2001.

Acronyms

AMCHAM	–	American Chamber of Commerce in Korea
CAEJ	–	Citizens' Alliance for Economic Justice (Kyungshilyon)
EIF	–	Employment Insurance Fund
EIS	–	Employment Insurance System
EPB	–	Employment Promotion Benefits
ESP	–	Employment Stabilization Program
FKTU	–	Federation of Korean Trade Unions
GDP	–	Gross Domestic Product
GNI	–	Gross National Income
IACIS	–	Industrial Accident Compensation Insurance System
ILO	–	International Labor Organization
IMF	–	International Monetary Fond
JSA	–	Job Seeking Allowance

JSDP	–	Job Skill Development Program
KCTU	–	Korean Confederation of Trade Unions
LSA	–	Labor Standards Act
NBSA	–	National Basic Livelihood Security Act
NGO	–	Non-governmental Organization
NHI	–	National Health Insurance
NPP	–	National Pension Program
NSO	–	National Statistical Office
PPP	–	Purchasing Power Parity
SPD	–	Solidarity for Participative Democracy (Chamyeoyondae)
UNDP	–	United Nations Development Program

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