Back to Work

KOREA

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

OECD

Back to Work: Korea

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Foreword

The OECD Employment, Labour and Social Affairs Committee (ELSAC) has decided to carry out a thematic review of policies to help workers who lose their jobs for economic reasons or as a result of structural change to move back into work. This review builds on other recent research conducted by ELSAC on topics such as youth unemployment, activation policy, skills and the labour market impact of the Great Recession.

Nine countries will participate in the review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States. Once the country reviews are completed, a synthesis report will be prepared highlighting the main issues and policy recommendations emerging from the review.

This report on Korea was prepared by Danielle Venn with contributions from Glenda Quintini, Hyoung-Woo Chung and Sung Ho Kim. Statistical assistance was provided by Sylvie Cimper, Paulina Granados Zambrano and Vahé Nafilyan. It is the first such country report prepared in the context of this thematic review supervised by Mark Keese. The report benefited greatly from discussions with officials, employer federations, trade unions, academics and businesses during an OECD mission to Korea in February 2012, and from detailed comments provided by the Ministry of Employment and Labor.

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Acronyms and abbreviations

ALMP(s)	Active labour market programme(s)
APW	Average Production Worker
AW	Average Worker
BLS	Basic Livelihood Security
CCC	Career Consulting Center
CPI	Consumer Price Index
EI	Employment Insurance
ESP	Employment Success Package
EU	European Union
FEDEA	*Fundación de Estudios de Economía Aplicada*
FT	Full-time
FTA(s)	Free Trade Agreement(s)
GDP	Gross Domestic Product
HILDA	Household, Income and Labour Dynamics in Australia Survey
IAP(s)	Individual Action Plan(s)
ICT	Information and communications technology
ITA(s)	Individual Training Account(s)
IZA	*Forschungsinstitut zur Zukunft der Arbeit* (Institute for the Study of Labor)
KEIS	Korea Employment Information Service
KLF	Korea Labor Foundation
KLI	Korea Labor Institute
KLIPS	Korean Labor and Income Panel Study
KRIVET	Korea Research Institute for Vocational Education and Training
KRW	Korean won
MOEL	Ministry of Employment and Labor

MOL	Ministry of Labor
MOSF	Ministry of Strategy and Finance
NILF	Not in the labour force
O*NET	United States Occupational Information Network
PES	Public employment service
Pp	Percentage points
R&D	Research and development
RAC(s)	Re-employment Assistance Center(s)
RB	Retirement benefit
SME(s)	Small- and Medium-sized Enterprise(s)
UB	Unemployment benefit
UKSS	United Kingdom Skill Survey

Executive summary

The incidence of job displacement, or involuntary job loss due to economic reasons such as firm closure or downsizing, has not risen in Korea over the past decade. However, displacement risk, and the difficulty of finding a new job, increases in economic downturns. Older workers, the least qualified and those in small firms are particularly vulnerable to displacement, and to being out of work for a long time afterwards.

Over two-thirds of re-employed displaced workers find work in the same occupation as their pre-displacement job or in occupations using similar skills. However, for a sizeable subset of workers displacement involves substantial human capital losses. In addition, some displaced workers may be unprepared to take up jobs in growing occupations as they may lack mathematics, verbal, cognitive and interpersonal skills.

Providing adequate income support and re-employment services to displaced workers is vital to lower costs to workers and society. Even if many displaced workers manage to find a new job quickly, they tend to face lower wages and poorer working conditions than in their previous jobs and are more likely to be over-skilled or over-qualified. This makes it all the more important to provide adequate re-employment services to help them find a good job quickly.

There are no large-scale, dedicated labour market programmes targeted specifically at displaced workers in Korea. Instead, most displaced workers will use their own resources to find a new job or turn to general re-employment programmes offered by Korea's Job Centers. Recent initiatives to provide more intensive assistance to jobseekers through the *Employment Success Packages* (ESP) programme have had promising results. The newly introduced *Individual Training Accounts* (ITAs) system for the unemployed is also an interesting development. In both cases, future outcomes should be reviewed carefully to ensure that participants are receiving the kind of assistance that will help them find work.

In addition to adequate employment services, displaced workers need a reliable social safety net. Despite making good progress in legally extending the scope of the Employment Insurance (EI) system, there are still gaps in the effective coverage of Korea's social safety net. Many of those workers who are most at risk of displacement are poorly covered by unemployment

benefits and other forms of income support and are at serious risk of falling into poverty. Many may be forced to take up poorly paid and badly matched jobs, with longer-term negative consequences for their welfare and well-being, and more broadly for productivity and social cohesion.

Key policy recommendations

- More staff, especially job counsellors, should be hired by MOEL Job Centers to increase the amount of time staff spend providing tailored assistance to jobseekers.
- Greater emphasis should be given to job-search training and job-matching services, which have been proven to be the most cost effective intervention to help workers find jobs, especially for those with a short unemployment duration.
- More jobseekers should be provided with intensive assistance if they cannot find a job quickly by themselves. It may be worth considering offering services equivalent to the first stage of the *Employment Success Package* programme to all jobseekers who have been unemployed and searching actively for work for more than a certain time, say six months.
- The performance of the *Individual Training Account* programme should be monitored closely to see if recent changes to improve counselling and screening of participants have the desired effects. Consideration could be given to further extending the duration of job-search required before participating so that the programme is targeted more closely on those who do not have the skills required by the labour market.
- Vocational training programmes for the unemployed should focus, as far as practical, on providing generic skills required by emerging industries, such as cognitive, interpersonal and mathematics skills, rather than up-skilling workers in their existing occupations.
- More rigorous evaluation of active labour market programmes, including job-search assistance, job-search training and vocational training, is needed to identify the most effective and efficient programmes. Programmes run by individual Job Centers and local governments should also be subject to evaluation and the results shared so that best practice examples can be implemented in other regions.
- Any further expansion of the role of private employment agencies in providing employment services must be accompanied by a careful review of the way results are measured and agencies rewarded.
- Compliance rates for Employment Insurance (EI) must be improved to ensure that unemployment benefits fulfill their role of providing income support for displaced workers. Recent moves to subsidise contributions for low-paid workers in small firms should be monitored closely to see if they are successful at increasing EI coverage. If not, consideration should be given to other measures to improve coverage among these groups or to easing access to Basic Livelihood Security for low-income displaced workers who are not eligible for unemployment benefits and risk falling into poverty.
- In addition to expanding EI coverage, further changes should be considered to improve the chance that workers covered by EI are able to access unemployment benefits when they become unemployed.

Chapter 1

Job displacement and its consequences

This chapter examines the prevalence and consequences of job displacement in Korea. The risk of job displacement in Korea has not increased over the past decade, but is higher when economic conditions are poor. Some groups of workers are more vulnerable to displacement than others, and spend longer out of work if they are displaced. On average, displaced workers who find new jobs tend to be paid less, have poorer working conditions and are more likely to be over-skilled than in their pre-displacement jobs, partly because they may lack the types of skills that are in demand in growing industries.

Introduction and overview of report

Korea avoided the worst effects of the "Great Recession" of 2008/09. As of mid-2012, the unemployment rate had returned to its pre-crisis level of just over 3% and around one million more people were employed than at the start of 2008.[1] While these results reflect an impressive record of strong job growth, there has also been a substantial turnover in jobs, with large numbers of jobs being created and lost. Indeed, Korea's labour market remains one of the most dynamic in the OECD. More than a quarter of employees have been in their jobs for less than six months, almost twice the rate of the OECD as a whole. Most workers will move between jobs many times over the course of their working lives.

Often, movement between jobs is voluntary as workers search for jobs that better suit their skills or personal situation. Nevertheless, a sizeable number of workers are "displaced" involuntarily from their jobs each year as firms close or downsize in response to fluctuations in demand or production. It is these displaced workers who are the focus of this report. The risk of displacement is obviously higher in an economic downturn, but remains significant even in good times as the economy adjusts to structural changes.

If they have marketable skills, displaced workers may find similar jobs relatively quickly. However, as technology advances and the Korean economy becomes more reliant on the service sector, the types of skills needed to obtain new jobs are changing. Even if their skills match those required in available job vacancies, displaced workers may find it difficult to find work quickly, particularly if they have no recent job-search experience. And time spent out of work can be costly for workers and their families, especially as there remain significant gaps in Korea's social safety net. Moreover, when they find new jobs, the existing literature suggests that displaced workers often suffer from wages losses that can persist for many years. As a result, helping displaced workers get back into good jobs quickly should be a key goal of labour market policy.

The purpose of this report is twofold: first, to identify the extent of job displacement in Korea and its consequences for the workers concerned; and, second, to assess the effectiveness of current policy measures in helping displaced workers find new jobs. The remainder of the report is organised as follows. An analysis of the extent of job displacement, the workers who are most likely to be affected and its consequences for wages, job quality and skill use is presented in the remainder of Chapter 1. In Chapter 2, the adequacy of income support measures for displaced workers is discussed. In Chapter 3, programmes and policies to assist displaced workers find new jobs are outlined and their effectiveness examined.

In this report, "displaced workers" are defined as workers who have lost their job for economic reasons, including firm closure or bankruptcy, downsizing and permanent layoffs. The definition also encompasses workers with non-regular contracts whose contracts are not renewed.[2]

The incidence of job displacement

Most of the estimates of the incidence and characteristics of job displacement in this chapter are derived from the Korean Labor and Income Panel Study (KLIPS). Job displacement is defined as having left a job since the previous year for one of the following reasons: bankruptcy or closure of the business; involuntary separations because there was little or no work to do; being made redundant or dismissed; or termination of the work contract (see Box 1.1 for more details about the data and methods used in this chapter).[3]

Between 2.5% and 5% of employees aged 20-64 years with at least one year of tenure are displaced each year (Figure 1.1).[4] Around half of displacements are due to bankruptcy or closure of the business, with the remainder of "economic" dismissals due to a lack of work or redundancy in firms that are not closing. A small number of workers are displaced due to the termination of a temporary work contract, although these may not be true economic displacements because some workers enter these contracts knowing that they will expire after a certain amount of time.

For the same sample of workers, displacement accounts for only a fraction of all job separations each year and is far more pro-cyclical than overall job separations. On average over the period 2000-09, just under 20% of job separations were either dismissals for economic reasons or due to contract termination. This increases to almost 30% in years when economic or business conditions are poor, both because of an increase in displacement and a reduction in voluntary separations. For example, displacement rates increased substantially during 2004 and 2005, when many businesses were forced to close as a result of credit constraints caused by the credit-card crisis,[5] and again in 2009 in response to the global economic downturn. In both these periods, voluntary separations fell substantially, so that overall separations are far less cyclical than displacements. Unfortunately it is not possible to compare directly displacement rates during the latest crisis with those from the 1998 recession. However, macroeconomic indicators suggest that there were far fewer dismissals during the latest downturn. This was partly due to the less severe nature of the downturn, but also due to a change in behaviour in the past of both firms and workers that saw more emphasis placed on adjustment on the internal margin through cuts in hours worked and wages than *via* the external margin through layoffs (Box 1.2).

Box 1.1. **Measuring job displacement using the KLIPS**

Most of the estimates of the incidence and characteristics of job displacement in this chapter are derived from the Korean Labor and Income Panel Study (KLIPS). The KLIPS is a panel survey of households. Individuals in surveyed households have been interviewed annually since 1998 about their labour force status and other characteristics. While there are other data sources from which it is possible to estimate displacement, the KLIPS has a number of advantages.

First, annual data are available from 1998 to 2009 using a consistent definition of displacement so that trends over time and over the business cycle can be assessed. By contrast, the Labor Force Survey at Establishments run by the Ministry of Employment and Labor (MOEL) has some measures of displacement but no data are available on displacement rates over the most recent economic crisis.

Second, the KLIPS is representative of the entire Korean population and, as such, also follows people who are not employed. Administrative data from the Employment Insurance system have been used in the past to examine displacement in Korea (*e.g.* Lee and Shin, 2009; Cho and Cheon, 2005). However, the relatively low coverage rates of Employment Insurance (Chapter 2) mean that many workers, particularly those most vulnerable to displacement, are not covered. It is also impossible to discover what happens to workers if they are not re-employed after a displacement. Finally, microdata from the KLIPS are publicly available[1] and include a wide range of personal and household characteristics. This allows a rich analysis of job displacement and its consequences. Nevertheless, one downside of the KLIPS is that the sample size is smaller than for other labour force surveys, such as the Economically Active Population Survey. On average, there are around 5 900 observations for employed people and 4 200 observations for employees in each year. Throughout this chapter, weights have been used to ensure that the estimates are as representative as possible of the Korean population.

To avoid picking up job separations that happen soon after hiring (and may be the result of the firm and employee deciding that they were not well-matched, rather than for economic reasons), only workers with at least one year of tenure are examined. Those who work in public administration, defense or for private households are also excluded from the analysis, as are those who hold more than one job prior to displacement. Finally, the analysis examines only workers who were aged 20-64 years in the year prior to displacement. Young workers were excluded for the same reason as short-tenure workers. Older workers were excluded because it may be difficult to differentiate between displacement and retirement for those aged 65 years and over.

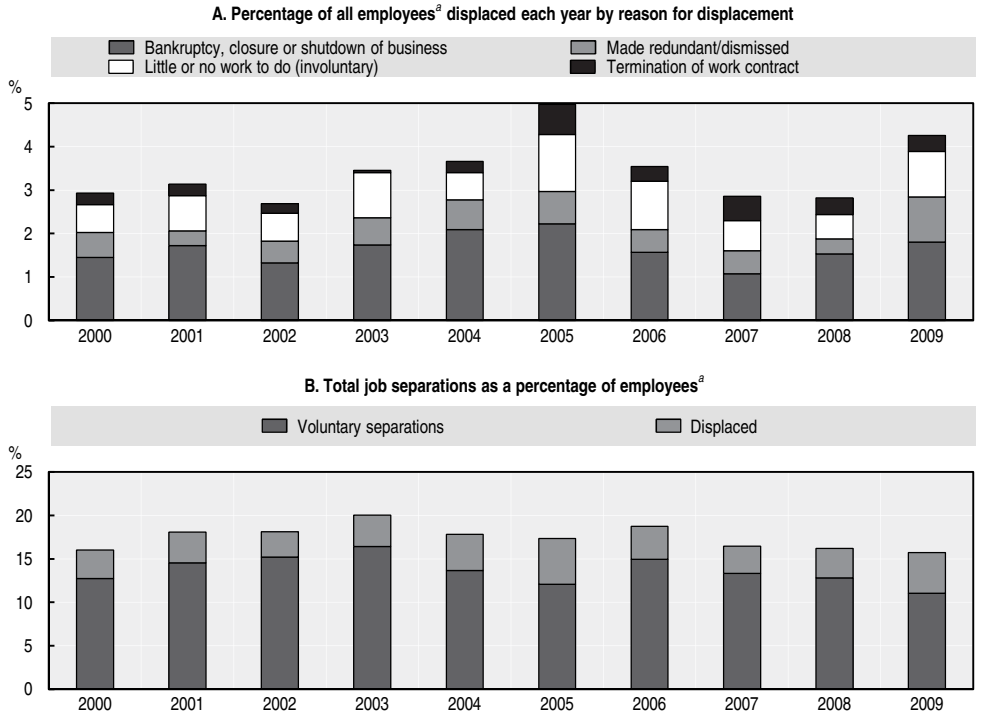
The sample restrictions on age, industry and multiple job-holding make little difference to the estimated displacement rates presented in this chapter. By contrast, excluding employees with less than one year of tenure lowers average displacement rates by around 1 percentage point. One of the reasons why displacement rates are higher for workers with lower tenure is that more of them are non-regular workers whose contracts are easier for firms to terminate. Among employees with less than one year of tenure, displacement rates are 5.1% for regular workers and 12.6% for non-regular workers. So by restricting the sample to employees with at least one year of tenure, fewer non-regular workers remain in the sample.

Box 1.1. **Measuring job displacement using the KLIPS** *(cont.)*

Nevertheless, around 60% of non-regular workers in the KLIPS report having worked with the same employer for at least one year so there remains a sizeable number of non-regular workers in the sample used in this chapter. Around 8% of the sample report having a temporary contract and 10% are daily workers, compared with 12% and 11%, respectively, of all employees. Compared with those with short tenure, non-regular workers with at least one year of tenure tend to be older, less educated and more likely to be men.

1. Data from 1998 to 2007 are publicly available from the Korea Labor Institute. Data from 2008 and 2009 were kindly provided to the OECD Secretariat by the Korea Employment Information Service (KEIS).

Figure 1.1. **Displacement and job separations, 2000-09**



a) Employees aged 20-64 years with at least one year of tenure in year prior to displacement or separation excluding multiple job holders and those working in public administration.

Source: OECD calculations based on data from the KLIPS.

Box 1.2. **Preventing job displacement during the 2009 recession**

The employment adjustment experienced in Korea during the 2009 recession was far less severe than that during the 1998 financial crisis. Employment declined in five consecutive quarters in 1998 and 1999, whereas only small reductions in employment were recorded in 2009. One reason for the difference is that the GDP shock in 2009 was smaller and less sustained than in 1998, with the economy recovering relatively quickly. The nature of the shock (and the government's response) was also different. In 1998, many firms went out of business as interest rates surged and credit dried up. This time, the government was able to keep interest rates low and the financial sector and businesses were in a better position, resulting in far fewer bankruptcies. There was also a considerable expansion in public-sector employment, notably through measures in the 2009 supplementary budget. Hwang (2010) estimates that in 2010 the government was "propping up" around 250 000 jobs, which partly offset a fall of around 1% in employment (equivalent to 460 000 jobs) outside the public administration, health and education sectors between 2008 and 2009.

However, there is reason to believe that measures taken by firms and workers – and supported by government policies – also played a role in preventing widespread job displacement during 2009. In February 2009, trade unions, employers, civic groups and government took part in an emergency meeting to discuss measures to deal with the unfolding economic crisis. Under the so-called "Grand Social Bargain", the parties agreed to a series of measures to share the burden of adjustment and avoid the widespread job losses that occurred during the 1998 crisis. The talks focused on implementing "job-sharing" arrangements to minimise dismissals. Trade unions agreed to wage restraint, hours reductions and uncontested bargaining in return for firms making efforts to prevent dismissals (Choi, 2009).[1]

For its part, the government provided a range of incentives for participating firms and workers. These included reductions in income tax rates for low-paid workers; easing application requirements for firms to access the Job Retention Subsidy (Korea's short-time work scheme) and increasing the subsidy level; allowing firms to treat wage cuts as expenses when calculating corporate tax liability; and giving preferential treatment to firms participating in job-sharing for a range of business support programmes including R&D, export market expansion, technical workforce support, consulting and financial support.

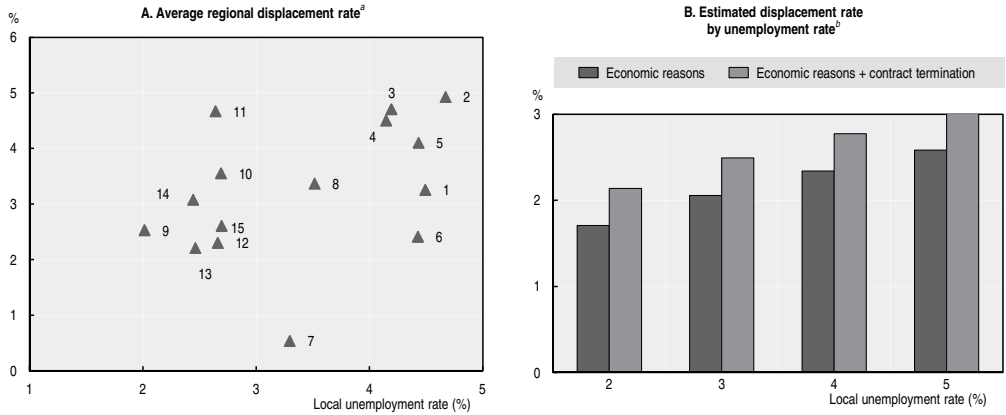
Around one-quarter of Korean firms participated in job-sharing arrangements of some sort in early 2009 (Ministry of Labor, 2009; and Korea Federation of Small and Medium Business, 2009). Wage freezes were by far the most popular measure used, and around 20% of firms reduced wages (although this may have applied only to some groups of workers, such as newly hired graduates). There was also some use of "wage return" whereby employees or management would return some of their wage to the firm to be used to prevent dismissals or support vulnerable workers. By contrast, relatively few firms used hours reductions or temporary shutdowns, despite the fact that the number of workers participating in the Job Retention Subsidy soared to almost one million during 2009.

The impact of agreements to freeze or cut wages is clearly seen when looking at trends in average wages. Kang (2009) reports that nominal wages fell by 0.7% between 2008 and 2009, and real wages by 3.3%. As well as reductions in base salaries, there were big falls in overtime and bonus payments. Overall, adjustments along the internal margin – comprising changes in hours and wages – were more important in 2009 than in 1998. Hours adjustments were substantial during 2008, while wage declines were prominent in the quarters after the Grand Social Bargain was negotiated in early 2009.

1. The Korean Confederation of Trade Unions, unlike the Federation of Korean Trade Unions, did not take part in the Grand Social Bargain, and continued to argue that job-sharing should be implemented through shorter working hours rather than pay cuts (Kang, 2009).

Displacement rates are also correlated with local labour market conditions. Over the period 2000-09, displacement rates were generally highest in those regions where the labour market conditions were weakest, such as Busan and Daegu (Figure 1.2, Panel A). This may be due, however, to the industry concentration or other characteristics of the workforce in those regions, rather than local labour market conditions. In order to test whether a high regional unemployment rate is associated with higher displacement rates, independently of the other characteristics of the regional workforce, Panel B of Figure 1.2 shows the displacement rate at various levels of local unemployment, estimated by assuming that other characteristics of the workforce (including firm, industry and demographic characteristics) are constant across all regions. This shows that the displacement rate is significantly higher in regions with a higher unemployment rate in the year prior to displacement.

Figure 1.2. **Displacement rates and local labour market conditions, 2000-09**



a) The local unemployment rate is the average annual rate between 2000 and 2009. Regions are as follows: 1. Seoul; 2. Busan; 3. Daegu; 4. Daejeon; 5. Incheon; 6. Gwangju; 7. Ulsan; 8. Gyeonggi-do; 9. Gangwon-do; 10. Chungcheongbuk-do; 11. Chuncheongnam-do; 12. Jeollabuk-do; 13. Jeollanam-do; 14. Gyeongsangbuk-do; 15. Gyeongsangnam-do. Sample size for Jeju is too small to include in the figure.

b) The local unemployment rate is the annual rate in the year prior to displacement. Displacement rates are estimated from the results of a probit regression with displacement as the dependent variable and controls for age, gender, education, work experience, occupation, industry, sector and firm size as well as the log of the regional unemployment rate. Displacement rates are estimated at different levels of the unemployment rate, holding all other variables at their mean values. The estimated coefficients on the regional unemployment rate are significant at 95% level.

Source: Unemployment rates are from the *OECD Regional Statistics Database*; other estimates are OECD calculations based on data from the KLIPS.

Characteristics of displaced workers

Some workers have a greater chance of being affected by displacement than others. For example, women (3.8%) have higher average displacement rates than men (3.2%) over the period 2000-09.[6] This is in contrast to most other OECD countries where men are more likely to be displaced than women (OECD, 2013). However, once personal, job and firm characteristics are controlled for, there is no significant difference in the likelihood of displacement by gender. Instead, the factors that matter most in determining a workers' probability of displacement are age, job tenure, industry and firm size (Figure 1.3).

The risk of displacement for economic reasons increases with age, although both the youngest and oldest workers have significantly higher rates of displacement for contract termination than middle-aged workers. While, on average, workers with less than upper secondary education are more than twice as likely to be displaced as those with post-secondary qualifications, there is almost no statistically significant difference in displacement rates by education once other characteristics are controlled for. By contrast, there is a significant decrease in displacement rates by job tenure, after controlling for other characteristics. For example, workers with more than 20 years of tenure have displacement rates more than 2 percentage points lower than those of workers with less than five years of tenure. Interestingly, temporary and daily hire workers are not significantly more likely to be displaced than regular workers once other characteristics have been controlled for.[7, 8]

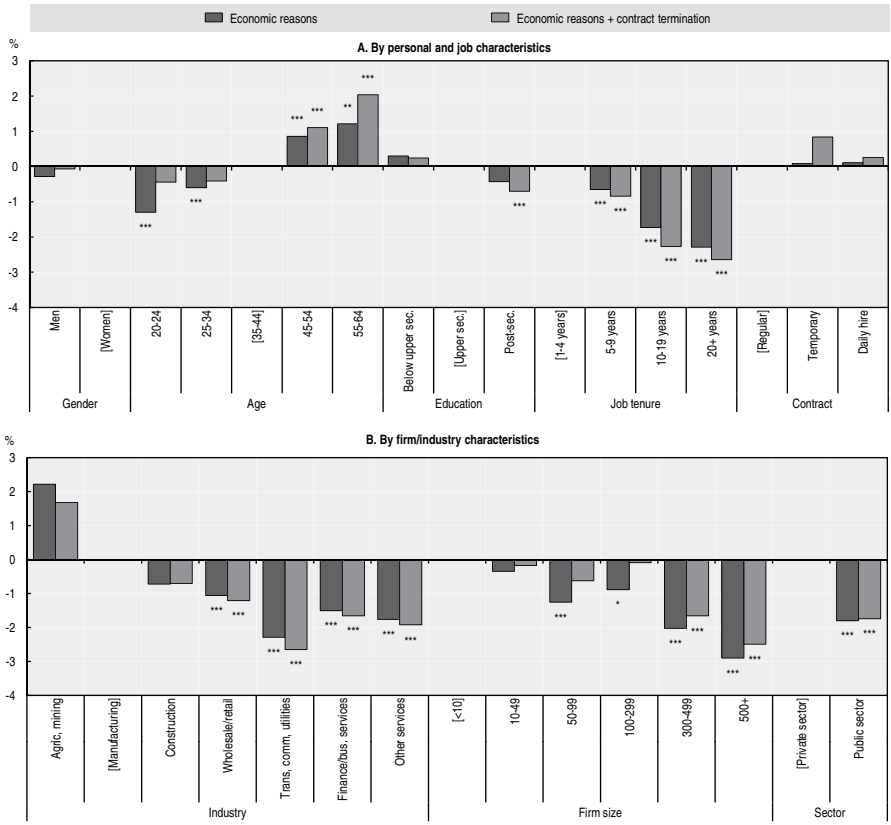
Compared with workers in the manufacturing, agriculture and construction industries, workers in service industries are far less likely to be displaced. Displacement rates are around 1 percentage point lower in the wholesale and retail industries, more than 2 percentage points lower in transport, communications, water, electricity and gas supply industries and around 1.5 percentage points lower in other service industries, including finance. Part of the explanation may be that many of these industries have relatively high *voluntary* turnover of staff, so firms can adjust employment through natural attrition rather than *via* redundancies. Public sector workers also have significantly lower displacement rates than those in the private sector.[9]

Finally, workers in larger firms are much less likely to face displacement, particularly for economic reasons, than those in smaller firms. For example, after controlling for other characteristics, workers in firms with 500 workers or more have displacement rates around 3 percentage points lower than those in firms with less than ten employees. This is consistent with other research that finds the majority of job displacements in Korea occur in the smallest firms (Lee and Shin, 2009). One possible contributing factor to explain the

differences in displacement by firm size is that regulations governing the dismissal process are more onerous in practice for large firms than small firms (Box 1.3). As a result, large firms have lower labour turnover and tend to make employment adjustments through early retirement, or voluntary redundancies rather than economic dismissals.

Figure 1.3. **Marginal impact of selected characteristics on the likelihood of displacement**[a]

Percentage points



a) For each characteristic, the figure shows the difference in the probability of displacement between each category and the reference category (shown in square brackets), estimated from a probit model. The model also includes controls for occupation, local unemployment rate and full-time/part-time status. ***, ** and * indicate that the marginal effects are statistically significant at the 99%, 95% and 90% level, respectively.

Source: OECD calculations based on data from the KLIPS.

Box 1.3. Employment protection, firm size and labour market adjustment in Korea

The pattern of job displacement decreasing with firm size is observed across many OECD countries (OECD, 2013), but the reasons for it are unclear. There is some evidence that larger firms tend to hire higher-ability workers and/or operate efficiency-wage policies in order to attract the best workers (*e.g.* Pedace, 2010; Hettler, 2007). Large firms also tend to invest more time and money in training staff, so small firms may have relatively less to lose when they dismiss workers. Small firms also tend to face more volatile demand situations and are more prone to failure and shutdown, so their demand for labour probably fluctuates more than that of large firms. All these factors are likely to be important in explaining patterns of displacement by firm size. However, another possible explanation is that employment regulations which make it more difficult or costly for firms to dismiss workers – so-called employment protection rules – are more binding, either by design or in practice, for large than small firms.

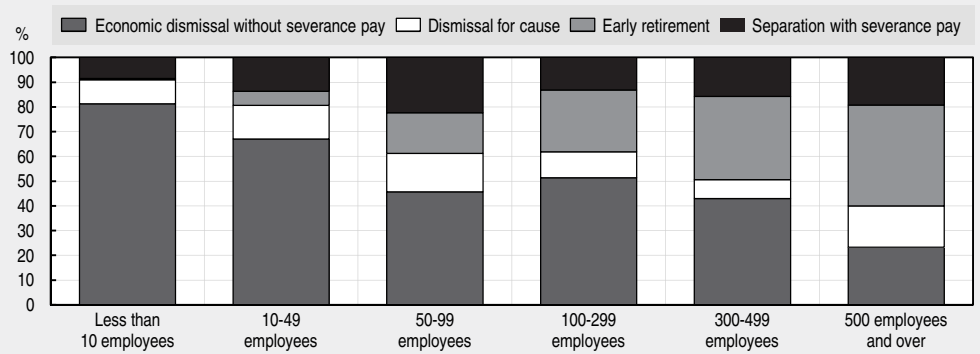
Overall, Korea ranks around the middle of OECD countries for the strictness of its employment protection regulations – that is, the rules that govern hiring and firing of workers. Compared with the OECD average, the length of the consultation period for economic dismissals is relatively long in Korea and the possibility of reinstatement after unfair dismissal is high. By contrast, the lack of severance pay for dismissals and relatively short notice periods, especially for workers with long tenure, reduce Korea's score on the OECD indicator of employment protection. Rules for the use of temporary contracts are similar to the OECD average, while collective dismissals are somewhat easier.

While in theory the same rules apply to businesses of different sizes, these rules may be more binding in practice in larger firms than in smaller firms. Indeed, a survey of Korean firms by the World Bank found that large firms are much more likely to view labour regulations as a business constraint than smaller firms [World Bank Enterprise Survey (*www.enterprisesurveys.org*), data for 2005]. One reason is that unionisation rates are very low in small firms. Almost 30% of employees in establishments with 300 or more workers are union members compared with around 8% in those with less than 300 workers, and less than 2% in the smallest firms (MOEL Survey on Labor Conditions 2010). Given that the requirement for notification and consultation is one of the major hurdles in the dismissal process, dismissals are likely to be more difficult in firms where unions are present. In addition, it is likely that some smaller firms do not fully comply with dismissal requirements or are not even aware that they are required, for instance, to notify employees' representatives and engage in consultation before dismissals. This may be compounded by relatively lax enforcement of labour regulations in small firms. For instance, only 3% of private sector formal firms with less than ten employees are subject to a labour or social security inspection each year compared with more than 40% of those with 100 or more employees [World Bank Enterprise Survey (*www.enterprisesurvey.org*), data for 2005].

As a result, large firms sometimes use alternatives to economic dismissal, such as early retirement, dismissal for cause and voluntary redundancies, when they need to downsize. The figure below shows the relative importance of these avenues for dismissal by firm size. The smallest firms overwhelmingly favour economic dismissal, whereas early retirement is much more important for larger firms. Overall, however, there are far fewer separations in larger firms than small. Combining the four methods of workforce reduction in the figure below, small firms are around three times more likely to "dismiss" workers than large firms. Voluntary separations are also around twice as common in small firms than large firms.

Box 1.3. **Employment protection, firm size and labour market adjustment in Korea** *(cont.)*

Alternative methods of reducing the workforce,[a] by firm size, 2000-09



a) Excluding bankruptcy or firm/plant closure. The reasons for dismissal are defined as follows: "Economic dismissal without severance pay" includes redundancy and dismissal for managerial reasons and involuntary separations where the reason was little or no work to do; "Dismissal for cause" includes urged resignations; "Early retirement" includes early retirement plus retirements of those aged under 60 years; "Separation with severance pay" includes all separations (excluding those shown elsewhere in this chart) where the employee received a non-statutory severance payment or a statutory retirement allowance more generous than required.

Source: OECD calculations based on data from the KLIPS.

In conclusion, this evidence suggests that employment protection regulations may play a role in reducing economic dismissals in large firms. However, this is somewhat offset by large firms using alternative – albeit more costly – methods of dismissal such as early retirement and voluntary redundancies. In addition, large firms still make far fewer "dismissals" for whatever reason than small firms, suggesting that other factors may be equally or more important in explaining differences in separations, including economic stability, differences in worker ability and the ability of large firms to absorb employment adjustments.

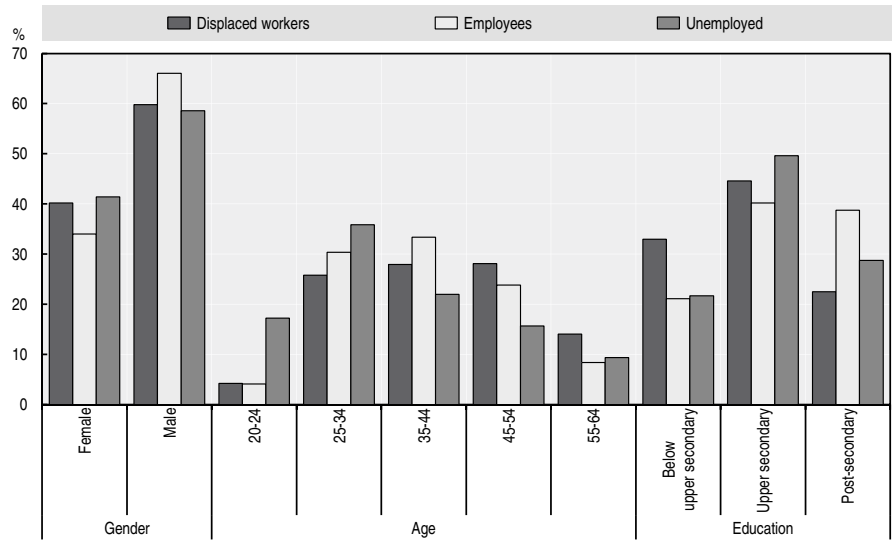
How do displaced workers compare with other jobseekers?

Displaced workers who want to find another job are competing for vacancies with other unemployed people as well as those who are already in work. Compared with all employees, displaced workers are more likely to be women, older and have less education (Figure 1.4). The gender composition of unemployment is similar to that of displaced workers, but there are considerably more young people among the unemployed.[10] As a consequence, displaced workers tend to have lower levels of education, on average, than the unemployed, but probably also have more work experience.

These results highlight some of the difficulties that displaced workers face getting back into work. On average, they are less qualified (at least in terms of formal education) than other potential job applicants. However,

their age means that they may have more work experience than unemployed people in general. The impact of these traits on their chances of finding work will depend on how much value potential employers place on formal qualifications compared with work experience.[11]

Figure 1.4. **Characteristics of displaced workers compared with other potential jobseekers,[a] 2000-09**



a) People aged 20-64 years. Displaced workers and employees have at least one year of job tenure. Sample excludes public administration.

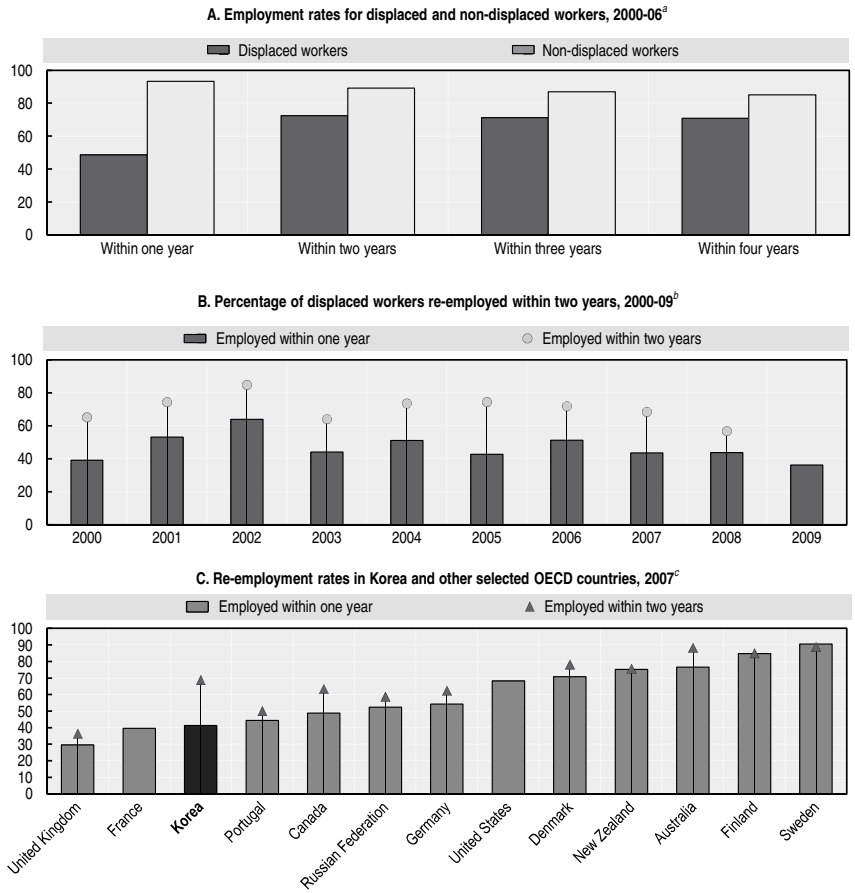
Source: OECD calculations based on data from the KLIPS.

Employment and labour market outcomes following displacement

Employment outcomes

Just under half of displaced workers are re-employed within one year after displacement, and almost three-quarters are re-employed within two years (Figure 1.5). Re-employment rates then level off with no further increases in re-employment in the third and fourth years. The levelling off in re-employment rates after two years is probably due in part to labour force withdrawal in response to discouragement or retirement. Even among those who are *not* displaced in a particular year, more than 15% do not remain in employment four years later. These results are similar to those found by Lee and Shin (2009) who report that around 50% of displaced workers were re-enrolled in the Employment Insurance scheme within one year of displacement.

Figure 1.5. **Re-employment of displaced workers**



a) No data on outcomes within two years are available for 2009.

b) The comparison group is workers who were not displaced in the year that displaced workers were displaced.

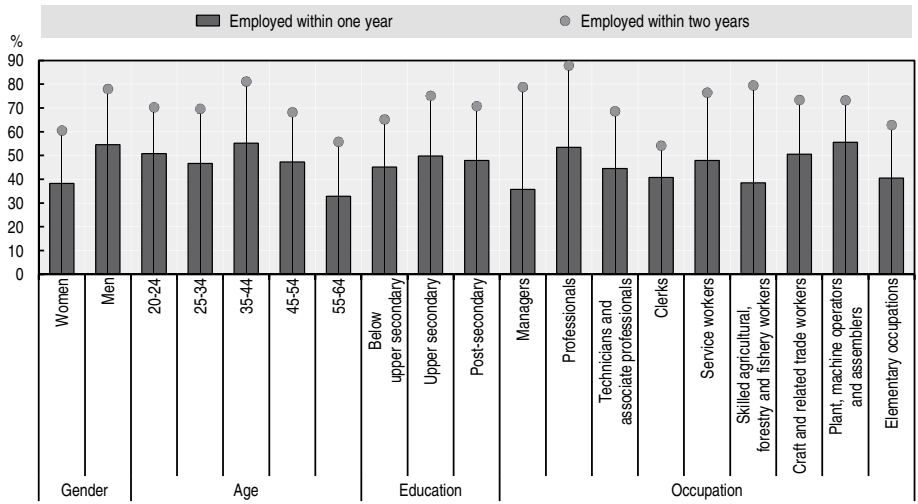
c) Data for Germany are for 2004, and for Canada an average for 2000-07. There are no data on re-employment within two years for France or the United States. For Australia, Canada, France, Korea, New Zealand and the Russian Federation, data refer to workers who were displaced for economic reasons, due to the end of a temporary contract or for cause. For Denmark, Finland, Germany, Portugal, Sweden, the United Kingdom and the United States, data refer to workers who were displaced due to a mass layoff or firm closure. For full details of the data sources and methodology, see OECD (2013). For Korea, the figures shown are slightly different to those used elsewhere in this report because they include dismissals for cause. This is to make the definitions as comparable as possible across countries.

Source: OECD (2013), *OECD Employment Outlook*, OECD Publishing, Paris, forthcoming, and OECD calculations based on data from the KLIPS.

Re-employment rates are higher when labour market conditions are better. Over the past decade, the lowest re-employment rates were in 2009 in the midst of the recession. Only 36% of workers displaced in 2009 were re-employed within a year, and among those displaced in 2008, less than one in six were re-employed within two years. More generally over the period 2000-09, workers displaced from regions with higher unemployment rates are significantly less likely to be re-employed within one year, even after controlling for personal characteristics and the industry and occupation of their previous job. For example, an increase in the local unemployment rate from 3% to 4% is associated with a reduction in the likelihood of re-employment of 3 percentage points. However, there is no significant impact of the local unemployment rate at the time of displacement on the likelihood of re-employment within two years.[12]

The OECD Back to Work project has assembled estimates of re-employment rates for displaced workers for a number of OECD countries using comparable time periods, samples of workers and definitions of displacement (OECD, 2013 describes the methods and data used in more detail). By comparison with other OECD countries for which data are available, Korean re-employment rates are relatively low (Figure 1.6), particularly in the first year after displacement.

Figure 1.6. **Percentage of displaced workers re-employed within two years of displacement, by personal characteristics at time of displacement, 2000-08**



Source: OECD calculations based on data from the KLIPS.

More than 70% of displaced workers are re-employed within one year in the Nordic countries, Australia and New Zealand. Korea's re-employment performance improves in the second year after displacement to around the average for the countries for which data are available.

Which displaced workers find jobs most quickly?

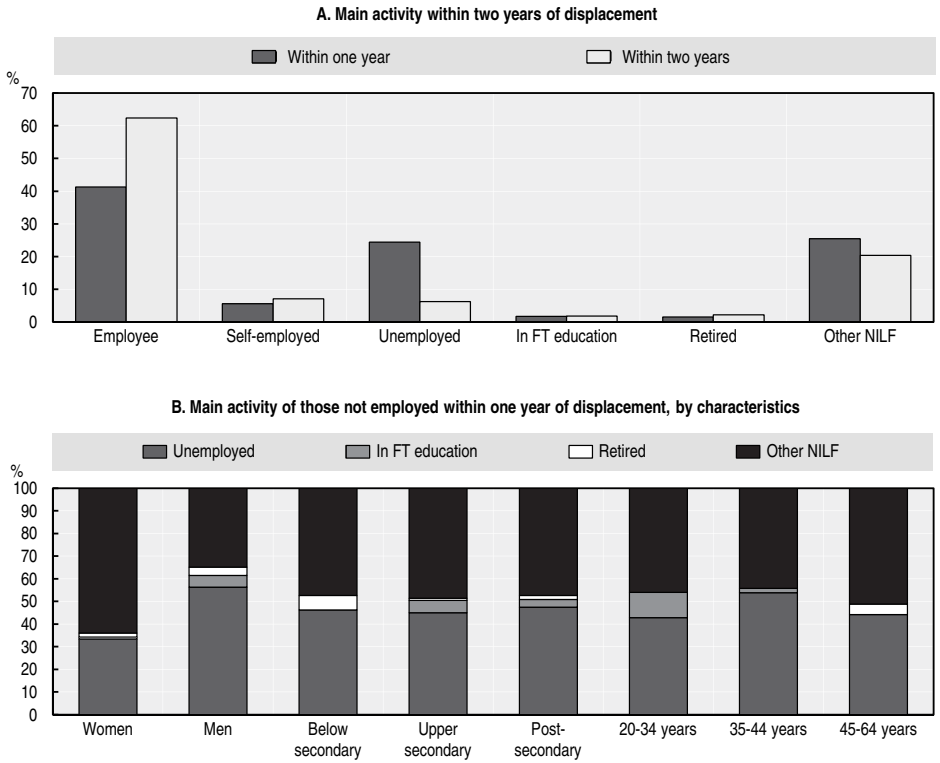
The speed of re-employment after displacement varies considerably across different demographic groups. Men are far more likely to be re-employed than women, while older workers (aged 55-64) are much less likely to be re-employed quickly than prime-aged workers. Re-employment is also more likely for professionals, service/sales workers, craft workers and plant/machine operators.[13] The probability of re-employment increases with education, although the differences are not large. By contrast, using more detailed categories of educational achievement, Lee and Shin (2009) find a steep increase in re-employment probability with increased education. However, in general, the patterns identified in Figure 1.6 are similar to those found by Lee and Shin (2009).

One of the reasons that older workers may have difficulties in finding new jobs is that large firms hire mainly young workers. Data from 2007 show that only 2% newly hired workers in firms with 300 or more employees are aged 55 years or older, compared with 66% who are aged under 35 years. Smaller firms are more likely to hire older workers, although hiring rates are still relatively low; 9% of new hires were aged 55 years or older.[14]

What happens to non-employed displaced workers?

Around half of displaced workers are not employed within a year and a further quarter are not employed one year later. Understanding what happens to those who do not find re-employment can help prevent long-term labour market withdrawal after displacement. In the first year, around half of displaced workers who are not in employment are unemployed and actively searching for work (Figure 1.7). Very few retire or pursue education, although this varies by age, with young workers more likely to be studying full-time after displacement and older workers more likely to retire. Women are more likely than men to withdraw completely from the labour force after displacement, and less likely to search actively for work, which could account for their lower re-employment probabilities. In the second year after displacement, many of the unemployed find work, but few move out of other states of non-employment into jobs.

Figure 1.7. **Main activity after displacement, 2004-08**[a]



a) FT: Full-time; NILF: Not in the labour force.

Source: OECD calculations based on data from the KLIPS.

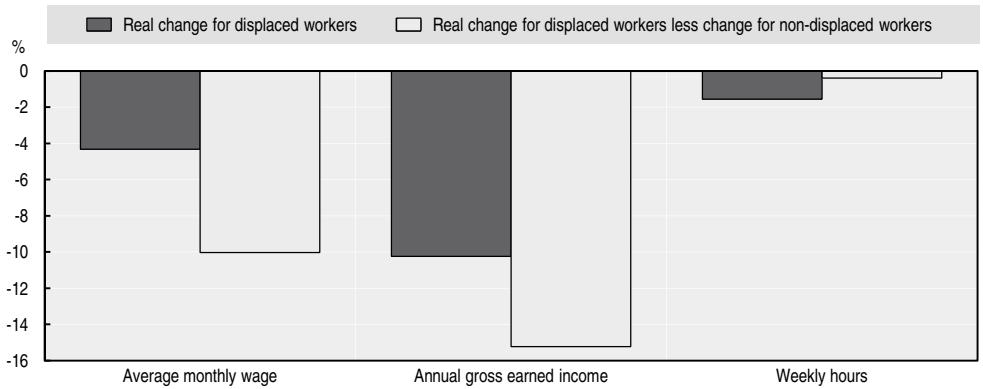
Changes in wages and job characteristics following displacement

Among the 50% of displaced workers who find a new job within one year of displacement, wages and other job characteristics tend to be poorer, on average, in the new job than in their pre-displacement job. Displaced workers suffer, on average, a 4% fall in real monthly wages and a 10% fall in real annual gross income compared with their previous job (Figure 1.8). The fall in annual income is caused by the combination of lower hourly wages and time spent out of the workforce after displacement.

While these losses are considerable, the true cost of displacement is likely to be even higher. As well as having a lower monthly wage than in their previous job, displaced workers are likely to have missed out on wage rises that would have occurred in their previous job had they not been displaced. If it is assumed that displaced workers would have received, on

average, the same wage rise in their previous jobs as those who were not displaced, the true cost of displacement may be closer to 10% in terms of average monthly wages and 15% in annual terms.[15] Almost all of the change in monthly wages appears to be due to lower average hourly compensation, as weekly hours of work are largely unchanged after displacement.[16]

Figure 1.8. **Wage, income and hours change after displacement, 2000-09**[a]



a) The sample examined includes only workers who were employees in the year before and the year after displacement. Wages and income data are deflated using the annual CPI. Annual income is 2004-09.

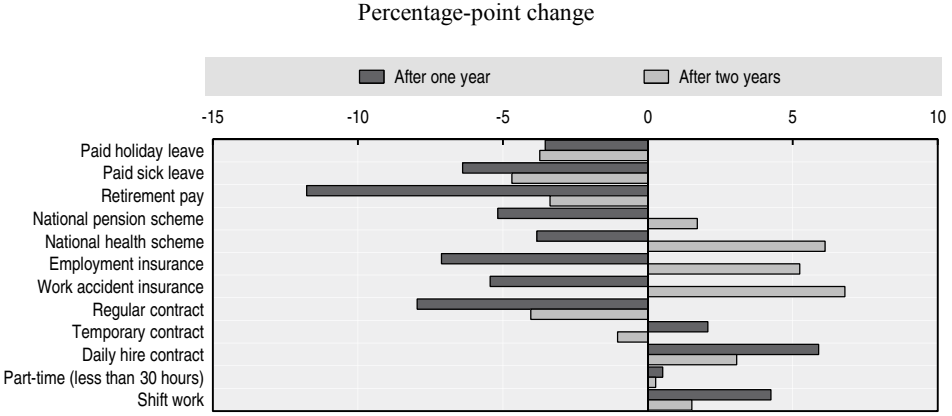
Source: OECD calculations based on data from the KLIPS.

As well as suffering a loss of income, displaced workers' new jobs tend to have fewer benefits and be more precarious than their previous jobs (Figure 1.9). In the first year after displacement, large reductions in benefits are observed for retirement pay, paid holiday and sick leave and coverage by health and employment insurance. Displaced workers are less likely to have regular contracts and more likely to have non-regular contracts (notably daily hires) than they were prior to displacement. Some, but not all, of these disadvantages are lessened over time. By the second year following displacement, social insurance coverage is actually higher than it was prior to displacement.[17] By contrast, coverage by paid leave and retirement pay, as well as the incidence of non-standard contracts, generally remain above pre-displacement levels.

The incidence of most fringe benefits increases with job tenure, so one possible explanation for the post-displacement reductions in incidence is the disruption to job tenure brought about by displacement. This hypothesis is supported by the fact that the difference between pre- and post-displacement situation is less pronounced two years after displacement. However, the break in tenure is not the whole story. Workers who change jobs voluntarily

do not seem to suffer from the same reduction in fringe benefits in their new jobs. On average, they have slightly better fringe benefits in their new jobs and are less likely to be in non-regular jobs.

Figure 1.9. **Change in incidence of leave, social insurance coverage, contract type and working-time arrangements for displaced workers who are re-employed within one year, by time since displacement**



Note: The sample examined includes only workers who were employees in the year before and the year after displacement.

Source: OECD calculations based on data from the KLIPS.

Skill use of displaced workers

One of the explanations behind wage losses following displacement is that skills used and developed in the job held before displacement may be lost. This loss may be due either to skills depreciation during periods of unemployment or inactivity following displacement or to the fact that job-specific skills cannot be re-used after displacement. The latter has been discussed extensively in the literature on job displacement which tends to attribute wage losses to the loss of industry-specific or occupation-specific human capital.

Data on skills requirements at work can be used to go beyond industry or occupation as proxies for skills specificity and study levels and changes in actual skills use by displaced workers (Box 1.4). This serves two purposes: first, the actual extent of human capital loss following displacement can be gauged, rather than relying on proxies such as the share of workers switching industries or occupations; second, this loss can be

decomposed into its more informative components. Nevertheless, it is not possible to identify the source of human capital loss, *i.e.* whether the loss originates from the depreciation of human capital or from the difficulty of finding a job that uses existing skills optimally. In fact, because the skills analysis exploits information on the use of skills at work, supply and demand factors are confounded.

Box 1.4. **Measuring skills used at work**

With existing data sources, it is not possible to directly measure the skills that displaced workers use in their pre- and post-displacement jobs. Instead, this report uses detailed information on the skills required for different occupations derived from the United States Occupational Information Network (O*NET) survey. The skill measures are then matched with data on the occupations of displaced workers to examine how skill requirements change after displacement.

O*NET is a labour market information tool intended to facilitate matches between jobseekers and employers. The database contains numerical ratings at the occupation level for 239 job characteristics, based mostly on responses to surveys of large representative samples of workers, as well as some job analyst ratings of certain job characteristics. While O*NET relates to occupations in the United States, Handel (2012) tests the validity of assigning skill scores from one country to others and the results are encouraging. The author correlates country-specific skill measures from the European Social Survey and the International Social Survey Program with parallel measures in O*NET and the UK Skill Survey (UKSS). He also correlates, parallel measures of skills use in O*NET and the UK Skills Survey. The various tests show substantial consistency in occupational skill scores across countries and substantial agreement across different skill databases. The correlations averaged 0.80.

This report uses the first complete version of O*NET, released in summer 2008, to obtain nine skill requirements by occupation and match this information to country-specific data on displacement. Cronbach's alpha, a statistical technique, is used to test that the items used to derive skill requirements are grouped appropriately (Handel, 2012). The derived skill requirements include seven composite measures of mathematics, verbal, cognitive, interpersonal, craft, and gross and fine physical skills. All composite measures are standardised to have mean zero and standard deviation of one. In addition, a measure of required education is also derived and is expressed as years of education needed to be hired in a given occupation.

As each occupational code is assigned a score for each of the seven skill requirements listed above, it is possible to calculate how a change in occupation following displacement translates in a change in the type of skills required. However, it is possible that workers who change occupation move to jobs that use similar skills to those used prior to displacement. To test whether this is the case, three measures of the global distance between jobs based on composite skill requirements are constructed. These measures use information on changes in the ranking of skills used and on changes in the intensity of the main skills. The three measures of skills-set switching are defined as follows:

Box 1.4. **Measuring skills used at work** *(cont.)*

- **Switch measure 1 –** Change in ranking of top skill factor: A worker is defined as having switched skills set if the main skill requirement before the occupational change moved down by at least two positions. For example, if verbal skills had the highest score in the pre-displacement job but were only the third-ranked skills in the post-displacement job, then the worker is said to have switched skills set;
- **Switch measure 2 –** Change in ranking and size of top skill factor: A worker is defined as having switched skills set if the main skill requirement based on its score before the occupational change moved down by at least two positions and its score changed by at least half of a standard deviation. For example, if verbal skills had the highest score in the pre-displacement job but were only the third-ranked skills in the post-displacement job AND the score for verbal skills fell by at least half a standard deviation, then the worker is said to have switched skills set;
- **Switch measure 3 –** Change in size of top three skill factors: A worker is defined as having switched skills set if the top three skill requirements based on their score before the occupational change all changed by at least half of a standard deviation. For example, if verbal, mathematics and cognitive skills were the top three skills in the pre-displacement job, but the score for each of these skills fell by at least half a standard deviation in the post-displacement job, then the worker is said to have switched skills set.

This approach has the advantage of looking at skills-use changes directly rather than approximating them with occupational changes. However, this method also has limits. First, it assumes that jobs described by the same occupational code have the same skill requirements, i.e. occupation change is a necessary, although not sufficient, condition to detect changes in skills use. Second, it assumes that the skills required for particular occupations are the same in Korea as in the United States. Finally, there is no possibility of ranking switches in skill sets or categorising them as positive or negative.

Occupational changes and changes in skill requirements

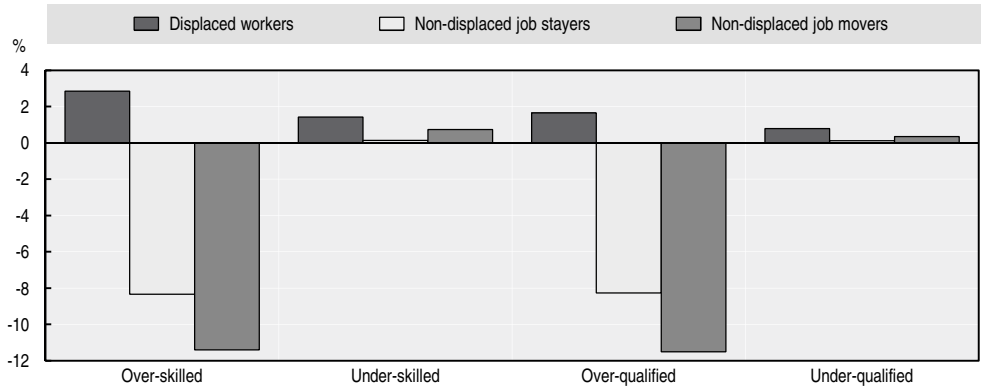
Displaced workers are about 2 percentage points more likely to say that they are over-skilled or over-qualified at re-employment than in their previous job (Figure 1.10). By contrast, non-displaced job movers tend to experience sizeable falls in the incidence of over-skilling and over-qualification. This suggests that human capital waste is a key issue associated with displacement, resulting in low-quality jobs and poor job matches from the workers' point of view.

One of the reasons for the increase in over-skilling after displacement is that close to 60% of displaced workers in Korea are re-employed in a different occupation,[18] a rate not too dissimilar to the one found in Australia, France and the United States (Figure 1.11). However, not all workers moving occupations go to jobs with very different skill requirements. Figure 1.10 shows three alternative measures of skills switches, derived using occupation-pecific skill requirements (Box 1.4). All three skills-related measures – based on changes in

the ranking of key skills at work as well as changes in the intensity with which key skills are required at work – show significantly fewer switches than occupational changes. For instance, in Korea, skill-based measures suggest a share of switches ranging between 30% and 20%. These figures are also very similar to those for Australia, France and the United States although they are somewhat larger than those found in the United Kingdom and Sweden.

Figure 1.10. **Skills and qualification mismatch following displacement**[a]

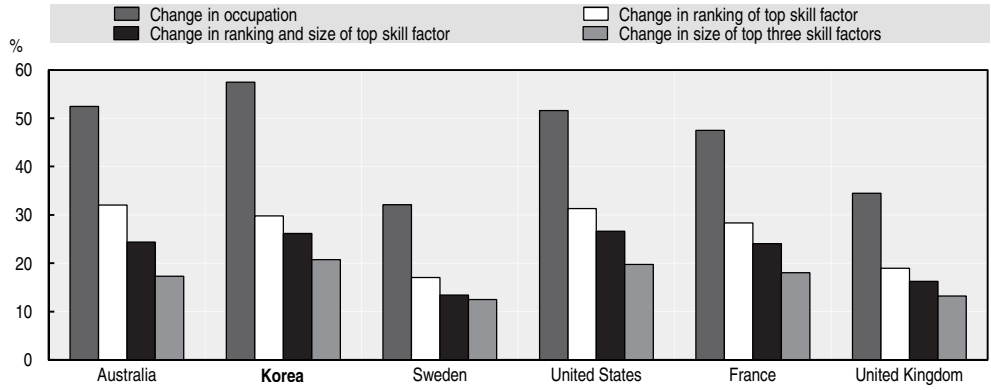
Year-to-year change in incidence of skill mismatch for re-employed workers



a) Respondents to the KLIPS were asked to rate how well they thought their current job was matched with their skills and education. Those who responded that the level was "high" or "very high" were classified as over-skilled or over-educated. Those who respondent that the level was "low" or "very low" were classified as under-skilled or under-educated.

Source: OECD calculations based on data from the KLIPS.

Figure 1.11. **Occupational changes and skills-set switches for displaced workers**



Source: OECD (2013), *OECD Employment Outlook,* OECD Publishing, Paris, forthcoming.

Displaced workers moving to a different industry are more likely to be changing occupation and more likely to move to occupations requiring a different skills set than workers who are re-employed in the same industry (not shown in the figure). In Korea, more than 80% of industry movers also experience a change in occupation and about half of these experience a change in skill set. This lends support to the studies focusing on industry/occupation-specific human capital as a source of post-displacement wage losses but it also highlights that not all industry/occupational moves lead to a significant change in the skills used at work.

Professional down-grading following displacement

Not all skill switches lead to professional downgrading, *i.e.* some of the displaced workers who are re-employed in occupations with different skill requirements may be moving to jobs with higher skill requirements than those from which they were displaced.

One way to qualify skill switches as downgrades or upgrades is to use the change in the years of education required at work following displacement, under the assumption that a positive change is a signal that the person has moved up the career ladder while a negative change points to a move to a lower-level job.[19]

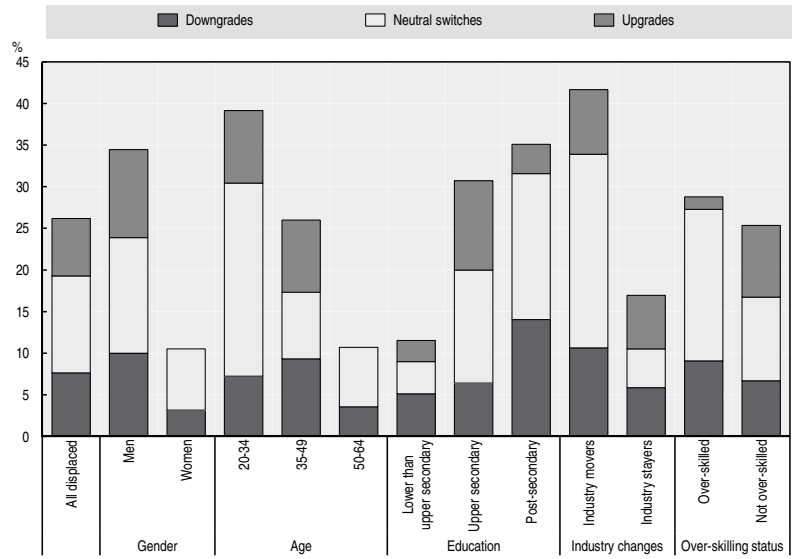
Figure 1.12 shows the share of displaced workers who experience a skill switch[20] by socio-demographic characteristics and by nature of the switch. Switches in skill requirements accompanied by a fall (rise) in required years of education of at least one year are defined as downgrades (upgrades). In Korea, approximately 8% of displaced workers experience a change in skill set accompanied by professional downgrading at re-employment. The share is much higher for men, prime-age individuals, those with tertiary qualifications, industry movers and, unsurprisingly, those reporting feeling over-skilled at re-employment.

Overall, this suggests that while not all displaced workers suffer human capital losses, for a small sub-group the losses are sizeable.

Skill loss as a result of displacement

As the above analysis suggests, displacement does not necessarily imply significant losses in human capital. Changes in skill use at work of displaced workers and voluntary job movers are shown in Figure 1.13. Although displaced workers tend to experience a decline in the use of all skills (cognitive, craft and physical skills) with the exception of interpersonal skills, the changes are small on average, with the largest decline in craft skills of just over 15% of a standard deviation. Displaced workers also experience a loss in required education at re-employment but this is also small at about one month. Voluntary movers do better than displaced workers in all domains although the changes are also rather small.

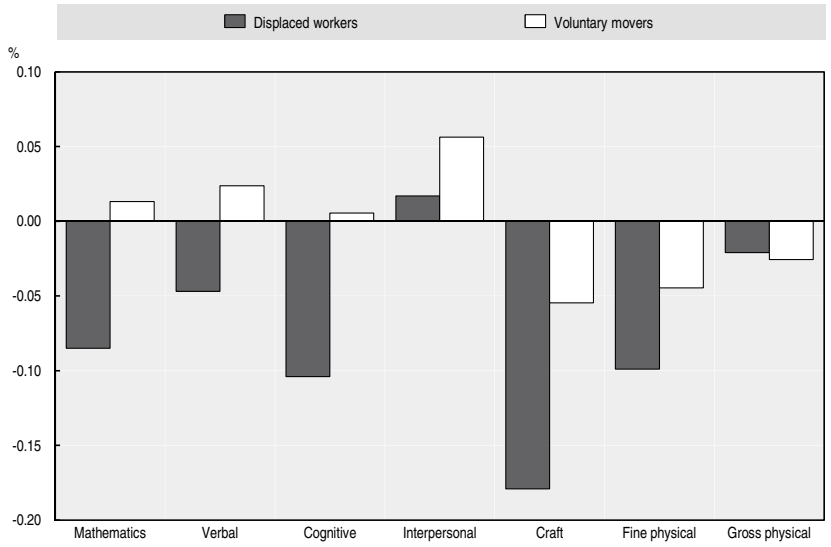
Figure 1.12. **Percentage of displaced workers experiencing skill-set switches at re-employment, by characteristics and nature of skill-set switch**



Source: OECD calculations based on data from the KLIPS.

Figure 1.13. **Changes in skill use after displacement**

Year-to-year change in skill use for re-employed workers

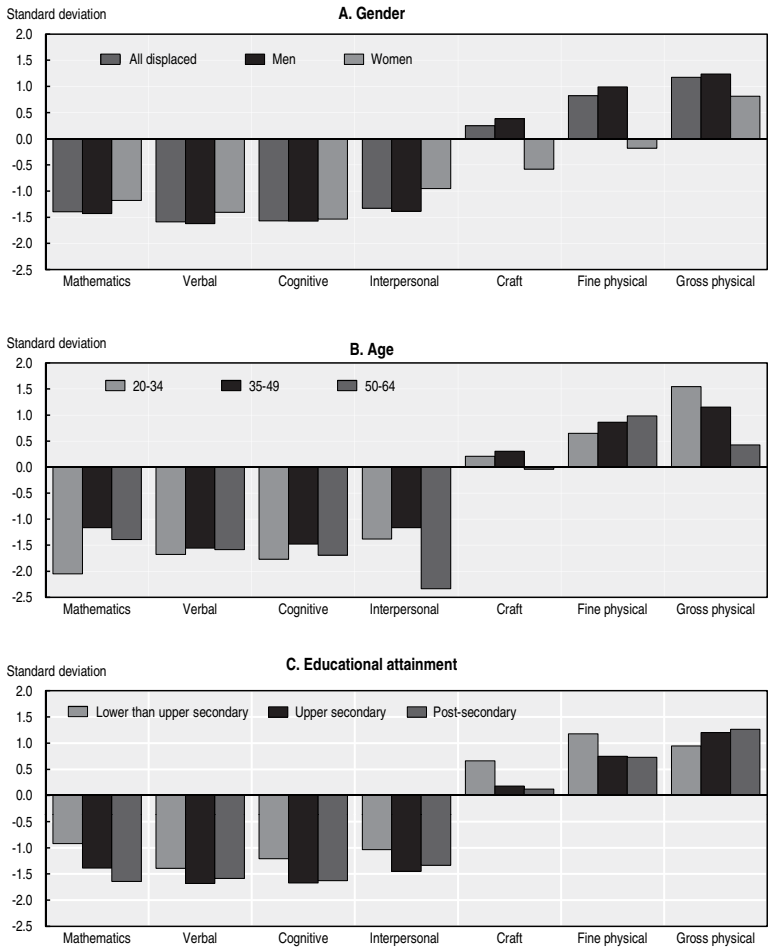


Source: OECD calculations based on data from the KLIPS.

Beyond this overall picture, the loss in human capital is very large for the sub-group of displaced workers experiencing a professional downgrade. Figure 1.14 shows that displaced workers who are re-employed in occupations using different skill sets and requiring at least one year fewer of education experience significant losses in mathematics, verbal, cognitive and interpersonal skills. The use of mathematics, verbal and cognitive skills declines by 1 to 1½ standard deviations.

Figure 1.14. **Changes in skills use for displaced workers experiencing professional downgrading, by socio-demographic characteristics**

Year-to-year change in skill use for re-employed workers



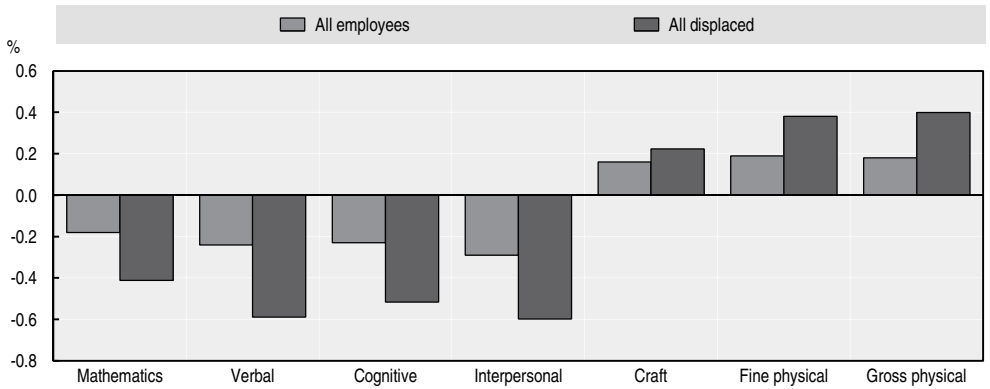
Source: OECD calculations based on data from the KLIPS.

Declines are larger for men, youth and workers with upper-secondary or tertiary qualifications. Declines in the use of interpersonal skills are even more marked, exceeding 2 standard deviations for older displaced workers. On the other hand, displaced workers who suffer a professional downgrade tend to move to jobs requiring more craft and physical skills. Overall, however, with few exceptions, the differences across socio-demographic groups tend to be small.

Portable skills and re-employment chances

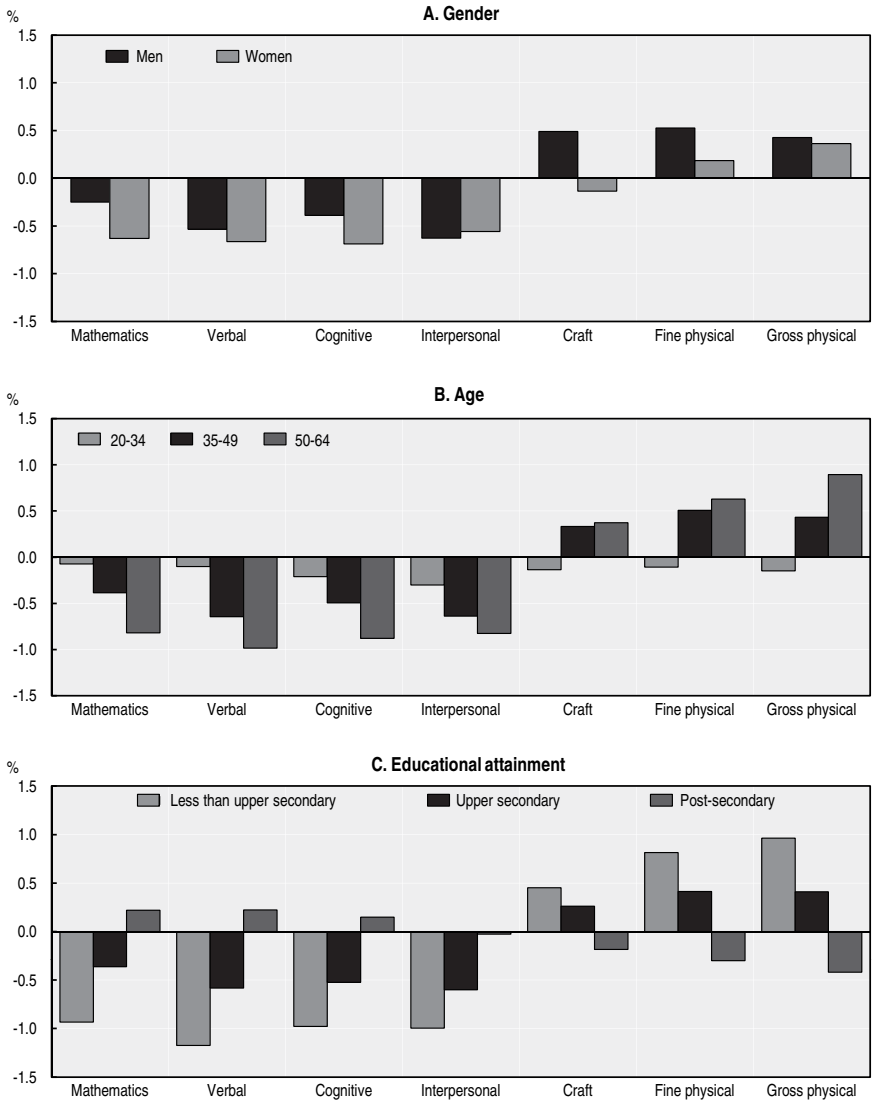
Compared with the average employee in Korea, displaced workers use less mathematics, verbal, cognitive and people skills in their pre-displacement jobs (Figure 1.15). Among displaced workers, this is particularly the case for those who are least likely to be re-employed. Figure 1.16 shows that displaced women, older workers as well as those with post-secondary qualifications have less mathematics, verbal and cognitive skills than their counterparts who are more likely to be re-employed within a year.[21] Displaced older workers and the least educated are also more likely to be in jobs with a high use of craft and physical skills, although this is not the case for displaced men.

Figure 1.15. **Skill endowments of displaced workers**



Source: OECD calculations based on data from the KLIPS.

Figure 1.16. **Skill endowments of displaced workers, by socio-demographic characteristics**



Source: OECD calculations based on data from the KLIPS.

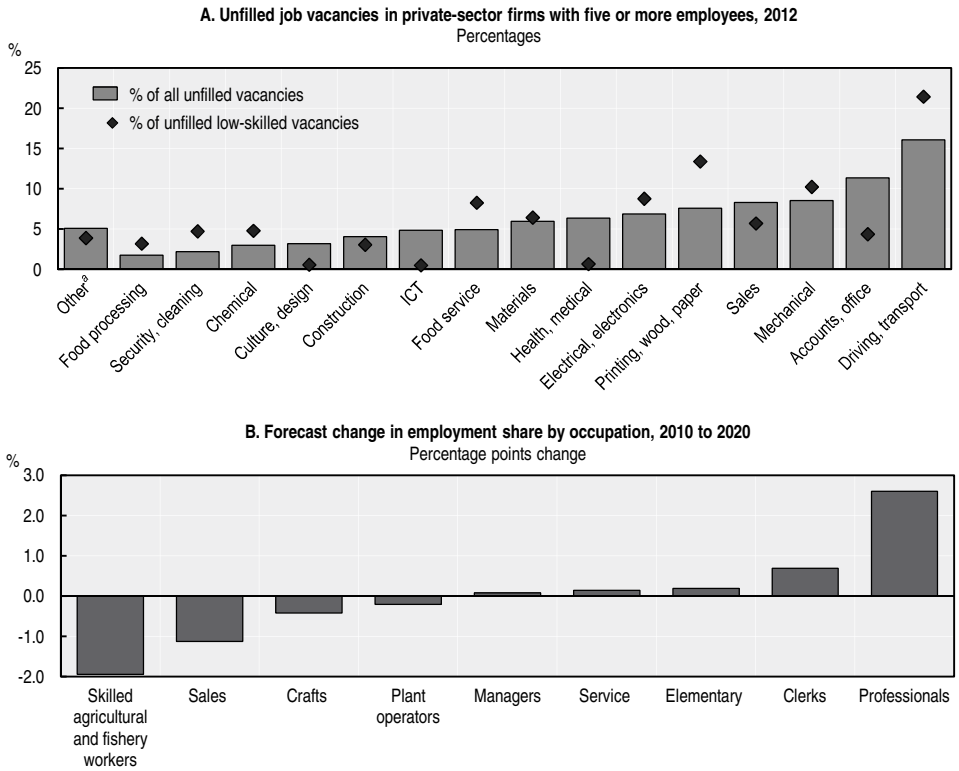
Future skills demand and displacement

The lower-than-average level of mathematics, verbal and cognitive skills suggests that displaced workers may be poorly placed to take up

expanding job opportunities in the service sector, where these types of skills are most commonly used.

Despite a long-term structural shift from manufacturing to service jobs, there are still substantial numbers of vacancies for manual jobs, many of which are unfilled. Among private-sector firms with more than five employees, the largest pool of unfilled vacancies in early 2012 was for drivers, with manufacturing jobs such as mechanical, electrical, electronic and printing jobs also widely available, particularly among low-skilled vacancies (Figure 1.17). There were also considerable unfilled vacancies for accounts and office workers, sales and health/medical staff, although more of these vacancies were high-skilled.

Figure 1.17. **Current and future skill needs**



a) Other includes law and justice; management; agriculture; finance and insurance; social welfare; beauty, accommodation, tourism and sport; education and science; and textiles and clothing.

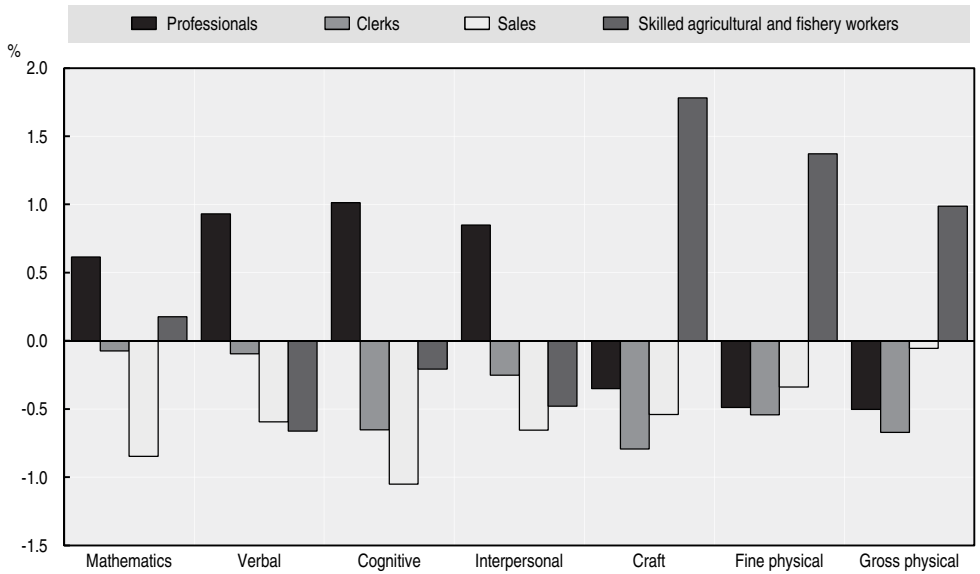
Source: MOEL Survey on Labor Demand, first quarter 2012 for Panel A; and KEIS (2012), *Medium to Long-Term Labor Supply-Demand Forecast*, Seoul for Panel B.

Longer-term employment projections to 2020 suggest that the fastest growing occupations (in terms of share of total employment) will be professionals (particularly health and medical workers) and clerks (Figure 1.17). Other occupational groups expected to have strong employment growth include hairdressers, social welfare workers, artists and cleaners. By contrast, the employment share of skilled agriculture and fishery workers and sales workers is expected to decline. The biggest falls in employment may well be among fishery workers, farmers, door-to-door and street sales workers and textile and clothing workers (KEIS, 2012).

This analysis suggests that, in the short term, many displaced workers probably have the types of skills required to match available vacancies. This is not surprising given their recent job experience. However, over the longer term, the shift from manufacturing to service jobs will provide job opportunities that require a different skill set. For example, the growth of the health and social welfare sector will generate jobs that require more verbal and interpersonal skills and fewer craft and motor skills. Figure 1.18 confirms this by showing the skill requirements of growing and shrinking occupations.

Figure 1.18. **Skill requirements of growing and shrinking occupations**

Skill level by occupation



Source: OECD calculations based on data from the KLIPS.

Conclusion

There is no indication that displacement rates in Korea have risen over the past decade. However, the risk of displacement increases when economic conditions are worse. Re-employment prospects are also poorer in a bad labour market. Some workers are particularly vulnerable to displacement, and to being out of work for a long time after displacement. Compared with the general population of unemployed people, displaced workers tend to be older and less qualified which may hamper their re-employment prospects.

Over two-thirds of re-employed displaced workers find work in the same occupation as their pre-displacement job or in occupations using very similar skills. However, for a sizeable subset of workers displacement brings in its train substantial human capital losses. Indeed, the 8% of displaced workers experiencing professional downgrading suffer a significant reduction in the use of mathematics, verbal and cognitive skills. This represents a pool of unutilised human capital and is likely to be a significant factor behind the large wage losses experienced by displaced workers. In addition, there is evidence that displaced workers may be unprepared to take up jobs in growing occupations as they tend to lack key generic skills such as mathematics, verbal, cognitive and interpersonal skills.

Providing adequate income support and re-employment services to displaced workers is important to prevent the personal costs of displacement becoming considerable. Even if they manage to find a new job quickly, displaced workers tend to, on average, have lower wages and poorer working conditions than in the job they held prior to displacement and are more likely to be over-skilled or over-qualified than they were prior to displacement. This makes it all the more important to provide services to help them find a suitable job match quickly.

Better matches between displaced workers' skills and job requirement could be achieved through improved job-search assistance by Korea's public employment service, Job Centers. Given the evidence of downgrading and over-skilling, it is unlikely that up-skilling in one's professional field will improve the re-employment chances of displaced workers. On the other hand, a lack of portable skills may prevent some displaced workers from returning to work, particularly in light of projected future skill requirements. Training services should put an accent on these skills as well as on craft skills of emerging occupations.

Notes

1. These figures are from the *Online OECD Employment Database*, *www.oecd.org/employment/database*.

2. The section on "The incidence of job displacement" examines issues relating to identifying displaced workers empirically in more detail.

3. It is assumed that "termination of the work contract" refers to the termination of a fixed-term or temporary contract. While the inclusion of termination of work contracts may pick up some displacements that occur for non-economic reasons (*e.g.* an employer terminating the contract of one temporary worker and hiring another in their place because of maximum duration limits for such contracts), termination of work contracts makes up only 10% of all displacements identified in this chapter, on average, between 2000 and 2009. The results presented are not substantially different if this group is excluded.

4. As discussed in Box 1.1, displacement rates would be, on average, around 1 percentage point higher if workers with less than one year of tenure were included in the sample.

5. The trend in displacements over the period shown in Figure 1.1 is somewhat different to that shown in data from the Labor Force Survey at Establishments run by the MOEL, which shows a flat trend in displacement over the period 2000-06. There are a number of possible explanations for this difference. First, the MOEL survey includes only establishments with at least five employees, whereas the data in Figure 1.1 include *all* employees. The spike in displacements in 2005 is particularly pronounced in the smallest businesses, which were badly hit by the credit-card crisis and are not included in the MOEL survey. Second, the sample included in Figure 1.1 excludes the youngest and oldest workers and those with less than one year tenure. It is likely that displacement is very high among these groups, but it is difficult to determine whether it is true displacement or just the normal process of finding a suitable job match, especially for youth. Third, the definition of displacement used in the two surveys is somewhat different.

6. The gender difference in displacement rates was reversed during 2008 and 2009, when women's displacement rates were 3.5% and men's 3.6%.

7. Recall that the restriction of the sample to those with at least one year of tenure means that these results may not be applicable to all non-regular

workers. On average, the non-regular workers in the sample used for the analysis are older, less educated and more likely to be men than non-regular workers in general.

8. Although the definition of displacement used is not strictly comparable with the KLIPS one, these results are broadly consistent with Lee and Shin's (2009) study of displacement based on administrative data from the Employment Insurance scheme.

9. Public administration and defence are not included in this analysis.

10. The sample of unemployed includes some, but not all, displaced workers.

11. Using data for the period 1993-2002, Kwack *et al.* (2007) estimate that an additional year of schooling increases wages by 6% for men and 8% for women, while an additional year of work experience increases wages by about 1% for both men and women.

12. These results are from a regression of the probability of re-employment using KLIPS data from 2002-06.

13. Differences by occupation may reflect the differences in job prospects by occupation or the transferability of skills developed in certain occupations from one job to the next, or both. The issue of skill transferability after displacement is examined in more detail in the section entitled "Skill use of displaced workers".

14. OECD calculations based on data from the KLIPS. Newly hired workers are defined as employees who have one year or less of tenure.

15. This is an approximation for the actual wage increases that displaced workers would have experienced because displaced workers may have characteristics that are different to non-displaced workers that may also have affected the size of future wage increases had they not been displaced. Unfortunately, the sample of displaced workers used in the analysis in this chapter is not large enough to reliably estimate the true wage loss using regression analysis.

16. These estimated wage losses are a little smaller than existing estimates for Korea. Cho and Cheon (2005) use matched data from the Basic Survey on Korean Wage Structure and the Employment Insurance Database to estimate wage losses after displacement over the period 1996-2001. They find slightly larger real losses than those found here, equal to 5.9% for involuntary separations and 8.6% for those who were displaced as a result of business shutdown or plant transfer. The larger losses than those found here could reflect poorer business conditions. The period studied by Cho and Cheon includes the 1998 economic crisis, a much bigger labour market shock than the 2008/09 downturn included in the period studied here.

17. Increasing social protection coverage after two years may be explained in part by the general increase in coverage over time observed in the KLIPS sample.

18. Occupations are measured at the two-digit level of the 1988 International Standard Classification of Occupations.

19. As detailed in Box 1.4, the measures of skills switching presented in Figure 1.12 are based on the ranking and changes in value of mathematics, verbal, cognitive, craft, interpersonal, gross physical and fine physical skills requirements. Because of measurement issues, required years of education are not included in the definition of skill switches, making them an ideal item to classify switches as bad or good. Changes in years of required education have the additional advantage of providing a rather objective measure of professional upgrading and downgrading.

20. Based on skill measure 2 in Box 1.4, whereby skill switches are defined as occupational moves that imply a change in ranking and size of the top skill factor.

21. As described in Box 1.4, the skill level is measured by indices with mean zero and unit standard deviation.

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Chapter 2

Income support for displaced workers

This chapter examines the availability and adequacy of income support for displaced workers. The main form of income support for displaced workers, unemployment benefits, has considerable gaps in its coverage. Many of the workers who are most vulnerable to displacement are also least likely to have adequate income support to help them bridge the gap between jobs. Displaced workers without adequate income support risk falling into poverty and may be forced to take jobs for which they are poorly matched. It is vital that existing gaps in the social safety net are rectified to limit the cost of displacement for workers and their families.

Introduction

Many displaced workers will spend at least some time out of work after displacement, losing income as a result. In this chapter, an overview is given of the three main sources of firm- and publicly provided income support available to displaced workers: the Employment Insurance (EI) system; severance pay provided by firms, notably through the retirement benefit system; and Basic Livelihood Security, Korea's social assistance programme for the very poor. In the final section, the adequacy of income support is examined as well as the factors affecting the risk of poverty among displaced workers.

Sources of income support for displaced workers

Employment Insurance (EI) system

The main programme of income support for displaced workers is unemployment benefits, which are financed through the EI system. Unlike in many other OECD countries, Korea's EI system also finances active labour market programmes (ALMPs), vocational training for existing employees, maternity and childcare leave, as well as a number of other income support payments for unemployed workers.[1] The EI system was introduced in 1995 and has gradually been expanded over time to cover most Korean employees.[2]

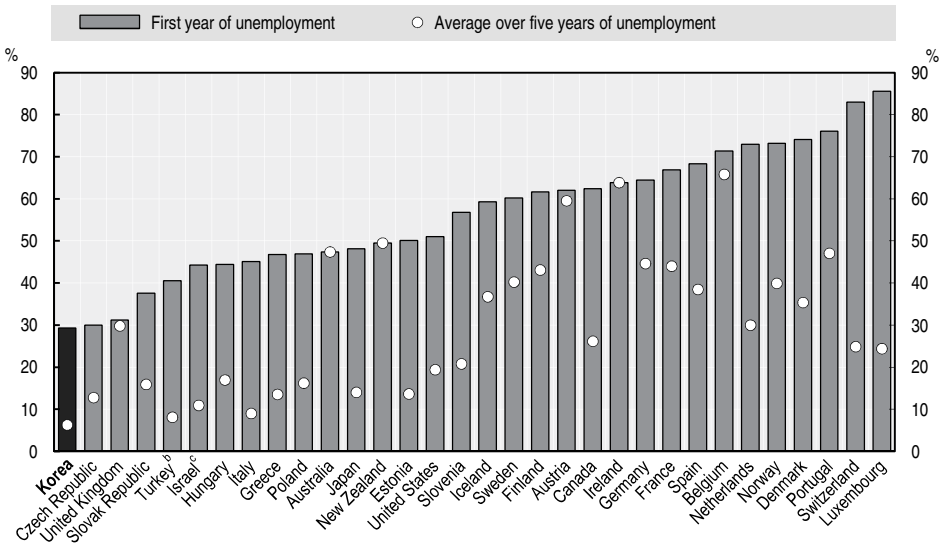
To be eligible to collect unemployment benefits, workers must have been insured for at least 180 days over 18 months prior to becoming unemployed, and must have become unemployed involuntarily and through no fault of their own.[3] They must also be willing to work and actively looking for work. After registering as unemployed with the Job Center, the unemployed person must report back (either in person or online) on job-search activities at least once per month as directed by the Job Center. There is a seven-day waiting period after registration before benefits are paid.

Benefit recipients receive 50% of their previous average wage, with a daily minimum of 90% of the minimum wage and a daily maximum of KRW 40 000 (around 40% of the average wage). The duration of benefits increases with age and previous contribution record, and ranges from 90 to 240 days. Korea's unemployment benefits, as measured by the *net* (*i.e.* post-tax) replacement rate, are among the lowest in the OECD (Figure 2.1). This stems both from the low replacement rate and short duration.

A number of other allowances are also available for displaced workers under the EI system. The Job Center can grant a Payment for Extended Training, equal to the unemployment benefit, for up to two years to

individuals who are taking part in vocational training programmes recommended by the Job Center. In practice, use of this measure is negligible: Yoo (2011) reports that less than 100 people receive the payment each year.

Figure 2.1. **Net replacement rate of unemployment benefits, 2010**[a]



APW: Average production worker; AW: Average worker.

a) Net replacement rate is the ratio of net income while out of work to net income while in work. Calculations consider cash incomes (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. To focus on the role of unemployment benefits, they assume that no social assistance or housing-related benefits are available as income top-ups for low-income families. Any entitlement to severance pay is also not accounted for. Net replacement rates are calculated for a prime-age worker (aged 40) with a "long" and uninterrupted employment record. They are averages over 12 months, four different stylised family types (single- and two-earner couples, with and without children) and two earnings levels (67% and 100% of average full-time wages).

b) AW value is not available. Calculations are based on APW.

c) Information on data for Israel is available at: *http:/dx.doi.org/10.1787/888932315602*.

Source: OECD Tax and Benefit Models (2012), *www.oecd.org/els/social/workincentives*.

If an individual receiving unemployment benefits has been referred to three or more job vacancies without success and is considered needy, they can receive an Individual Extended Benefit of 70% of the unemployment benefit for up to 60 days. Special Extended Benefits can also be paid to all unemployment benefit recipients who have exhausted their benefits if the

government declares that the employment situation is particularly bad. This mechanism has not been used since the 1998 financial crisis.

Finally, there are a range of "employment promotion" allowances that can be paid to unemployment benefit recipients in certain circumstances. The most widely used of these is the *early re-employment bonus*, whereby a beneficiary who gets a job before exhausting their benefit entitlement receives a proportion of the remaining benefit as a lump-sum. Other allowances are available for jobseekers who search for or accept a job outside their region of residence to assist with transport and relocation costs.

Retirement benefit

While there is no legally mandated severance pay for workers dismissed for economic reasons, most workers are entitled to a "retirement benefit" when they leave a job, either voluntarily or involuntarily, under the Employee Retirement Benefit Security Act. The retirement benefit system has been in place in some form in Korea since the 1950s. It stems from a time when there was no social insurance programmes in place and it fulfilled a dual role of providing income support for workers during periods of unemployment and upon retirement. Increasingly, it is now designed to supplement the national pension system by encouraging workers to save for retirement. However, in practice it still provides a form of severance pay to workers changing jobs. Workers can also draw on their balances prior to leaving a job in certain circumstances (*e.g.* when purchasing a house).

Prior to December 2010, firms with five or more employees were required to pay retirement pay equal to 30 days of wages per year of service to all departing workers. From December 2010, all firms, regardless of size, must set up a retirement pension plan in place of retirement pay, which can either be a defined-benefit or defined-contribution plan.[4] The firm must have the agreement of the relevant trade union or a majority of its workers to set up or change a retirement plan. From December 2010 to the end of 2012, the firms with less than five employees will be required to pay only 50% of the required contribution as part of the transitional arrangements.

At the end of 2011, 9% of firms and 36% of workers were covered by a retirement pension plan, a large increase on the previous year but still far from universal coverage. Around 75% of firms with a pension plan had defined-benefit plans (MOEL, 2012). The remainder of eligible firms are still required to pay retirement pay to eligible workers, even if they have not yet set up a retirement pension plan.

Workers with at least one year of service who work more than 15 hours per week on average are entitled to a retirement benefit, the size of which varies by tenure and depends on the type of plan operating in their

workplace. In firms with a defined-benefit plan, employees are entitled to receive a lump sum equal to 30 days of wages per year of service. Employees aged 55 years and over with at least ten years of service receive their payment as an annuity. In firms with a defined-contribution plan, employers must make contributions equal to one-twelfth of the employee's annual pay. The employee can chose the way that the reserves are managed, upon the advice of the trustee set up to manage the pension plan. Upon leaving the job, the employee receives an amount determined by their contribution and the return from its investment.

Non-statutory severance pay

Korean firms are not legally required to make severance payments (other than statutory retirement benefits discussed in the previous section) when dismissing workers. However, some firms, especially larger firms, do so as part of collective or workplace agreements.

Asking for additional severance pay is a common demand of unions when negotiating large-scale restructuring processes. Firms are inclined to pay in order to prevent disputes escalating and avoid long-term damage to the firms' reputation. While there are no reliable data available on the incidence of non-statutory severance pay in Korean firms, anecdotal evidence suggests that small and medium-sized firms do not often pay severance pay (see Box 1.3 for a discussion of why smaller firms may be less affected by employment protection rules). By contrast, it is quite commonplace in large firms to pay additional severance pay. As such, non-statutory severance pay probably provides an additional layer of income support only to those workers who are most likely to already be covered by other forms of support.

Basic Livelihood Security

Basic Livelihood Security is Korea's social assistance payment for those with no other means of support, administered by the Ministry of Health and Welfare. Eligibility is subject to a complicated household-level means and asset test, so that the combined income of the household (*plus* a proportion of assets such as property, financial assets and vehicles) must be less than the minimum cost of living set by the Ministry. The applicant should also have no other means of support from a close family member (parent, son, daughter, son-in-law or daughter-in-law) with sufficient income or assets.

Eligible households can receive a cash livelihood payment of around KRW 440 000 per month for a single-person household, equivalent to around 15% of the average wage.[5] Depending on their circumstances, households may also receive a cash housing allowance, as well as in-kind

support for medical, education, childbirth and funeral expenses. Recipients aged 18-64 years are subject to work availability tests to maintain eligibility. Receipt of Basic Livelihood Security payments continues indefinitely as long as eligibility criteria are met.

How adequate is income support for displaced workers?

In theory, most displaced workers in Korea should receive income support from the unemployment benefit and retirement benefit schemes, with Basic Livelihood Security providing a safety net for those who fall through the gaps. In reality, however, full coverage of these mandatory schemes is hindered by non-compliance, so many workers who should, by rights, be covered are not (Box 2.1). In addition, relatively few insured workers qualify for unemployment benefits after displacement, and benefits are not particularly generous by OECD standards. Access to Basic Livelihood Security is also severely restricted to only the most needy. As a result, many displaced workers lack access to income support.

Box 2.1. Coverage of income support programmes in Korea

The legal coverage of the Employment Insurance (EI) and retirement benefit schemes has been extended several times since their introduction, resulting in a steady increase in the number of people covered. However, by various measures, actual coverage is far from universal. Small numbers of workers remain ineligible, mainly because they have short job tenure or, in the case of retirement benefit up until 2010, work for small firms that are exempt. Of more concern is the relatively high level of non-compliance among workers and firms who should be eligible for EI and/or retirement benefit but are not contributing. In addition, recipiency rates for Basic Livelihood Security are very low, even among the poorest households.

Employment Insurance

The legal coverage of EI has been expanded many times, resulting in a steady increase in the number of people insured from just over four million at its inception to almost 11 million in early 2012. However, coverage appears to be far from universal. In March 2012, the ratio of the number of insured persons to the number of wage and salary workers was around 62% and to total employment 44% (KEIS, 2012; Economically Active Population Survey, March 2012).

Using unpublished data from the Economically Active Population Survey, Chang (2012) shows that, excluding civil servants, around 65% of employees are covered by EI. Around 9% remain ineligible because of their age, tenure, contract type or working hours. Ineligibility is, as might be expected, higher for non-regular workers, and these tend to be concentrated in smaller firms. Around 16% of low-wage workers are ineligible for EI coverage, compared with less than 1% of high-wage workers. But non-compliance dwarfs ineligibility as a reason for less-than-universal EI coverage. One-quarter of employees should be eligible for EI but are not covered. Non-compliance is particularly acute in the smallest firms, where as few as one in four workers is insured, and for low-wage and non-regular workers. Nevertheless, around 20% of regular workers and 5% of those in large firms should be eligible but remain uninsured.

Box 2.1. **Coverage of income support programmes in Korea** *(cont.)*

The reasons for non-compliance with EI are complex and difficult to substantiate. While employer and employee insurance premiums are quite low, their impact on labour costs is likely to be felt most acutely by smaller firms, which operate with very small profit margins and where detecting non-compliance may be more difficult. Low-paid workers may also collude with their employers to avoid paying insurance premiums in order to increase their net wage.

Another reason that employees may wish to avoid paying insurance premiums is that relatively few of them receive benefits if they become unemployed, so their incentives to sign up are relatively weak. OECD (2011) reports that 37% of the unemployed in Korea in 2007/08 were receiving unemployment benefits, compared with 47% on average in OECD countries. The dynamism of Korea's labour market may explain why effective coverage by benefits is low. In comparison with many OECD countries, the minimum contribution period to get access to benefits is not particularly long. However, Korea's labour market is among the most dynamic in the OECD. In 2009, 26% of Korean employees had been in their job for six months or less, more than double the OECD average of 9% (*Online OECD Employment Database, www.oecd.org/employment/database*). The short average tenure of workers in Korea, combined with the relatively large proportion of jobs without EI coverage, may be making it difficult to meet the minimum contribution requirement for unemployment benefits.

Retirement benefit

Estimates of the coverage of the retirement benefit scheme vary according to the source. Data from the MOEL's firm-level Labor Conditions Survey suggest that more than 90% of workers in large firms and 40% of those in the smallest firms are covered by retirement pay. However, the same source tends to overestimate social insurance coverage (see above). By contrast, household surveys such as the KLIPS suggest that coverage amounts to just over half of employees (excluding civil servants). The true figure is likely to lie somewhere in between.

OECD analysis of data for 2009 from the KLIPS shows that some groups of workers are particularly likely to be excluded from retirement benefit coverage. Around half of non-covered workers are not eligible for coverage, mainly because they have been in their jobs for less than one year. Non-eligibility is particularly prominent among women (27%), young workers (60% of those aged 20-24), workers on temporary contracts (49%) and those working in small firms (30% of those working in firms with less than ten employees). In addition, one-quarter of workers should be eligible but are not covered. Rates of non-compliance are highest for those who work in small firms (46% of workers in firms with less than ten employees), older workers (41% of those aged 55-64), temporary (32%) and daily workers (68%).

Basic Livelihood Security

Recipiency rates for Basic Livelihood Security are very low. OECD analysis of data from the KLIPS shows that around 3% of individuals live in a household that receives Basic Livelihood Security, with the proportion increasing gradually from just over 2% in the mid-2000s. Even among the poorest households, recipiency rates are quite low. In 2009, less than 8% of individuals living in the poorest 20% of households, and less than 2% of the unemployed were receiving Basic Livelihood Security.

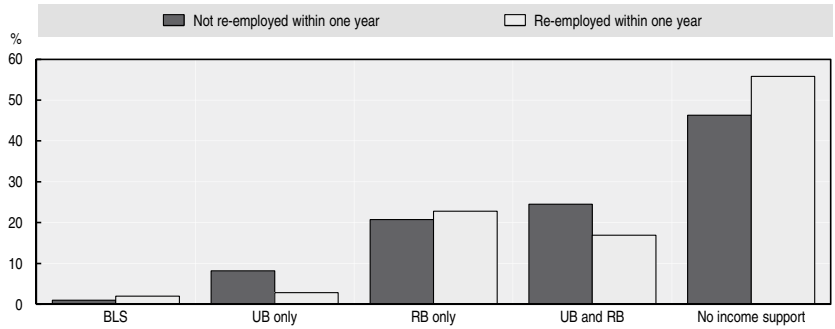
1. This analysis is based on the eligibility rules that applied prior to the 2010 reform.

Income support receipt by displaced workers

Around half of displaced workers do not receive any of the three main types of income support for those who have lost their jobs or are in financial need, *i.e.* unemployment benefit, retirement benefit or Basic Livelihood Security (Figure 2.2). Retirement benefit is the most important source of income support after displacement, followed by unemployment benefits. Around 22% of displaced workers receive both. By contrast, only 1% of displaced workers receive Basic Livelihood Security in the year following displacement. Therefore, it does not play a major role in providing a safety net for those who are not eligible for unemployment benefits.

Figure 2.2. **Receipt of income support[a] by displaced workers**

Proportion of displaced workers who receive income support in the year following displacement, by re-employment status, average 2005-09



a) BLS: Basic Livelihood Security; UB: Unemployment benefit; RB: Retirement benefit; No income support: did not receive BLS, UB or RB.

Source: OECD calculations based on data from KLIPS.

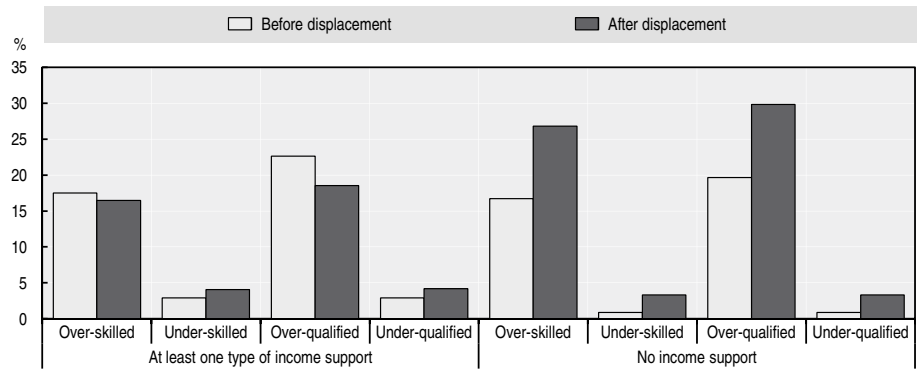
As expected, the incidence of income support is higher among workers who are not re-employed within one year than those who find work more quickly (Figure 2.2). This is particularly so for unemployment benefits. Those who find work quickly may not need or qualify for unemployment benefits. However, the lower incidence of retirement benefit (in total, 45% of those who were not employed within one year received retirement benefit compared with 40% of those who were employed quickly), which is not contingent on being unemployed after displacement, among those who find a job quickly suggests that re-employment decisions may be driven at least in part by the lack of alternative sources of income.

In many ways, a short unemployment spell after displacement is highly desirable as it reduces the risk of skill obsolescence and the cost to the public of providing welfare benefits. The moral hazard effects of unemployment

benefits – whereby receipt of income support reduces incentives to find a new job – are well-documented. However, there is a growing recognition that well-designed unemployment benefits can provide workers with time to find a job that is well-matched to their capabilities (OECD, 2006, for a review). There is clear evidence that a lack of income support for displaced workers in Korea is driving some of them to accept poorly matched jobs. The incidence of over-skilling and over-qualification is lower after displacement for those who received income support, whereas mismatch (particularly over-skilling and over-qualification) increases sharply for workers who did not receive income support (Figure 2.3). Over-skilling and over-qualification has been associated with lower wages, lower job satisfaction and higher rates of job turnover (Quintini, 2011, for a review).

Figure 2.3. **Incidence of skill and qualification mismatch after displacement**

Proportion of re-employed displaced workers who say they are not well matched to their job within a year of displacement, by income support recipiency, average 2005-09



Source: OECD calculations based on data from KLIPS.

Which workers are most at risk of missing out on income support after displacement? The gender balance is roughly even, however there are dramatic differences by age and education level (Table 2.1). Young people have much better coverage by retirement benefit and unemployment benefit (although they are likely to receive less on average due to their shorter tenure) than middle-aged or older workers. As a result, almost 75% of young workers have some form of income support after displacement compared with 40-50% for those aged over 25 years. Almost two-thirds of low-educated workers are without income support after displacement compared with 40% of those with post-secondary qualifications. The difference by contract type is also stark: 83% of daily workers and 72% of workers with fixed-term contracts receive no income support after displacement compared with 40% of regular workers.

Table 2.1. **Receipt of income support by displaced workers, by characteristics**

Percentages

	Basic Livelihood Security	Unemployment Benefit	Retirement Benefit	No income support
Women	1.4	33.4	42.0	51.7
Men	1.4	23.3	43.3	49.7
20-24 years	4.3	35.4	68.2	27.5
25-34 years	0.0	23.3	45.0	45.2
35-44 years	1.5	24.9	44.8	51.9
45-54 years	2.6	28.9	34.5	57.9
55-64 years	0.0	29.7	44.8	48.2
Less than high school	1.2	23.7	28.8	63.5
Finished high school	2.0	28.3	46.3	48.5
Post-school qualification	0.6	28.5	51.8	39.7
Regular	1.2	32.6	53.1	40.4
Fixed-term	0.0	17.8	18.6	71.6
Daily hire	3.6	6.5	11.5	83.1

Source: OECD calculations based on data from the KLIPS.

The most common reason that displaced workers did not receive unemployment benefits was that they were not insured.[6] OECD analysis of data from the KLIPS shows that, of displaced workers who did not receive unemployment benefits, 66% were not insured, 13% were insured but not eligible and 11% found or expected to find work quickly so they did not apply for benefits. Only 6% did not get unemployment benefits because they lacked knowledge about the system, found it too complicated, thought that the benefit was too small or were put off by the job-search requirement. This suggests that lack of coverage is by far the biggest barrier to unemployment benefits providing a better safety net for displaced workers, and in most part, this reflects poor compliance rather than lack of statutory coverage. However, as discussed in Box 2.1, lack of eligibility among insured workers and the low replacement rate may deter workers from becoming insured in the first place.

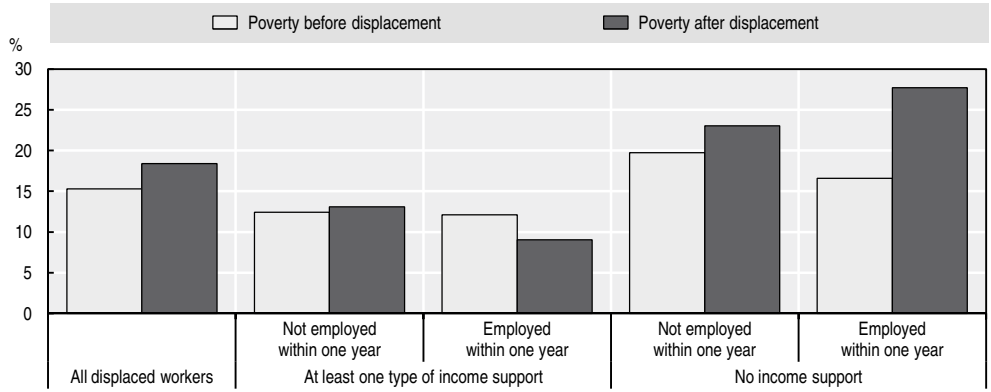
Poverty risk after displacement

Displaced workers who are without income support are much more likely to fall into poverty after displacement. Overall, the proportion of displaced workers who live in a poor household (defined as having household income less than 50% of median household income) increases from 15% prior to displacement to 18% afterwards (Figure 2.4). But those without income support are more than twice as likely to be in poverty after displacement (25%) as those that receive at least one type of income support (11%). The biggest increase in poverty after displacement is

experienced by those who have no income support and are re-employed within one year, more than one in four of whom are in poverty in the year after displacement. It is likely that their acute lack of income after displacement is a major factor in compelling them to get back to any job, even if low paid. By contrast, those who have income support and also find work within one year are less likely to be poor than they were before displacement.

Figure 2.4. **Poverty risk after displacement**

Proportion of displaced workers who live in a household with income less than 50% of median household income, average 2005-09



Source: OECD calculations based on data from KLIPS.

Recent steps to improve EI coverage

A number of measures have been taken in recent years to improve EI coverage among those most at risk of exclusion from the system. From 2012 onwards, the self-employed with up to 50 employees can voluntarily contribute to EI and receive unemployment benefits if their business is closed involuntarily due to a reason beyond their control. Prior to this, the self-employed were only able to access training programmes under EI and then only if they had less than 5 employees. Now, self-employed people who have been contributing to EI and move into a job as an employee without claiming benefits can count the insured period during self-employment towards their contribution period for claiming unemployment benefits as an employee.

In addition, the Duru Nuri Social Insurance Subsidy Programme was launched in early 2012 to encourage increased coverage of low-paid workers in small firms by EI and the National Pension Scheme. The programme subsidises up to 50% of employer and employee insurance contributions.

The programme was piloted in 16 self-governing local areas and then expanded nationally from July 2012. Eligible workers are those employed in workplaces with fewer than ten workers and earning a monthly salary of less than KRW 1.25 million, or about 40% of the average wage. The rate of subsidy is 50% for those earning less than KRW 1.05 million and 33% for those earning between KRW 1.05 and 1.25 million. To support the programme, the MOEL is conducting a publicity campaign to improve awareness of the benefits of social insurance and encourage compliance in small firms, including outreach activities from local labour offices and local government. Further efforts will also be made to identify operational problems with collecting insurance premiums and paying subsidies and to evaluate the impact of the subsidy programme.

These are both important steps in expanding coverage of EI to those who are at the greatest risk of falling through the gaps, and also have high rates of displacement. The first programme, targeting the self-employed, seeks to increase workers' benefit from participating in EI, by allowing them to access unemployment benefits for the first time, and by not penalising those who leave self-employment to become employees. The second addresses the issue of cost, which is likely to be very important for low-paid workers and their employers in small firms.

It will be important to monitor these two measures carefully to see how effective they are. Low-paid workers in small firms tends to have a high rate of displacement and job turnover (Chapter 1), which may make it difficult to maintain coverage as they move from one employer to the next and limits their incentive to participate in the EI system. If the subsidy is not successful in encouraging long-term attachment to the EI scheme, the government should consider adopting alternative approaches to improve coverage for these groups or expanding access to Basic Livelihood Security for the low-income displaced workers who are not eligible for unemployment benefits and who risk falling into poverty.

Conclusion

Despite making good progress in legally extending the scope of the EI system, there are still gaps in the effective coverage of Korea's social safety net. Many of the workers who are most at risk of displacement are poorly covered by unemployment benefits and other forms of income support. Around half of displaced workers do not receive any of the major forms of public- or firm-provided income support. As a result, displaced workers are at serious risk of falling into poverty. Many may be forced to take up poorly paid and badly matched jobs, with longer-term negative

consequences for their welfare and well-being, and more broadly for productivity and social cohesion.

Of primary concern is that coverage of the EI system still remains well below a universal level. Unemployment benefits should be the main form of income support used by displaced workers if they cannot find work quickly after displacement. However, two-thirds of displaced workers do not receive unemployment benefits, even if they are still out of work up to a year after displacement.[7]

The poor coverage of EI results in the retirement benefit system often serving as the primary form of income support for workers changing jobs. This is of concern for three reasons. First, unlike unemployment benefits, unemployed people who access retirement benefit are *not* subject to job-search or other activation requirements, so it may generate adverse employment incentives (Hwang, 2004). This is of particular concern given that retirement benefit is much more generous than unemployment benefits for most beneficiaries. Second, retirement benefit cannot function effectively as the second pillar of the pension system if workers dip into their accounts every time they move jobs. Finally, those workers who receive retirement benefit are also those who are most likely to receive unemployment benefits. In this regard, it does little to improve income-support coverage among the most vulnerable displaced workers.

Now that the EI system has been legally extended to cover most workers and firms, further effort is needed in order to improve coverage among eligible workers and firms. Notably, the benefit to workers and firms of signing up for EI must be improved relative to the costs. In this regard, new subsidies for social insurance contributions for low-income earners in small firms are a welcome step. However it will be vital to monitor how well the subsidies work in generating long-term improvements in coverage. If there is little improvement, it may be necessary to consider alternative approaches to improve coverage among workers who should be but are not currently covered by EI or to ease access to Basic Livelihood Security for low-income displaced workers who are not eligible for unemployment benefits and risk falling into poverty.

More effort is also required to improve access to unemployment benefits for insured workers so that more unemployed people can get benefits. This would improve workers' incentives to sign up for EI and may make the EI system more sustainable in the longer term. Any moves to relax eligibility criteria should be accompanied by effective activation of benefit recipients to reduce adverse employment effects.

Notes

1. Active labour market and vocational training programmes funded under the EI system and applicable to displaced workers are discussed in Chapter 3.
2. All employees in workplaces with one or more employees should be registered and contributing to EI, with the exclusion of *i)* workers aged 65 years and over (these workers are exempt from contributions for unemployment benefits, maternity and childcare leave, but should pay contributions for employment security and vocational skills development); *ii)* part-time employees whose contractual hours are less than 60 hours per month (or 15 hours per week); and *iii)* some other groups of workers including government officials, private school teachers, some foreign workers and special post office staff. Since 2006, the self-employed have been progressively allowed to take part in the EI system voluntarily and from 2012, this applies to self-employed with less than 50 employees.
3. The self-employed must have been contributing for one year in the past 24 months and the business closure must have been involuntary and for reasons outside of their control.
4. In practice, firms with less than five employees did not start paying retirement benefits until December 2011 because employees must be employed for at least one year with a firm required to pay retirement benefits before they become eligible to receive a benefit. Firms with less than ten employees can set up an individual retirement pension plan instead of a defined benefit or defined-contribution plan, with the consent of an individual worker.
5. The payment increases with household size by around KRW 200 000 to 300 000 per person.
6. Unfortunately, no data are available on the reasons for not receiving retirement benefit.
7. Gaps in coverage of the EI system are also of concern because participation in most active labour market programmes is limited only to those who are covered by EI. This issue will be addressed in Chapter 3.

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Chapter 3

Helping displaced workers back into jobs

This chapter examines active labour market policies and programmes designed to help displaced workers find new jobs. Displaced workers can access job search assistance and training from an array of organisations, including central and local government job centres, non-governmental organisations, and private employment agencies and training providers. Overall, too much emphasis is currently given to vocational training at the expense of job-search assistance and training, which has been shown to be the most effective form of intervention, particularly for people with a relatively short duration of unemployment. All programmes need to be thoroughly evaluated to ensure that resources are allocated as efficiently as possible, particularly now that private employment agencies and local government are playing a greater role in service provision.

Introduction

In Korea, relatively few public resources are devoted to labour market programmes that are targeted specifically at displaced workers. Instead, most displaced workers will access at least some more general re-employment services to help them get back into work, ranging from consultation of job vacancy listings online to comprehensive retraining programmes. Such assistance could be provided by central or local governments, non-government organisations or private employment agencies.

In this chapter, the programmes available to help displaced workers find jobs are examined. The second section gives an overview is given of the main providers of employment services in Korea. The following section provides a review of outplacement services in private firms, followed by a section on job-search assistance measures provided by Job Centers [Korea's Public Employment Service (PES)], including job-matching, job-search training and intensive assistance.[1] The last section contains an overview of various training programmes for the unemployed.

Basic structure of employment service delivery

Policy setting and budget

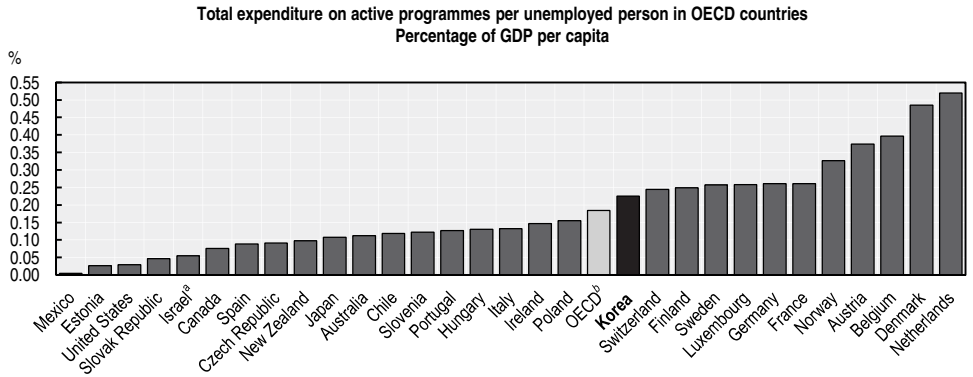
The Ministry of Employment and Labor (MOEL) has primary responsibility for the design and implementation of labour market programmes. However, the MOEL collaborates with the Ministry of Strategy and Finance (MOSF) in determining the budget allocation for labour market programmes. Each year, the two ministries consider the economic situation, labour market conditions and other relevant factors in determining labour market programmes for the following fiscal year.

Active labour market measures in Korean have traditionally been financed through the Employment Insurance (EI) scheme (Chapter 2). However there is a growing reliance on central funding, particularly for job-search counselling and training for the unemployed, so that workers who are not eligible for EI can receive support. Nonetheless, EI is still the main source of funding for re-employment assistance programmes for displaced workers.

Korea's spending on active labour market programmes is just over the OECD average when taking into account the relatively low unemployment rate (Figure 3.1). Although Korea's expenditure on active labour market programmes has increased in recent years, the bulk of spending (almost 70%) is on direct job creation. While these types of measures have

some value in a deep recession when alternative employment opportunities are scarce, in general they have been found to be ineffective at helping unemployed people move into stable jobs in the private sector, and can even hinder future job prospects by distracting jobseekers from searching actively for work (OECD, 2009a). By contrast, Korea spends a relatively small proportion of its ALMP budget on the PES.

Figure 3.1. **Expenditure on active labour market programmes, 2010**



a) Information on data for Israel is available at: *http:/dx.doi.org/10.1787/888932315602*.

b) Unweighted average of countries shown above.

Source: OECD calculations based on *OECD Labour Market Programmes*, *OECD National Accounts* and *OECD Main Economic Indicators* databases respectively for ALMP expenditure per GDP, population and harmonised unemployment.

Co-operation between central and local governments

Co-operation between central and local government is based on the Framework Act on Employment Policy, under which the central government establishes national employment policies, while local governments develop policies to promote employment in their regions paying particular attention to the specifics characteristics of local labour markets. However, there is no clear delegation of responsibilities for providing employment services for displaced workers between central and local governments, and in practice both play a role.

Nevertheless, the central government remains the primary provider and funder of employment services in Korea, with local governments playing a supporting role. The exception is Jeju Island, which was designated as a self-governing province in 2006 (Box 3.1).

Box 3.1. Jeju Island: a lesson in decentralisation

Jeju Island is the only region of Korea designated as a special self-governing province. In 2006, the operation and function of the MOEL Job Center in Jeju was taken over by the local administration. This is the first case of decentralisation of the PES function in Korea. However, in reality more than 90% of the budget for active and passive measures, including operating costs of the Jeju Job Center, still comes from the central government, while virtually all the services provided by the Jeju Job Center are the same as in MOEL Job Centers elsewhere in the country.

It may be too early to evaluate the consequences of the decentralisation on employment outcomes. Nonetheless, there have been some interesting developments stemming from the changes. First, because the special Act which enables self-government must be revised article by article to enact changes to national policies at the local level, new national programmes are typically introduced in Jeju with a delay of one year.

Second, employment-related expenditures in Jeju Province, particularly for unemployment benefits and job training, have increased substantially. The increase in the number of unemployment benefit recipients after the merger was much higher than in other regions, while the employment rate after training declined considerably (see the table below). The increase in unemployment benefit recipients was due to both an increase in applicants and a more generous interpretation of the rules for determining eligibility by Jeju Job Centers. While unemployment benefits remain funded at the national level, this change in eligibility conditions without concurrent increase in contributions could undermine the fiscal viability of the scheme over the longer term, or if a similar decentralisation of administration responsibility was implemented more widely.

Finally, even after the transfer of the Job Center to Jeju Province, there is considerable duplication of services between the local administration and the Job Center. For example, both operate job-counselling and job-matching services in parallel. This suggests that it would be desirable to review the operation of employment services in Jeju to ensure that resources are being used as efficiently as possible.

Performance before and after the transfer of the Jeju Job Center to Jeju Province[a]

Percentage points and percentages

	Jeju Province	Nationwide 81 MOEL Job Centers
Unemployment rate	+0.1 pp	-0.1 pp
Spending on employment security and job-training programmes	+110.9%	+70.2%
Employment rate after training	-14.0 pp	+0.7 pp
Spending on unemployment benefits	+52.0%	+41.4%
Number of people deemed eligible for unemployment benefits	+33.9%	+24.3%

a) pp: percentage points. Unemployment rates refer to June 2006 and June 2007; employment rate after training refer to the average from January 2005 to June 2006 and from July 2006 to December 2007.

Source: MOEL and Jeju Province.

To promote employment policies better tailored to local labour market conditions, the MOEL organises "Employment Policy Coordination Meetings" at which local governments and the relevant social partners negotiate and co-ordinate economic, social and employment policies. Local organisations are also connected to MOEL Job Centers through Work-Net, which provides labour market information and job-vacancy listings.

Key providers of employment services for displaced workers

Publicly funded employment services are generally classified into those directly managed by MOEL Job Centers and those commissioned to private employment agencies or non-governmental organisations. Services are also provided by local governments, schools, universities, job training institutions and other ministries.[2] Indeed, there are so many potential providers of employment services that there is a risk that jobseekers might be confused as to the best option (see Box 3.2 for a solution to this problem in operation in Busan). This section will give a brief description of the key providers of employment services to displaced workers and their roles, as well as some overall performance measures. Programmes and services provided by the MOEL Job Centers will be discussed in more detail in the section on "Job-search assistance for displaced workers".

Box 3.2. **Negotiating the web of employment service providers in Busan**

In Busan, there are three MOEL Job Centers as well as services provided by local government, the Korea Labor Foundation's Re-employment Assistance Center, universities and colleges. Even Busan Bank has a job centre where it recruits workers on behalf of its corporate clients. The plethora of employment service providers makes it difficult for jobseekers to know what services are available and how to access them. There is also considerable scope for duplication of services and programmes.

To avoid this, employment service providers in Busan meet four times a year to share information and develop joint programmes. To help jobseekers determine the best service for them, they have produced a map and brochure which lists all the job centres in the city and provides contact details and a summary of the services offered by each, along with public transport information and job-seeking tips. The map is available at all job centres in Busan. This simple initiative seems to be a valuable tool to help jobseekers understand the services available and get in contact with the most appropriate providers to help them find work.

MOEL Job Centers

MOEL Job Centers are the primary point of contact for employment services for displaced workers. Job Centers are responsible for administering unemployment benefits, provide job counselling, job training, job matching and placement, career path guidance and vocational psychology testing. They also refer jobseekers to outsourced training programmes.

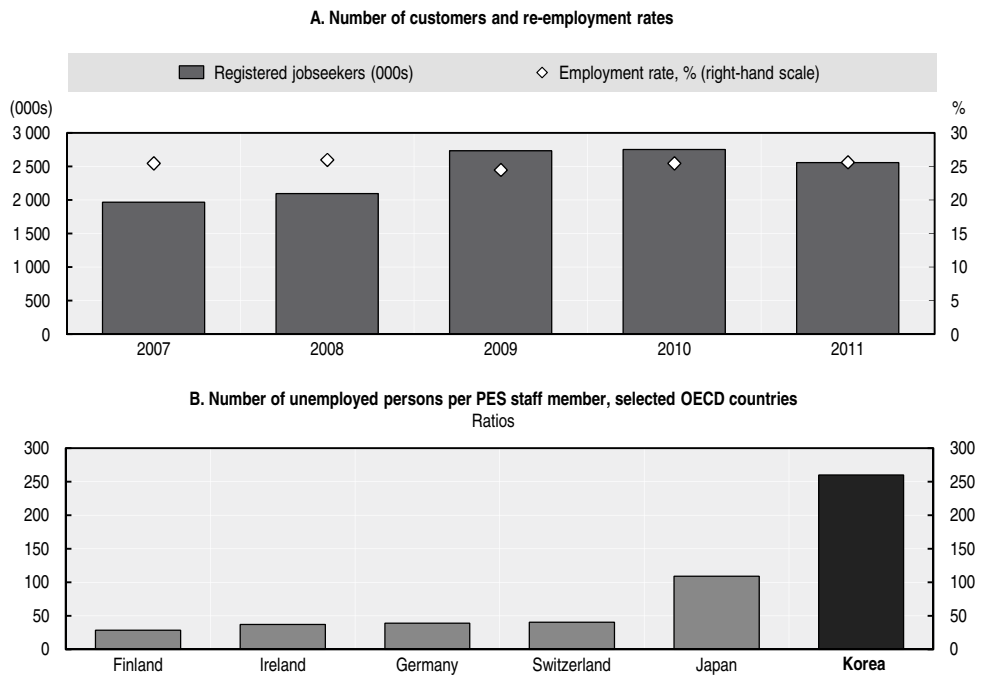
In addition, Job Centers provide a range of services to school-leavers, workers and firms. As well as providing job-matching services for firms with vacancies, Job Centers administer the many wage and training subsidy programmes aimed at firms and existing workers and visit firms to identify problems they face with recruitment and labour regulations. They also deal with foreign worker permits and maternity leave. Job Centers also work with local governments and communities to encourage job creation at the regional level.

In 2011, Job Centers provided services to around 2.5 million jobseekers (Figure 3.2, Panel A). However, despite their extensive responsibilities and central importance in the delivery of employment services, Job Centers are under-resourced to perform the required services to an adequate level of quality. Only 81 Job Centers are in operation around the country, with around 3 500 staff. The number of Job Center staff, relative to the client and workloads, appears inadequate by comparison with other OECD countries for which data are available (Figure 3.2, Panel B). The ratio of unemployed persons to Job Center staff in Korea is more than twice that in Japan and more than six times that in Germany. The resources devoted to job matching and counselling appear even more inadequate considering that less than 40% of total Job Center staff work on employment or job-search support (MOEL, 2010a).[3] Only 25% of registered jobseekers are employed after being referred to a vacancy by the Job Center.

However, some positive steps have been made in recent years to devote more attention to job counselling. Most notably, a restructuring in July 2011, combined with allowing unemployment benefit recipients to file evidence of job-search online, has allowed staff to spend more time providing counselling to jobseekers. For example, in the Seoul Job Center, the average time spent with clients rose from 5 to 15 minutes and the proportion of jobseekers successfully placed in employment by the Job Center increased from 32 to 36% between 2011 and 2012.[4]

Figure 3.2. **Staffing and customers at MOEL Job Centers**

Levels, percentages and ratios



Source: MOEL (2011), *Employment White Paper*, Gwachun and MOEL (2012), *Employment White Paper*, Seoul for Panel A. For Panel B, data on PES staff are from Duell, N., D. Grubb, S. Singh and P. Tergeist (2010), "Activation Policies in Japan", *OECD Social, Employment and Migration Working Papers*, No. 113, Table 2A.2, *http://dx.doi.org/10.1787/5km35m63qqvc-en*. Data on unemployed persons are from the *Online OECD Employment Database, www.oecd.org/employment/database*. Data refer to 2011 for Korea, 2006 for Germany and 2007 for other countries.

Local government

While the network of local government employment services is more extensive than the MOEL Job Centers, few resources are devoted to these services by each local government. In 2006, a local government survey showed that each local government administration had, on average, 1.2 full-time equivalent staff dealing with employment issues.

Generally, employment services are provided from within the local government administration. However, a small number of local governments operate their own job centers. For example, Seoul City has been operating the Seoul Job Plus Center since 2009 and has 39 staff, including 23 job counsellors.[5] It provided services to around 20 000 jobseekers in 2010

(Table 3.1). Its main function is to provide job-matching and business start-up services to jobseekers in Seoul City. Its limited responsibilities compared with the MOEL Job Centers have allowed it to concentrate on job matching. In terms of employment rates, it performs relatively well. However, it may be misleading to compare employment rates for those accessing services through MOEL and local government job centres because of the differences in the characteristics of participants and the nature of services provided. In addition, the quality of jobs may differ across different types of job centres. For example, unpublished data from Work-Net provided by the MOEL show that people who find jobs through MOEL Job Centers have a higher rate of EI coverage in their new jobs (81%) than those who find a job through a local government job centre (69%).

Table 3.1. **Job services provided by Seoul City Job Plus Center**

	Registrations from jobseekers	Average referrals to job vacancies per jobseeker	Percentage of jobseekers employed
	Levels	Ratios	%
2009	14 508	1.8	42
2010	21 432	3.0	55
January-April 2011	5 192	4.2	51

Source: Seoul Job Plus Center, information provided during the OECD mission to Korea, February 2012.

Local governments play an important role in activating recipients of Basic Livelihood Security. Traditionally, low-income earners receiving social assistance who are able to work are required to search for work. From 2009, some of these people have been able to take part in the *Employment Success Packages* programme (ESP) (discussed below). Local governments are responsible for choosing which recipients will take part in the ESP programme, which is run by the MOEL. Therefore, good co-ordination between MOEL Job Centers and local governments will be crucial in the future. To assist this co-operation, the MOEL has recently subsidised the employment of 100 job counsellors to work with local governments and help them to identify appropriate participants.

Although some of the services provided by local governments tend to overlap with those provided by MOEL Job Centers, this is not necessarily undesirable. Local government services can be better tailored to region-specific needs and take advantage of closer links with local businesses. By focusing on job matching, they can also provide more personalised services and greater choice for jobseekers. However, as local governments expand the range of services they provide, more concerted

co-ordination with the central government will be necessary to avoid duplication as well as to promote efficiency.

In addition, local governments seldom devote sufficient resources to properly evaluate programmes, a requirement of the Framework Act on Employment Policy.[6] Even in well-resourced areas such as Seoul City, there is no systematic evaluation of programmes, and little co-ordination between those working on employment issues across different local governments. This limits opportunities for local governments to learn from each others' experiences and for the most effective local programmes to be rolled out more widely. Future efforts to increase the role of local governments in providing active labour market programmes should include a requirement for mandatory evaluation for programmes over a certain size, as well as devote adequate resources for evaluation and for sharing the results between regions.

Korea Labor Foundation Re-employment Assistance Centers

The first joint labour-management Re-employment Assistance Center (RAC) opened in 2005 after a tripartite agreement between the Korea Federation of Trade Unions and the Korea Employers Federation. The network has grown and now there are 14 centres across Korea, managed by the Korea Labor Foundation (KLF), and funded by the Ministry of Employment and Labor. In a number of locations, the RAC operates in conjunction with the local government.

RACs provide job matching, individual counselling, training in resume and interview preparation and networking and provide facilities for jobseekers such as computer and internet access, photocopiers and training rooms. Audiovisual equipment allows jobseekers to film mock job interviews and review their performance. There are also special programmes to provide intensive support for jobseekers with mental health problems.[7]

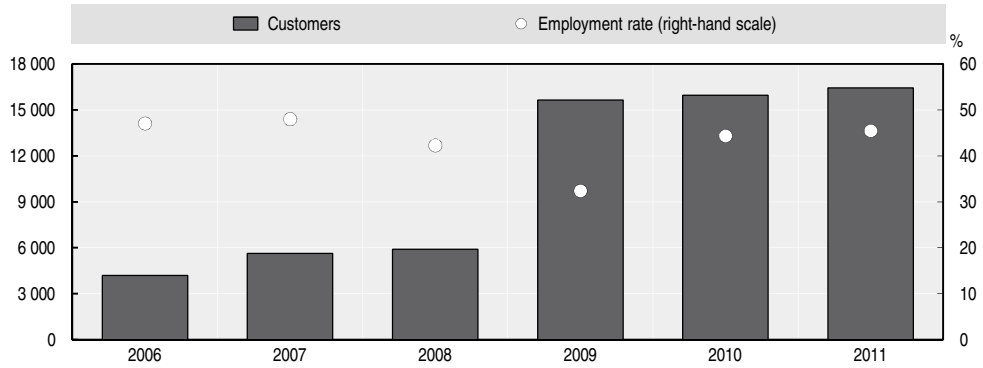
After an expansion in 2007, RACs help around 16 000 jobseekers each year, almost a third of whom use the two Centers in Seoul (Figure 3.3). Half of customers are referred from MOEL Job Centers, and the remainder have typically passed through other employment service providers before being referred to the RAC. As a result, customers tend to need more intensive assistance and are harder to place in jobs, on average, than the much broader group of jobseekers who use the MOEL Job Centers.

The proportion of customers who are employed or who start their own business after using RAC services has been around 45% in recent years. Almost three-quarters of customers are men, but there are growing numbers of women seeking help to move back to work after a career break. Most

customers are aged in their forties or fifties and typically have some prior work experience. RACs also provide assistance and retirement planning for baby boomers nearing retirement.

Figure 3.3. **Re-employment Assistance Centers**

Levels and percentages



Source: Korea Labor Foundation, information provided during the OECD mission to Korea, February 2012.

While the RACs appear to perform better than MOEL Job Centers in helping jobseekers move back into work, there is considerable overlap between the types of services offered by the two organisations, which are both funded by the MOEL. It may be more efficient to more clearly define the role and target population of the RACs, possibly focusing their efforts on providing more intensive assistance to jobseekers who have not been successful in finding work through MOEL Job Centers, as well as their assistance offered directly to firms.

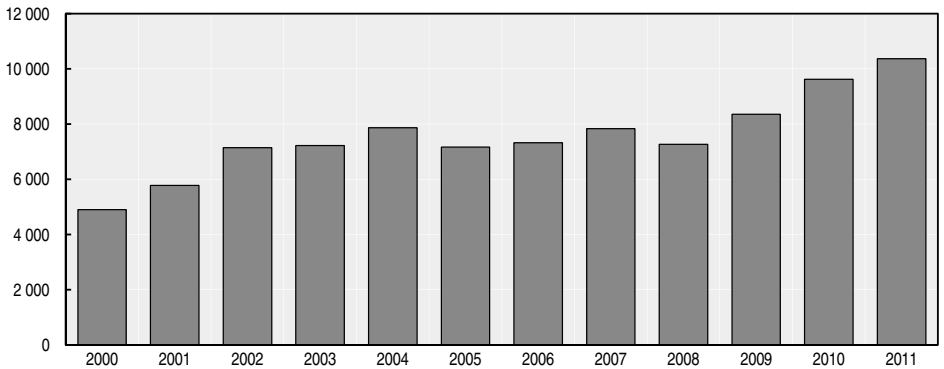
Private employment agencies

Private employment agencies play an increasingly important role in the Korean job market, especially in facilitating job matching. The majority of agencies are micro-businesses with one or two employees who offer job-placement services. However, there is a growing number of larger, more sophisticated agencies that offer a full range of re-employment services to jobseekers, including individualised counselling and referral to training providers.

The MOEL has been active in promoting the development of private agencies, both to create job opportunities within the sector and to ease pressure on under-resourced MOEL Job Centers. After stagnating in the

mid-2000s, the private employment agency market has grown steadily over the past few years. The sector is likely to continue growing as the MOEL contracts out more employment services to private agencies under the ESP programme (see next section) and (until 2012) the *Job Transfer Support Programme* (see previous section). As of 2011, there were about 10 000 agencies, around 8% of which operate on a non-profit basis (Figure 3.4).

Figure 3.4. **Number of private employment agencies in Korea**



Source: MOEL (2012), *Current Policy Issues,* Gwachun.

The operations of private employment agencies are regulated through the Employment Security Act. Fee-charging agencies offering domestic job vacancies must register with the local government. Agencies must have at least one qualified or experienced job counsellor in each office. Outstanding agencies can receive certification from the Korea Employment Information Service (KEIS). There is no requirement to obtain certification, but certified agencies receive preferential treatment for government contracts. Since 2008, around 60 agencies have been certified.

Outplacement services for workers facing displacement

There is no legal requirement for firms to provide outplacement services for dismissed workers. However, some firms do so voluntarily, particularly for older workers who are approaching the firms mandatory retirement age. Between 2001 and 2012, the government reimbursed some of the cost of firm-provided outplacement services under the Job Transfer Support programme. From 2013, this programme will be discontinued due to low take-up rates.

Firm-provided outplacement services

After the financial crisis in 1997, large Korean firms became more aware of the necessity of making small, continuous adjustments to their workforce, rather than mass dismissals in times of crisis. Providing outplacement services, either in-house or by contracting out to a private employment agency, has become part of the process of adjustment in some large firms. In situations where outplacement is used to help workers as they approach their firms' mandatory retirement age, outplacement services are viewed positively by workers (Box 3.3). However, the use of outplacement services as part of dismissal processes has led to hostility from workers and trade unions towards outplacement in general. As such, firm-provided outplacement services are the exception, rather than the rule, in Korean enterprises.

Box 3.3. **In-house outplacement services for early retirees at Samsung Electronics**

A number of large firms provide in-house outplacement services to help workers who are approaching the mandatory retirement age with the transition into a "second career". These programmes are generally seen in a positive light by employees and most participants take part voluntarily. By encouraging continuous voluntary turnover of staff, firms are able to reduce their need to restructuring through involuntary layoffs, which reduces conflict and restructuring costs.

Samsung Electronics has been providing outplacement services since 2001 to employees approaching the firm's mandatory retirement age of 55. Samsung employs 11 people in its Career Consulting Center (CCC) and provides services to around 300-400 employees per year. Most participants tend to be white-collar, managerial-level employees, as production workers tend to work until retirement age. The outcomes of the programme are very good, although this to some extent reflects the good reputation of Samsung Electronics employees among prospective employers. Around 92% of participants found new jobs and 5% successfully set up their own businesses. Around 94% of re-employed programme participants receive the same or higher wages in their new jobs and 70% hold more senior positions than in the jobs they left.

Source: Discussions with Samsung Electronics during the OECD mission to Korea in February 2012.

Job Transfer Support Programme

To encourage more firms to provide outplacement services, the *Job Transfer Support Programme* was introduced in 2001. This was the only labour market programmes targeted specifically at displaced workers. Until 2010, the programme provided subsidies to reimburse firms that voluntarily provided outplacement services for displaced workers. It was financed from the EI scheme, and applied only to contributing firms and employees. The subsidy was paid to employers who provided outplacement services to outgoing employees when employment adjustment was unavoidable due to output reduction or business shutdown. The scope of the programme was

expanded in 2002 to cover employers who provide outplacement services jointly with other employer/s, and in 2004 to cover employees who reach the firm's mandatory retirement age or the end of their employment contract. Nevertheless, the number of employees benefiting from it remained very low, averaging around 1 400 per year from 2007-10 (MOEL, 2012b).

An evaluation of the programme in 2007 showed that subsidies tended to be concentrated on large companies rather than SMEs, and on manufacturing firms. Around 68% of participating workers questioned answered that the programme was not helpful in finding a new job, while only 21% responded positively. The survey results suggested that more concerted efforts on job-matching services were required to raise the effectiveness of the programme (KLI and KRIVET, 2007).

Many firms found the statutory requirements to receive the subsidy too restrictive, which may account for the low take-up rate.[8] Among firms with 500 or more workers in 2009 that were undertaking restructuring, only 16% made use of the subsidy. In addition, because the subsidy was paid retrospectively, only a limited number of small firms were able to take part because of the high upfront cost of providing outplacement services. For example, in 2009, less than 2% of beneficiaries were from firms with less than 30 employees, even though these firms account for the vast majority of total employment in Korea and have a higher propensity to lay off workers than larger firms (Chapter 1). Nevertheless, those firms that used the subsidy were very satisfied: 96% said they would use it again. However, deadweight loss effects seem to be considerable: 60% of participating firms surveyed said that they would have provided outplacement services to departing employees even without the government subsidy (KLI and KRIVET, 2007).

As a result of these problems and with a view to expanding the scope of the programme to better cover employees in SMEs and those who reach the mandatory retirement age or the end of their contract, the subsidy programme was transformed in 2011. The newly renamed *Private Agency-Commissioned Job Transfer Support Programme* was designed to operate when applications are received from either firms or employees. Specialised private employment agencies designated by the MOEL were commissioned to provide outplacement services to successful applicants. Firms and individual employees must have been covered by EI for at least ten years to be eligible for the programme (this requirement was changed to seven years in 2012).

Despite these changes, the programme will be discontinued from 2013 due to low take-up. This seems to be a good outcome, given the limitations of the programme and the characteristics of the Korean labour market. There is very limited international evidence that outplacement services are the

most effective way to help displaced workers find new jobs (Box 3.4). In many ways, firm-provided outplacement is not well-adapted to the needs of the Korean labour market. Most adjustment for economic reasons is done by small firms, and large firms tend to make continuous small adjustments to staffing levels rather than mass layoffs. This makes it difficult to achieve economies of scale when offering outplacement services (Lee, 2011). Large firms also tend to offer outplacement services voluntarily to smooth the dismissal process and maintain good community relations. As such, there is little justification for providing public subsidies for large firms since the deadweight loss is so high.

Box 3.4. **Empirical evidence on the effectiveness of outplacement services**

There is very little international empirical evidence on the effectiveness of outplacement services in helping displaced workers find jobs. The few studies that are available have mixed findings. Westaby (2004) and Arellano (2007, and 2009) find that workers who take part in more intensive outplacement programmes (compared with group counselling) tend to take longer to find new jobs, but the jobs they find have higher wages, suggesting the additional time is used to find a better matching job. By contrast, Davy *et al*. (1995) find little difference in employment outcomes between the two groups, even though those who took part in outplacement had better job-search skills.

It is difficult, however, to draw general lessons from these few studies about the effectiveness of outplacement services compared with other employment services. First, the groups that participate in outplacement tend to be more highly educated and paid than displaced workers in general. None of the studies mentioned above examines the impact of randomly assigning displaced workers to different outplacement programmes. Second, there seem to be no available empirical studies that compare outplacement services provided by firms with the types of job-search assistance typically provided by public employment services.

By contrast, small and medium-sized employers do not generally provide outplacement services and there may be little that can be done to encourage more to do so in a cost-effective manner. Very few small firms and even fewer of their workers would have met the eligibility criteria of ten years of Employment Insurance coverage as required under the 2011 Job Transfer Support programme. As such, it is difficult to see how a government programme will be able to increase the availability of outplacement services to those workers most at risk of displacement. A better option would be to focus more efforts on providing job-search assistance and matching services to displaced workers through MOEL Job Centers.

Job-search assistance for displaced workers

Many studies in OECD countries have shown that job-search assistance and job-matching services are among the most effective and efficient active labour market measures that governments can adopt to help the unemployed

move into work (Card *et al*., 2009; Martin and Grubb, 2001). This is likely to be particularly the case for displaced workers, who are more job-ready than many other unemployed, given their recent work experience. This section will examine various forms of job-search assistance provided for displaced workers at MOEL Job Centers. These include initial registration and "activation" measures,[9] job-matching, job-search training and intensive assistance.

Registration and activation of the unemployed

In Korea, jobseekers who wish to receive unemployment benefits must register at the Job Center, after which there is a one week waiting period to receive benefits. Benefit recipients must then report on their job-search efforts to the Job Center once every four weeks, on average, providing a list of at least one employer who they have contacted to find work (OECD, 2007). Initial registration must be done in person at the Job Center, but ongoing reporting of job-search effort can be done online.

Compared with many OECD countries, Korea's unemployment benefit system is not very strict when it comes to job-search and availability requirements for recipients (Venn, 2012). Korean unemployment benefit recipients can refuse a job offer without sanction if it does not match their skills or abilities, if it is in a location that is not suitable or if the wage level is unduly low. Benefit recipients who are taking part in active labour market programmes, including training, are exempted from active job-search while they take part in these programmes. The sanction for refusing to take up a job offer or vocational guidance (a benefit stop of two weeks) or attend a vocational training course without justification (four weeks) is also relatively light by OECD standards.

Well-designed and enforced activation measures can play an important role in offsetting any adverse work incentives generated by unemployment benefits. This is particularly important in preventing long-term welfare dependency in countries where unemployment benefits are very generous (in terms of the net replacement rate) or where the duration is very long or unlimited (OECD, 2009b). However, as discussed in Chapter 2, Korean unemployment benefits have a low replacement rate and relatively short duration. Combined with the low coverage of the unemployed by benefits, it could be argued that further efforts to activate benefit recipients should not be a priority if resources for providing employment services are limited.

Nevertheless, any further expansion in coverage of the unemployment benefit system should be accompanied by credible activation measures to ensure that there no adverse employment incentives are generated. This is especially important because an expansion in coverage will likely bring in more low-income workers, whose replacement rates (taking into

consideration the maximum daily limit on benefits) are higher, on average, than the current stock of unemployment benefit recipients.

Of more pressing concern is how to better target employment services to those who are not eligible for unemployment benefits or whose benefits have expired. More than half of all people who register with Job Centers do not receive unemployment benefits, so are not subject to activation requirements.[10] While Korea has remarkably low long-term unemployment by OECD standards, part of this seems to be due to many unemployed giving up on looking for work (Box 3.5). Without the threat of heavy benefit sanctions, it is difficult to encourage the long-term unemployed to continue searching actively for work.[11] Providing effective re-employment services to these people and keeping them connected to the labour force is a key challenge.

Box 3.5. Why are there so few long-term unemployed in Korea?

Korea has amongst the lowest long-term unemployment in the OECD, even in the period prior to the Great Recession when OECD unemployment rates were at record lows. According to the Economically Active Population Survey, 12% of the unemployed in Korea in 2007 had been unemployed for more than 6 months, compared with an OECD average of 45%. Less than 1% of unemployed in Korea had 12 months or more of unemployment, compared with 31% for the OECD on average.

One of the reasons that there are so few long-term unemployed in Korea is that many people move back into work relatively quickly. The table below shows that around 46% of unemployed in Korea in 2006 were employed by the following year, comparing favourably with many European countries. This probably reflects Korea's relatively good labour market conditions, but also the lack of income support that sees many unemployed without alternative means to support themselves.

Of more concern, however, is that 37% of Korean unemployed move into inactivity within one year, almost three times the proportion of Europeans and twice that of Australians. This means that they give up actively searching for work, inhibiting their future employment prospects. Only 11% of inactive people move back into work each year, highlighting the importance of keeping unemployed people searching for work and attached to the labour market.

Year-to-year transitions from unemployment, 2006-07[a]

Percentage of unemployed in 2006

	Employed	Unemployed	Inactive
Australia	57.1	21.6	21.3
Korea	**45.6**	**17.3**	**37.1**
EU8[b]	32.5	54.2	13.3

a) Persons aged 15-64 years.

b) EU8 includes Belgium, Denmark, Germany, Greece, Italy, Portugal, Spain and the United Kingdom.

Source: OECD calculations from the KLIPS for Korea, respectively from HILDA for Australia; and European Commission (2009) for EU8.

Job-matching services

Upon registration at the Job Center, unemployment benefit recipients are assessed on their job-finding ability and required to attend one collective information session explaining the process for maintaining benefit status as well as the services and programmes available at the Job Center. All jobseekers, regardless of their eligibility for unemployment benefits, may be referred to relevant vacancies (primarily through Work-Net) or encouraged to attend further job-search training sessions. However, participation in programmes run by the Job Center is not mandatory.

In 2011, Job Centers received more than 1.7 million registered job vacancies, which jobseekers can access by visiting the Job Center or on the Work-Net website (Box 3.6). The ratio of registered jobseekers to vacancies has been falling over recent years, despite a small increase in 2009 at the height of the economic downturn when the number of registered jobseekers increased. In 2011, the ratio was about 1.5 jobseekers for every vacancy (MOEL, 2012a).

Large firms visited by the OECD mission team said that they did not generally make use of Work-Net or Job Centers to recruit workers because they have few problems attracting suitable applicants for vacant positions. By contrast, Job Centers are an important recruitment tool for small and medium-sized firms. As a result, most registered vacancies are for less-skilled jobs in smaller firms. This seems to be a good focus, as applicants for higher-skilled vacancies are well served by a number of other privately run internet recruitment portals, or tend to apply for jobs directly with firms.

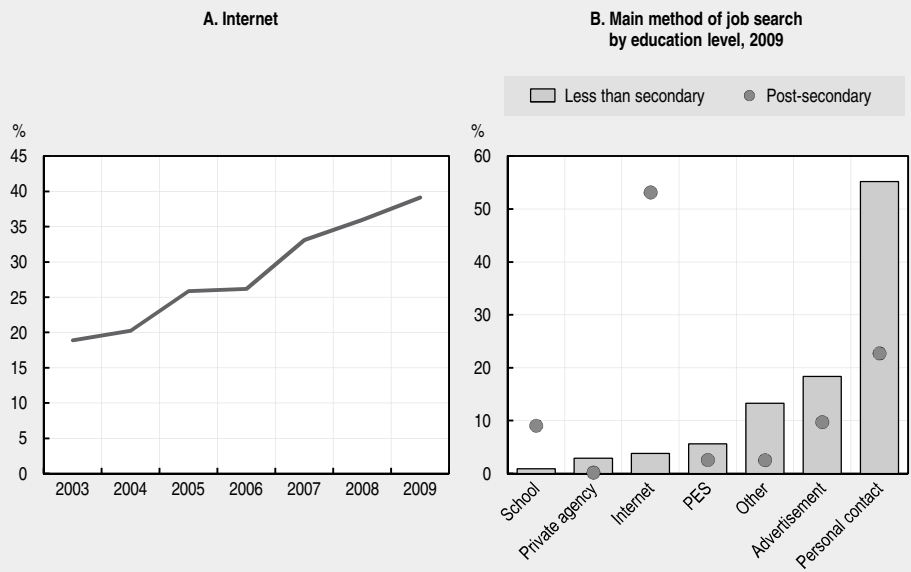
As well as providing a listing of vacancies, Job Centers organise Job Fairs and their staff can accompany jobseekers to interviews (Table 3.2). Job Centers also provide recruitment services for individual firms, although the number of jobseekers participating in this programme has fallen substantially in recent years. In total, about 3% of registered jobseekers participated in these three types of interventions in 2011.[12] No data are available on employment outcomes for participants.

Box 3.6. **Finding a job online**

As in many other OECD countries, the use of the internet as a job-search tool has soared in recent years in Korea. In 2009, almost 40% of people who had recently found a job said that the internet was the way that they found their job, up from 19% in 2003 (see figure below). However, people with less than secondary education are much less likely to use the internet than those with a post-secondary qualification. For the low-skilled, personal contacts – through family, friends, teachers or former colleagues or business contacts – remain the most successful method of finding work. Around 6% of the low-skilled workers successfully found a job through the Job Center, compared with less than half that for high-skilled workers. Private agencies are also more important for the low-skilled, although their use remains low.

Method of successful job search

Percentage of recent job finders



Source: OECD calculations based on the KLIPS.

The MOEL's Work-Net website is also an important tool for connecting jobseekers with available vacancies. Work-Net was launched in 1998 and its functions have expanded over time. From 2011, users have been able to search for jobs listed on other privately operated websites and from local governments through Work-Net. Users can also view their job application history, take vocational aptitude tests and manage their relationship with the Job Center online, including updating their jobseeker registration and applying for Job Center courses or counselling sessions. Employers can list vacancies and search for new staff. The system also provides information for Job Center counsellors and local governments providing employment services. As at January 2012, Work-Net had 368 000 daily visitors, viewing more than 31 million pages. There were around 720 000 jobseekers and 61 000 employers registered with the site. In total, 200 000 vacancies were listed (KEIS, 2012).

Table 3.2. **Number of participants in job-matching services at Job Centers**

	2008	2009	2010	2011
Job fairs	47 269	51 057	53 112	57 025
Accompanied interviews	2 244	4 595	5 623	5 487
Recruitment services for firms	63 645	53 374	24 578	11 279

Source: MOEL (2012), *Employment White Paper*, Seoul.

Job-search training

As well as job-matching services, Job Centers provide training and guidance in job-search skills. Depending on their needs, jobseekers are encouraged to attend other collective sessions in addition to the mandatory session upon registration, although attendance is not obligatory. In theory, job-search training is available to all jobseekers, regardless of whether they are receiving unemployment benefits or not. However, no data are available on the proportion of participants in various training sessions that are not eligible for unemployment benefits. The availability of sessions is advertised in Job Centers and on Work-Net. Job-search training is conducted mainly by Job Center staff, although an increasing number of sessions are undertaken by private employment agencies (MOEL, 2012a; and 2011).

The number of jobseekers participating in job-search training has been increasing over recent years (Table 3.3). The largest programme of job-search training consists of short lectures (running for a few hours) to improve basic skills, as well as career planning, résumé writing and interview training. While the programme is open to all jobseekers, Job Center counsellors often recommend this programme to unemployment benefit recipients, who are not required to show proof of job-search while they participate. However, participation is not mandatory. In addition, each Job Center also runs sessions tailored to the needs of jobseekers in their region. These programmes are generally not targeted at particular groups of jobseekers but are open to all jobseekers on a firs--come first-served basis. In total, these two programmes had around 250 000 participants in 2011, equivalent to about 14% of registered jobseekers if it is assumed that each jobseeker participated in only one session.

Finally, there are a number of programmes targeted at jobseekers with particular difficulties in finding work, including people with low employability, youth, older workers, women who are returning to the workforce after a career break, veterans and marriage migrants. These programmes tend to be more intensive, with courses lasting three to five days instead of a few hours for short-term training programmes. However, the numbers participating are small: around 35 000 in 2011, and are unlikely to include many recently displaced

workers. Jobseekers are referred to these programmes by Job Center counsellors and cannot sign up voluntarily. In total, participants in these programmes make up around 15% of registered jobseekers, although this figure likely overestimates the true proportion of jobseekers who participate because some may participate in more than one programme.

Table 3.3. **Number of participants in job-search training at Job Centers**

	2008	2009	2010	2011
Short-term job-search training	135 550	145 132	231 951	197 711
Job Center-developed programmes	75 557	114 001	5 749	163 401
Other employment assistance programmes[a]	..	..	22 583	35 233

.. Data not available.

a) Includes the programmes Achievement, Career Assistance Program, Hope with Employment, Sincerity, plus programmes targeted at women returning to the workforce after a career break, veterans, youth and marriage migrants.

Source: MOEL (2012), *Employment White Paper*, Seoul.

Intensive assistance

For jobseekers who cannot find work unassisted or who need more help than basic job-search training can provide, more individualised assistance may be required. In Korea, Job Centers have traditionally provided this type of assistance to small numbers of very disadvantaged jobseekers, but its use is not widespread. However, with the introduction in 2009 of a new programme for welfare recipients and its subsequent expansion to more groups of jobseekers, the use of intensive assistance has been expanding in recent years.

Comprehensive counselling at Job Centers

If jobseekers are particularly disadvantaged, they may be referred to the comprehensive counselling service operated by Job Centers. The targeted groups are unemployment benefit recipients with low employability, as well as older workers, women returning to work after a career break, North Korean refugees and foreigners who migrate to Korea for marriage (so-called marriage migrants). In practice, only 0.3% of registered jobseekers take part in comprehensive counselling (Table 3.4), few of whom are likely to be recently displaced workers. Employment rates after participating have increased in the past few years and are around double the employment rates for all registered jobseekers.

Table 3.4. **Comprehensive counselling programme at Job Centers**

Levels and percentages

	2008	2009	2010	2011
Number of participants	8 981	10 841	12 407	8 899
Employment rate (%)	38.4	39.1	55.7	56.7

Source: MOEL (2012), *Employment White Paper*, Seoul.

Employment Success Package programme

With a view to providing better employment services to people who are not covered by Employment Insurance, the MOEL in 2009 introduced a package of labour market services specifically targeting vulnerable groups in the labour market, which is known as the *Employment Success Package* (ESP) programme. This is a programme funded from the general budget. In its first three years of operation, the ESP programme did not target displaced workers, rather it covered very low-income people living under 150% of the minimum living cost who were capable of work, including those receiving Basic Livelihood Security benefits (see Chapter 2 for a description of Basic Livelihood Security).

However, changes from 2012 onward will see the coverage of the ESP expanded considerably to cover at least some types of displaced workers.[13] There are three new target groups, as well as the low-income earners who were already included in the programme prior to 2012:

- *Unemployed youth aged 15-29 years*:[14] High-school graduates who do not intend to pursue further education can participate immediately after completing high school. Youth with a college degree or higher are eligible they are unemployed more than six months after graduation.
- *Low-income, middle-aged unemployed people*: Participants must be aged 30-64 years, be members of a household earning 250% or less of the minimum living cost and satisfy one of the following conditions: *i)* still unemployed after the expiry of unemployment benefits; *ii)* was contributing to Employment Insurance but did not satisfy the minimum contribution requirement to receive benefits; or *iii)* has never contributed to Employment Insurance and has been unemployed for more than six months.
- *Free Trade Agreement (FTA)-displaced workers*: Workers who have been displaced as a result of Korea's recent FTA with the United States are eligible for the ESP programme from 1 March 2012, regardless of their income level.[15]

Box 3.7. **Stages of the ESP programme**

First stage: This consists of individual counselling and a four-week course aimed at boosting participants' confidence and desire to work. The career guidance stage includes group counselling, vocational psychology testing, etc., and each participant is expected to develop an Individual Action Plan (IAP). Those who complete the group counselling course and prepare an IAP are paid a bonus of KRW 200 000, or around 7% of the average monthly wage. Those who decline to participate in or finish the first stage can be allowed to participate in the second stage and receive KRW 50 000 when they enroll. All participants are then encouraged to go on to the second stage.

Second stage: During the second stage, participants are monitored at least once every two weeks by officials in the Job Centers who meet with participants, both face-to-face and *via* the Internet. Depending on their IAPs, participants receive more job-search training through collective sessions, or one of three types of services:

- *Vocational training*: Participants who need vocational training are provided with an Individual Training Account (ITA – see next section) where the full cost of the training is subsidised. During the training course, participants also receive daily allowances of KRW 15 000 (maximum KRW 200 000 per month) for living costs. This is to help people from marginal, low-income group who find it practically difficult to participate in training because they need some income to support them and their families during the training course.
- *Work experience*: Participants needing an opportunity to become acclimatised to a working environment and learn necessary job skills are offered work experience. They can work 15-35 hours per week in a "transition job" which is typically a government-funded job in a non-profit organisation, such as a welfare institute, school, training institute or social enterprise. These jobs last 3-5 months and participants can earn a monthly income of up to KRW 760 000 (around 25% of the average monthly wage) based on a 35-hour workweek. Youth participants who are better prepared for regular employment are offered Youth Internships in SMEs in the location of their choice.
- *Business start-up*: Participants who wish to start a new business can participate in a Business Start-up Support course offered by the Small Business Development Center, working with the support of the Small and Medium Business Administration and the Korea Workers'' Compensation and Welfare Service. Participants receive business start-up training and may also receive additional supports if necessary, including start-up loans for their own business.

Third stage: Participants are helped to find employment through intensive job-placement services provided by both public job centres and contracted-out private employment agencies. These services include searching for the best job matches for each participant based on her/his vocational preferences, aptitudes and participation history in the second stage of the programme. If they wish, participants can also receive coaching on job-interview skills and be accompanied during job interviews. Low-income participants obtaining a job receive an allowance of up to KRW 1 million (around 32% of the average monthly wage), paid in three instalments upon receiving the job and three and six months later if they still have the job. Starting from 2012, the government will continue to pay educational and medical benefits for two years to former Basic Livelihood Security recipients who have successfully completed the ESP programme.

The ESP is a three-stage programme, providing customised assistance for up to 12 months. In the first stage, participants receive individual counselling and develop an Individual Action Plan (IAP). Depending on their IAP, participants then go on to receive further job-search assistance, training, work experience or help to set up their own business. Finally, intensive job-placement services are provided. Financial incentives and income support are also provided at various stages to promote participation (Box 3.7).

In 2009, 48% of participants finished the programme after the first stage, 15% after the second stage and 25% after the third stage. Around 12% of participants found work during either the second or third stage and therefore did not complete the stage (KLI, 2009).

The initial results of the ESP programme are very promising in terms of its effectiveness in helping people find work. An evaluation by the KLI (2009) found that 76% of participants who completed IAPs were successful in finding work (Table 3.5). This employment rate is very high given that most of the participants were welfare recipients with presumably poor ties to the labour market prior to participating in the programme. Employment rates were lowest for those who took part in training in the second stage (58%).

Table 3.5. **Employment rates among ESP participants in 2009**

Percentages

Stage of programme completed	End first stage	73.4
	End second stage	58.3
	End third stage	86.7
	Job-matching during 2-3 stage	86.8
First/second stage participants: by type of intervention	Collective counselling (stage 1)	74.1
	Short-term job-search lectures	72.7
	Training	58.1
	Subsidised work experience	83.3
	Business start-up	83.3
Third stage participants: by service provider	Job Center	86.2
	Outsourced private employment agencies	90.5
	Job Center and outsourced private agencies	87.8
Total		**76.1**

Source: KLI (2009), "Evaluation of the Successful Employment Services Packages Programme", Seoul.

Regardless of the type of intervention in the second stage, participating in intensive job-placement in the third stage improved employment outcomes compared to just completing the second stage. Employment outcomes were slightly better for those who receive third-stage job-placement services from private agencies than from Job Centers.

The expansion of the ESP programme to cover additional vulnerable groups is welcome, particularly given the promising early results for welfare recipients. As the programme is rolled out more widely, one issue that should be addressed is the relative effectiveness of Job Centers and private agencies in delivering the programme. In the initial evaluation, KLI (2009) argued that, regardless of the form of service delivery, there were not enough personnel to perform the necessary services properly. While the performance of Job Centers and private job placement agencies is being monitored and the initial results are encouraging, it would be important to carry out a formal evaluation to estimate the *net* impact of the programme on employment outcomes of participants and to evaluate the relative effectiveness of the public and private provision of the services provided under the programme.

Of key importance if private agencies are going to play a major role in delivering the programme in the future is finding the best way to monitor and reward their performance. Currently the short-term nature of contracts between the MOEL and private agencies makes it hard to use longer-term outcomes (such as employment status three or six months after programme completion) to measure the performance of agencies.[16]

Private agencies visited by the OECD argued that the inflexibility of the current system meant that they did not have time to provide the kind of tailored counselling that they felt was most effective in helping people find work. More effort is needed to refine the contract system to ensure that agencies can take advantage of their strengths, are adequately rewarded for their performance and that public money is being spent in the most efficient way possible.

Improving job-search assistance for displaced workers

For many displaced workers, basic assistance such as listings of job vacancies and short-term courses on job-search skills will be sufficient to help them get back to work quickly. However, as shown in Chapter 1, around half of displaced workers do not find a new job within a year of displacement. These people may need more intensive assistance. However, very few jobseekers in Korea currently receive intensive assistance, and recently displaced workers are not typically targeted by these programmes. This is a pity because those who do take part in intensive assistance have much better employment outcomes, on average, than registered jobseekers in general.

MOEL Job Centers have too few resources at their disposal to ensure that those that need intensive assistance get it. Some additional capacity has been created in recent years by allowing unemployment benefit recipients to maintain their benefit status online. However, more staff, especially job counsellors, are required if Job Centers are to operate at a similar capacity to public employment services in other OECD countries.

Recent policy initiatives, such as the ESP programme, have shown good results in helping very marginalised people find work by providing customised, intensive assistance. The 2012 expansion of this programme to cover more jobseekers is welcomed, although careful targeting is required to avoid inefficiency as the programme becomes more widespread. For example, it is not clear that all workers displaced by FTAs will require such intensive assistance, at least not in the initial stages of unemployment. It may be better to provide less costly assistance – such as job-search training – and allow these workers to search for work for a period of time after job loss and only refer them to the ESP programme if they are unsuccessful.

More generally, it may be worth considering offering services equivalent to the first stage of the ESP programme to all jobseekers who have been unemployed for more than a certain time, say six months. After drawing up an IAP, jobseekers could then be referred for additional assistance, such as personalised job placement, job-search training, vocational training or work-experience placements, as required.

Training programmes for displaced workers

The Workers Vocational Skills Development Act of 2004, together with the 2009 "Action plan to build a market-friendly job skills development system" provide the framework for training programmes in Korea. Most training programmes, both for existing workers and the unemployed, are funded through the Employment Insurance system, although there have been moves in recent years to fund more training from the general budget for those unemployed people who are not eligible for EI.

Participating in training while employed can reduce job turnover and improve re-employment after displacement (Kim *et al.*, 2009). As such, increasing the skills of workers at risk of displacement before they lose their jobs could improve their outcomes after displacement. Training programmes for existing workers pay subsidies to employers that provide training for their workers, either directly or through outsourced providers, as well as encourage firms, employer federations, universities and other training providers to set up training consortia to help SMEs provide training to their workforces (Box 3.8). However, training participation

remains quite low for those workers most vulnerable to displacement, such as the low-skilled, non-regular workers and those working in small firms.

Box 3.8. **Training programmes for existing workers**

All training programmes for existing workers are financed through the Employment Insurance Fund. Most programmes comprise subsidies paid to employers who provide skills development programmes for their employees. The government refunds training expenses to insured employers when they provide, either directly or through outsourced providers, vocational training authorised by the MOEL. A subsidy can also be paid to cover training costs and minimum wage when an employer offers training leave to employees with one or more years of service.

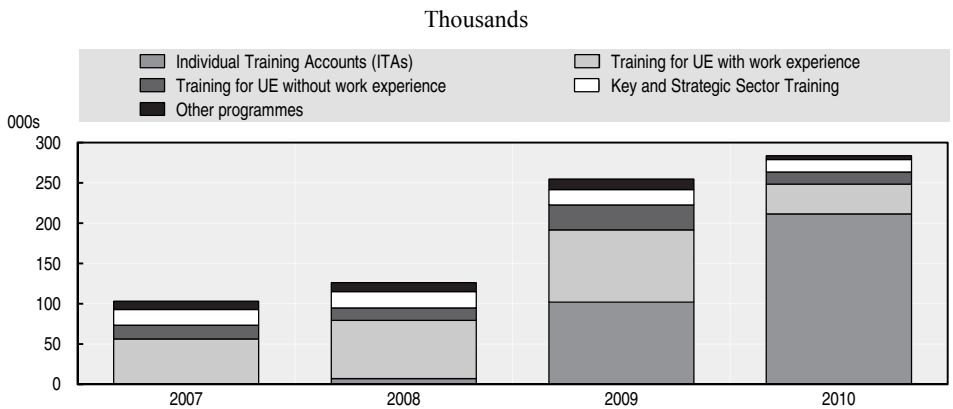
There are also a number of programmes to encourage SMEs to provide training to their employees. SMEs can be reimbursed for all or part of the training costs for their employees who take part in authorised training programmes to improve performance of "core tasks", such as sales, marketing, production and quality management, human resources and organisation management. There is also support for groups setting up a "training consortium" to help provide vocational training to SME workers. The government subsidises training expenses and facility and equipment expenses to the consortium, which could be comprised of companies, employers' federations, universities or other training providers. Around 250 000 employees from 120 000 SMEs participated in the consortium project in 2011, a very small proportion of all SME employees in Korea.

Efforts have been made in recent years to increase training rates among vulnerable workers such as those with non-regular contracts or SME workers. However, training participation still tends to be higher among those workers whose re-employment prospects are already relatively good. For example, Kim *et al.* (2009) found that the average number of training sessions attended was higher for men, those aged in their thirties and workers with a higher education. More generally, as discussed in Chapter 2, the reliance on funding through the Employment Insurance system means that the most vulnerable workers are most likely to miss out.

Participation in training programmes for the unemployed increased almost threefold between 2007 and 2010 (Figure 3.5). The vast majority of the increase is due to the introduction of a system of Individual Training Accounts (ITAs) in late 2008 and its rapid expansion in subsequent years. As a result, the two major training programmes for the unemployed prior to 2009 (Training for the unemployed with and without work experience) have now been completely replaced by the ITA.[17] Participants in training programmes (and other active labour market programmes) are not required to continue actively searching for work while in training.

The next sections will examine the three main training programmes used in recent years to help displaced workers: Training for the unemployed with work experience; Key and Strategic Sector Training; and the ITA.

Figure 3.5. **Participants in training programmes for the unemployed,[a] 2007-10**



a) Includes only training programmes for the unemployed with prior work experience, including Training for unemployed with work experience, Key and Strategic Sector Training, Individual Training Accounts and other programmes. UE: unemployed. Figures for participants in ITA in 2008 and 2009 are an estimate based on the number of accounts issued in 2008 and 2009 and the ratio of training participants to accounts in 2010.

Source: KEIS (2007, 2008, 2009 and 2010), *Analysis of HRD-Net Statistics*, Seoul.

Training for the unemployed with work experience

Prior to the introduction of the ITA in 2008, "Training for the unemployed with work experience" was the main training programme for displaced workers. To qualify, participants must have been unemployed from a job where they were contributing to Employment Insurance, be registered with the Job Center and want job training. Referral to the programme from Job Centers typically occurred several months after registration with the Job Center. In 2010, around one-third of participants were referred to the programme in the first 3 months of unemployment, 27% after 3-12 months of unemployment and 37% after 12 months of unemployment (KEIS, 2010).

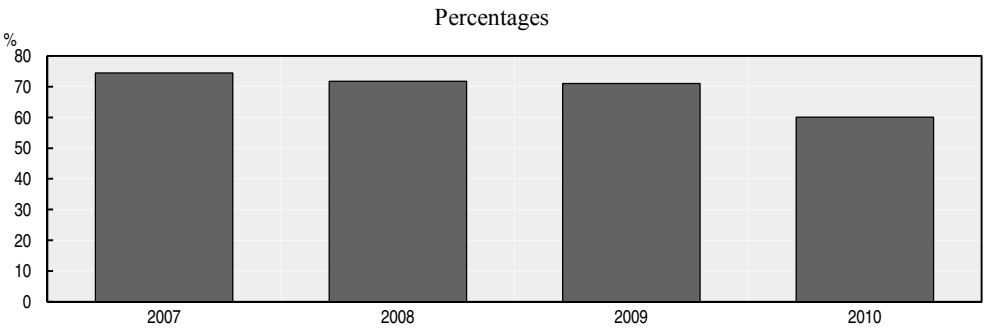
The government paid public and private training providers to run training programmes for eligible participants, as well as paying allowances to participants to cover food and travel expenses. Training duration was at least 60 hours in total during a period between one month and one year. In 2010, more than two-thirds of training courses lasted 3-6 months and a further 28% lasted 6-9 months. Almost 80% of students completed the course (KEIS, 2010).

The MOEL determined which training courses were offered and their content. In 2010, around three-quarters of training places were in one of four areas: office management (20%); service sector jobs (18%); information

and communication technologies (17%); and machinery and equipment manufacturing (17%) (KEIS, 2010).

Post-programme employment rates were above 70% each year in the years 2007-09 (Figure 3.6). The employment rate fell considerably in 2010. The most likely explanation for the fall is that economic conditions were poorer for participants in 2010 than in earlier years due to the onset of the economic crisis. Participants in 2010 had also been out of work for longer than in earlier years, making them harder to place in jobs. For example, 31% of participants had been out of work for more than 12 months before participating in training on average in 2007-09, compared with 37% in 2010. The demographic composition of participants also changed somewhat, with slightly more low-educated and older participants in 2010 than in previous years (KEIS, 2007; 2008; 2009; and 2010).

Figure 3.6. **Employment rate after training for the unemployed with work experience, 2007-10**



Source: Unpublished data from the MOEL.

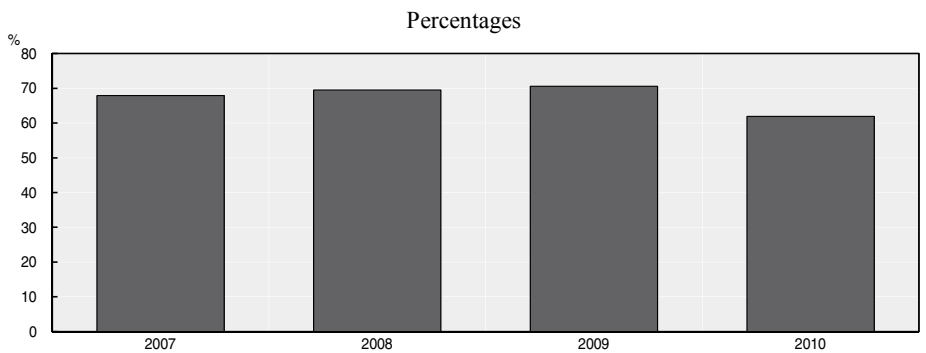
Key and Strategic Sector Training Programme

To meet labour demands from industries that are suffering labour shortages, the government supports skills development training in key and strategic industries. The target group for this programme are the unemployed aged 15 years or older who are registered with the Job Center or senior high school students who do not wish to pursue university education.[18] In 2010, 79% of participants in the programme were unemployed people with previous work experience who were receiving unemployment benefits (KEIS, 2010). Participants are overwhelmingly male (73% in 2010), of prime-working age (only 16% were aged over 50 in 2010) and typically have relatively low levels of education (62% have high-school qualifications or less) (KEIS, 2010).

Participants can take up to three training courses provided by central and local government, public organisations or government-authorised private training institutions. Trainees can receive a training allowance (KRW 200 000) as well as allowances for transportation (KRW 50 000) and meals (KRW 66 000) (MOL, 2009). Training typically lasts for three months (350 hours) to one year (1 400 hours). In 2010, 52% of courses lasted six to nine months and a further 41% lasted more than nine months (KEIS, 2010).

The MOEL designates priority occupations for which training is provided under the programme. In 2010, 61% of training places were targeted at manufacturing industries, with machinery and equipment manufacturing alone accounting for 47%. Information and communications technology (ICT) courses accounted for 18%, with the remainder concentrated on construction, electricity production and craft skills (KEIS, 2010). The post-programme employment rates for participants are just under 70% on average over recent years (Figure 3.7). Employment rates tend to be much higher for younger workers, and decline to around 50% for those aged over 50. Employment rates are lowest for those completing courses on ICT (57% in 2010) and textiles manufacturing (43%).

Figure 3.7. **Employment rates after Key and Strategic Sector Training Programme, 2007-10**



Source: KEIS (2007, 2008, 2009 and 2010), *Analysis of HRD-Net Statistics*, Seoul.

Individual Training Accounts

The Individual Training Account (ITA), also called "My Work Learning Card", was introduced in late 2008. The ITA is a training voucher which allows holders to participate in job skills development training programmes of their choice. Participation in the programme has grown quickly since its

introduction. In 2010, the ITA programme accounted for 70% of spending on training for the unemployed (MOEL, 2010b).

To be eligible for an ITA, applicants should be either unemployed people who were previously contributing to Employment Insurance, or first-time jobseekers, and should be registered at a Job Center. From 2009, ESP participants have also been eligible to participate (see previous section on "Job-search assistance for displaced workers"). In 2010, 74% of account holders were unemployed with previous work experience while 26% were first6time jobseekers (KEIS, 2010). As is the case for other training programmes, participants are chosen in interviews at the Job Center, and must be in need of training in order to help them find a job.

Participants receive up to KRW 2 million (KRW 3 million for ESP participants) to cover training expenses for one year. Around two6thirds of account holders participate in training within three months of receiving their account. More than 85% of training participants complete the course (KEIS, 2010). Most participants must pay 25-45% of the total training cost to ensure that they choose job-relevant training and encourage diligent participation. However, some groups (including ESP participants and training6linkage youth internship participants) are exempted from paying any of the training cost.

The key innovation of the ITA scheme compared with previous training programmes for the unemployed is that participants can choose to participate in any training course recognised by the MOEL. The number of recognised courses increased to 22 442 in 2011 from 3 948 when the ITA was introduced, and covers a wide range of skills and fields. Some counselling is provided to encourage jobseekers to take courses that are most likely to lead to employment. However, the final decision on the type of course taken is left to participants.

On average in 2011, 38% of ITA participants were employed in a job covered by EI after participating in the programme (the corresponding figures for 2009 and 2010 were 45% and 34%, respectively). These data are not directly comparable with data in Figures 3.6 and 3.7 as employment rates after participating in the ITA include only people who found jobs covered by EI. By contrast, the employment rates in Figures 3.6 and 3.7 include all post-programme employment, including in jobs without EI and self-employment.[19] Based on data on EI coverage from the Economically Active Population Survey, the MOEL estimates that the true post-programme employment rate (including self-employment and employees not covered by EI) is probably around 60-70%. This is of a similar magnitude to employment rates from previous training programmes for the unemployed.

In 2010 (the latest year for which data are available on employment rates by participant characteristics and field of training), employment rates after training were highest for men and for those aged in their twenties and much lower than average for participants aged over 50. Employment rates also varied substantially by field of training. Around 50% of participants were employed after nine months if they took part in courses on management, healthcare, transportation/driving, mechanical or chemical skills or ITC. By contrast, employment rates of graduates of sales, cleaning, security, beauty, hospitality and textiles courses were below 15% (KEIS, 2010).

Although the training budget for the unemployed increased by around 30% between 2007 and 2011, the number of training participants has increased by around 2.7 times over the same period. The cost per training participant fell from KRW 2.4 million in 2007 before the introduction of the ITA to KRW 1.2 million in 2011. This is primarily because the length of the training periods has been reduced from an average of 102 days in 2007 to around 64 days in 2011.[20]

Problems identified with the ITA pilot programme

Evaluations of the pilot programme for the ITA highlighted a number of problems with its operation. Many participants appeared to choose courses in fields that were not in demand in the labour market. For example, Ra *et al*. (2009) report that many people used their ITA to pay for "leisure" courses such as cooking, which had low post-training employment rates.

Even if they wanted to do training that would help them find work, participants may have been lacking the information to choose the most appropriate courses. Choi *et al.* (2009) argue that pre-training counselling was inadequate and that counsellors did not have sufficient information available on the types of skills that are most in demand in the labour market or on the courses or training providers available. Providing adequate guidance to participants to help them make good choices is a key problem for training voucher programmes in general (Hipp and Warner, 2008; Bruttel, 2005).

Participants were also reluctant to change their field of training, even when advised to do so by counsellors. Choi *et al*. (2009) report that more than half of participants came to the programme having already decided on their field of training, or even on the training provider, and it was difficult to persuade them to change courses. Some participants learnt about the availability of ITA funding from training providers themselves, and saw the counselling interview as just a step in the registration process rather than being open to career guidance. Around 97% of counsellors suggested a change of training field if they thought

the participant's choice was inappropriate. However, just 43% of participants accepted this advice and changed courses as a result (Choi *et al*., 2009).

This evidence suggests a number of sources of inefficiency in the initial phases of the programme. First, the programme may have been subsidising training that participants would have paid for themselves anyway, in which case the deadweight loss could be considerable. Second, the programme may have been subsidising skills that are not useful in the labour market, in which case the argument for providing *public* subsidies is weak. In either case, better screening procedures could ensure that participants are in need of training and that they are committed to finding work. Ko *et al*. (2010) suggest that referring people to the programme only after a period of independent job search could help target the programme more carefully at those who are most in need of help. Expanding intensive counselling services at Job Centers could help address this issue by giving job counsellors more time to assess the training needs and job-search motivation of potential participants. Requiring training participants to continue looking for work could also improve employment outcomes.

Recent changes to the ITA programme

In light of the problems identified in the pilot stage of the ITA programme, a number of changes were made to improve counselling and screening of participants. In 2010, the number of training counsellors was increased from 269 to 353. A training-counselling manual was compiled and distributed to local government offices across the countries to improve the quality of advice given to potential training participants.

Participants in some courses with poor employment outcomes (*e.g.* beauty, cooking) were required to pay 40% of the training cost instead of 20% and those without recent work experience were provided with extra counselling if they wanted to take courses with low employment rates (*e.g.* beauty, cooking) to ensure that they were willing to work. Information on the employment rate of each course and training provider is now provided on the HRD-Net website so that potential trainees can see which courses are most effective.

Further steps were taken in 2011, including imposing a ceiling on the number of places available in each training field to better match the training demand of industries and providing more information to trainees about the operation of the programme and the performance of particular courses and training institutions.

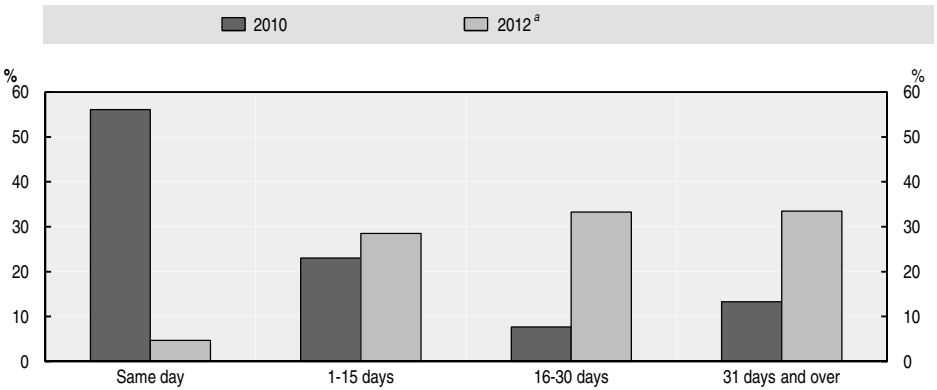
In addition to improving the information available to help participants choose a suitable course, participants are now subject to stricter screening prior to being issued with an ITA. ESP participants, who make up around

half of ITA participants, are only issued with an ITA after completing stage one of the ESP programme, which involves in-depth counselling and takes two to four weeks (see previous section on "Job-search assistance for displaced workers").

Non6ESP participants are now required to apply for two job vacancies. When a jobseeker applies for an ITA, a counsellor will check that the jobseeker has applied for two genuine vacancies before issuing an ITA. As a result of these changes, the average time between registration as a jobseeker and the issuance of an ITA has increased considerably (Figure 3.8).

Figure 3.8. **Time after initial registration until issuance of ITA**

Percentage of all current ITA holders



a) As of October 2012.

Source: KEIS (2010), *Analysis of HRD-Net Statistics*, Seoul and unpublished data from HRD-Net provided by the MOEL.

These are all positive steps towards addressing the main problems identified in the pilot phase of the ITA programme. The impact of the changes on employment rates and other indicators of the outcome of the programme should be closely monitored over the next few years. Areas where additional changes may be required include strengthening post-training counselling and job-matching services, particularly for non-ESP participants and extending further the required period of job-search before ITAs are issued. While the number of training counsellors was increased substantially in 2010, there are still less than 400, while more than 150 000 people hold ITAs as of October 2012. As such, employing more training counsellors may be warranted.

Conclusion

Many displaced workers will find a new job relatively quickly, either by themselves or with limited assistance from a Job Center such as by providing a listing of job vacancies or basic job-search training. However, providing adequate re-employment services to help the 50% of displaced workers who do not find a job in the first year after displacement can help limit the cost of displacement for individuals and society.

Subsidised outplacement services do not appear to be well-matched to the needs of the Korean economy and have not performed well in the past. The scrapping of the Job Transfer Support programme from 2013 is a sensible step as it was not reaching the workers who were most at risk of displacement. A better option would be to increase the resources devoted to Job Centers to allow them to provide more intensive assistance to the jobseekers who need it. Recent strains on Job Centers have been addressed, in part, by outsourcing some tasks to private agencies or RACs operated by the Korea Labor Foundation. More thorough evaluation is needed to ensure that this is the best use of public money and to avoid duplication of services between the two organisations.

At the moment, very few jobseekers, and almost no recently displaced workers, are referred for intensive assistance. It may be worth considering offering services equivalent to the first stage of the ESP programme to all jobseekers who have been unemployed and searching actively for work for more than a certain time. After drawing up an IAP, jobseekers could then be referred for additional assistance, such as personalised job placement, job-search training, vocational training or work-experience placements, as required.

This approach could also be used to improve the screening of ITA participants and the support they receive after undertaking training. Recent changes have made some job search a pre-condition of getting an ITA, but requiring a longer period of job search could ensure that those who can find a job quickly do so and that the training budget is more strongly targeted on those who lack the skills needed by the labour market.

Finally, more thorough evaluation of active labour market programmes is warranted, and indeed, required under the Framework Act on Employment Policy, to identify the most effective and efficient programmes. While some evaluation already takes place, more rigorous methods should be used to provide better information on a variety of outcomes including employment rates, job quality indicators (such as wages and future job security) and, for training programmes, whether participants find work in the fields in which they train. As far as possible, analyses

should also include a suitably selected comparison group of non-participants to determine what the outcomes would have been in the absence of the programme. Any new labour market programmes should include such an evaluation as a key requirement of implementation.

Notes

1. In this report, "job-search training" is used to describe programmes to help workers find jobs by improving their job-search skills. These might include, among other things, resume preparation, job-interview practice, job-search strategies and vocational counselling.
2. Schools and universities typically provide services to graduates, while a number of Ministries provide employment services to diverse target groups. For example, the Ministry of National Defense and the Ministry of Patriots and Veterans Affairs have job centres for retiring servicemen or veterans; the Ministry of Health and Welfare funds the Korean Senior Citizens Association Job Center as well as vocational rehabilitation for the disabled; the Ministry of Gender, Equality and Family provides support for women re-entering the workforce after career breaks; and the Ministry of Unification and the Ministry of Public Administration and Security provide employment services to North Korean defectors.
3. Data from MOEL (2010a) show that 32.8% of Job Center staff in 2010 worked on employment support and 6.1% on job-search courses.
4. This information was provided by the Seoul Job Center during the OECD mission to Korea in February 2012.
5. A total of 64 job counsellors are employed by Seoul City to work across the whole city.
6. The Act requires that local governments analyse and evaluate the effects of policies on employment and job creation and reflect the results in future policy making and implementation. Local governments can also ask the Minister of Employment and Labor to undertake the evaluation and report back on the results.
7. As well as services for jobseekers, the KLF provides training for career counsellors and since 2012 has had responsibility for monitoring the MOEL's contracted-out outplacement services programme.
8. Anecdotal evidence suggests that another reason that the largest firms shy away from using these types of programmes is because it signals to the market that they are suffering from financial difficulties.
9. "Activation" describes measures taken to ensure that jobseekers have a better chance of finding work. These include expectations that unemployment benefit recipients will actively search for work, accept suitable job offers and take part in active labour market programmes to

help improve their employability, enforced by the threat of benefit sanctions in cases of non-compliance. In return, jobseekers are provided with income support and adequate re-employment services (OECD, 2009b).

10. Over the course of 2011, around 2.6 million people registered at Job Centers and 1.1 million received unemployment benefits (MOEL, 2012a and 2012c).

11. Benefit sanctions are effectively quite low even for those who do receive unemployment benefits, due to the relatively short duration and low replacement rate of benefits, combined with low sanctions (two to four weeks of benefits) for those who breach requirements.

12. This is the ratio of participants to jobseekers. Some jobseekers may have participated in more than one type of intervention, in which case, the actual proportion of jobseekers participating would be lower.

13. Around 156 000 people will potentially be covered by the programme. Eligibility will be determined by the FTA support team.

14. 15-32 years for those who have completed military service.

15. It is unclear how eligibility for these workers will be determined.

16. Contracts are for three years but are reviewed every year and non-performing agencies have their contracts terminated.

17. Other training programmes for the unemployed tend to be small in scope and focus on groups with long-term detachment from the labour force or particular problems finding work, such as unemployed female household heads and North Korean refugees.

18. Unemployed with prior work experience must have been previously in a job where they were contributing to Employment Insurance.

19. Prior to the introduction of the ITA, training participants were monitored to keep track of their post-programme employment outcomes. The sharp increase in the number of training participants since 2011 has made it practically difficult to monitor employment outcomes for all participants, so data on EI coverage are used by the MOEL as a proxy for post-programme employment.

20. Data provided by the MOEL.

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KOREA

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

Workers who are involuntarily displaced from their jobs can face long periods of unemployment. Wages also tend to be lower once they find a new job, especially when they are unable to find a new job in the same occupation as their pre-displacement job or in occupations using similar skills. Helping displaced workers back into work quickly and minimising the income losses they face are therefore an important challenge for employment policy. This series of reports provides new empirical evidence from a comparative perspective on the incidence of displacement and the risk that displaced workers may subsequently face a long spell of unemployment and large wage losses when re-employed. It also identifies the main labour market programmes providing help to these workers and assesses how adequate and effective they are. Policy recommendations for further action are presented.

Nine countries are participating in the review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States.

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