

3. Unemployment Insurance System

Employment Structure and Unemployment Insurance in East Asia: Establishing Social Protection for Inclusive and Sustainable Growth

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1. Why We Need Unemployment Insurance for East Asia

East Asian economies, surrounded by other APEC (Asia-Pacific Economic Cooperation) economies, have deepened their economic interdependence over the past few decades. Recent free trade agreements and economic partnership agreements among economies help confirm market integration in the region. As Stiglitz (2001: x) points out, “free international trade allows a country to take advantage of its comparative advantage, increasing incomes on average, though it may cost some individuals their jobs.” Free trade may bring about social instability through unemployment, in parallel with economic prosperity.

Social instability brought about by unemployment is not merely a domestic problem; it is also a region-wide issue, for domestic social tension can easily lead to international tension. Polanyi (1944: 219) writes that “the strain which sprang from unemployment might induce foreign tension. In the case of a weak country this had sometimes the gravest consequences for its international position. Its status deteriorated, its rights were disregarded, foreign control was foisted upon it, its national aspirations were foiled. In the case of strong states the pressure might be deflected into a scramble for foreign markets, colonies, zones of influence, and other forms of imperialist rivalry.”

Each government is responsible for coping with social instability, not just for domestic integration but also for improving the sustainability of regional economic cooperation. Moreover, it is not just each government but also the region as a whole that is responsible for addressing the issue. It is therefore advisable and reasonable that improvements to the region’s social protection system be discussed at the APEC 2010 Summit. Unemployment insurance and related schemes will comprise some of the essential points of the discussion.

In the following sections, I will examine the theoretical definition of “unemployment” (Section 2). Then, I will go through related schemes and argue that unemployment insurance is the best among them and an essential part of a social protection system (Section 3). After glancing through the characteristics of labor markets in East Asia (Section 4), I will explore why some economies have unemployment insurance while others do not (Section 5). I will concentrate my analysis on 11 economies, without excluding other APEC economies from the discussion. I will

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also evaluate the existing unemployment insurance schemes and point out their inadequacies, especially in terms of coverage (Section 6). In the conclusion (Section 7), I will stress the importance of regional cooperation in upgrading social protection systems.

2. A Theory of Unemployment

What does the term “unemployment” mean? As a real-world issue, how should we cope with it? Okochi (1952), the leading social policy scholar in postwar Japan, provides a good starting point. His perspective covers both developed and developing economies, for when he wrote his theory, Japan was a developing economy that was on the verge of experiencing a high-growth era. He stressed three aspects of the concept of unemployment.

First, unemployment denotes that a worker who does not have his own means of production has lost his workplace. If he has his own workshop, land, or store, he cannot be unemployed. In such a case, if that worker cannot earn enough money to live, he is called “poor” or “underemployed,” but he is not “unemployed” in a precise sense (*ibid.*: 9).

Second, the idea of unemployment presumes that the unemployed worker retains his willingness to work. It implies that he shares a characteristic of modern wage workers that Weber calls “the spirit of capitalism.” Such a worker should not be idle and should make every effort to earn his own bread (*ibid.*: 12).

Third, if a worker cannot find a job that suits his skill or ability set, it can be said that he is “unemployed.” In economies where unemployment insurance is inadequate, dismissed workers may be ready to accept whatever job is possible. If they get a new job that is not appropriate to their skills, however, it is a kind of unemployment, in the sense that they are misallocated from the viewpoint of the efficiency of the whole of industrial society (*ibid.*: 16).

How do these three points relate to our current issue? The first point suggests that only employed workers can be unemployed. Self-employed workers such as farmers or petty traders cannot, by definition, be unemployed. Their problems related to poverty or underemployment cannot be solved with unemployment insurance. Other measures such as industrial policy or education policy should be put in place to improve their lives. Even in this case, however, unemployment insurance will at least reduce the uncertainty of workers in the formal sector.

The second point reminds us of discouraged workers. In developing economies, dismissed workers may go back to their home village and join the family business as unpaid workers. As such, they may not appear to be unemployed. Even in developed economies, dismissed female workers and older workers are sometimes discouraged from seeking a new job; instead, they rely on their families. For these people, active labor market policies such as training programs are more suitable than unemployment insurance.

The third point implies a merit of unemployment insurance. If there is an adequate unemployment insurance scheme in place, dismissed workers can retain their skills until they find a suitable job that makes use of their abilities. If their skills are outdated, they can undergo

training to acquire new skills that are suited to their abilities. In either case, unemployment insurance is helpful for the unemployed in maintaining or upgrading their skills; this is good not just for them but also for the efficiency of the whole of an industrial society.

3. Unemployment Insurance and Its Related Schemes

Besides unemployment insurance, other compensation schemes related to unemployment are severance pay, unemployment insurance savings accounts, unemployment assistance, and work programs (Berg and Salerno 2008: 81).

Severance pay is a benefit paid by the employer to the employee upon termination of the employment contract (ibid.). If all employers were honest and generous when dismissing employees, the function of severance pay would be similar to unemployment insurance. In reality, however, the employer of a bankrupt company may run away without offering severance pay to employees. Nonetheless, it is better than nothing. Economies like Malaysia, the Philippines, and Indonesia, neither of which have unemployment insurance, mandate severance pay (ILO 2010, Asher and Mukhopadhaya 2004).

Unemployment insurance savings accounts are private savings accounts that workers can draw on in the case of job loss (Berg and Salerno 2008: 81). They contain no risk-pooling mechanism. They are not very helpful for the most vulnerable of the unemployed, that is, those who have not accumulated sufficient savings prior to becoming unemployed (ibid.). Chile has this type of scheme, in which accumulated contributions are paid out upon job separation (OECD 2010: 134).

Unemployment assistance is a means-tested benefit program that helps workers in greatest need (Berg and Salerno 2008: 81). Australia and New Zealand have developed this type of scheme, instead of unemployment insurance (Palme et al. 2010). Economies such as Germany use this type of scheme to support job seekers who cannot receive benefits from unemployment insurance (Toda 2010). In Japan, it has been discussed as a second-tier safety net between unemployment insurance and social assistance in supporting job seekers (Hamaguchi 2010).

Work programs also self-select from the neediest groups by paying wages that are at or below the minimum wage in exchange for public work, such as building roads, schools and clinics (Berg and Salerno 2008: 82). When combined with skills training, such programs resemble those enacted by active labor market policies.

Among these four schemes, the first two are meager alternatives to unemployment insurance; the latter two are complements rather than alternatives to unemployment insurance. After all, unemployment insurance is an essential part of social protection systems in promoting inclusive and sustainable growth in East Asia.

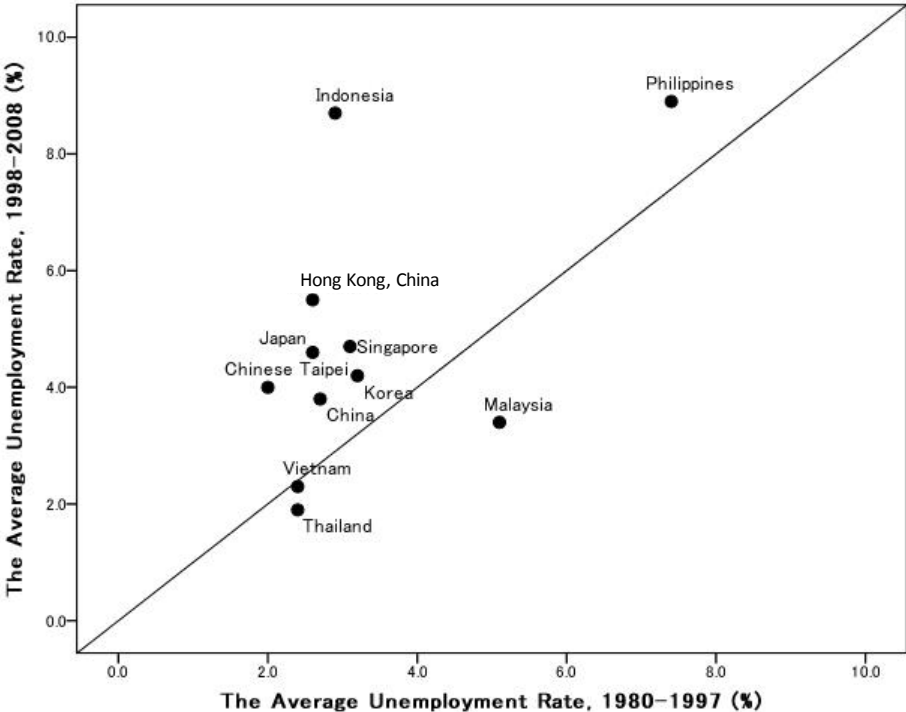
4. Varieties of Labor Markets in East Asia

Before examining unemployment insurance, we should outline the varieties of labor

markets in East Asia. There are similarities as well as differences in this respect among East Asian economies. The most striking similarity is that they have maintained low unemployment rates until recently. The most salient differences concern each economy’s economic level and the sector-based structure of its labor market. If you apply convergence theory, however, it can be interpreted that each economy is proceeding on the same road, but is currently at a different point. On the other hand, some divergent characteristics in each labor market, such as those pertaining to the employment rates of young mothers and the elderly, cannot be explained by convergence theory.

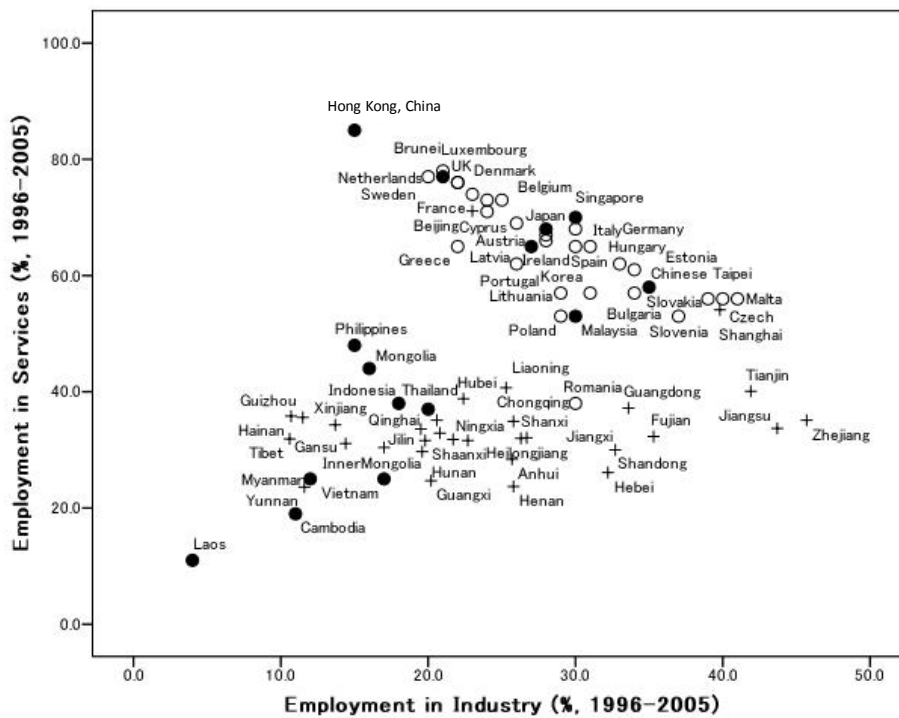
Figure 1 compares the unemployment rates before and after the Asian economic crisis of 1997–98. Before the crisis, most economies other than the Philippines and Malaysia had achieved nearly full employment. After the crisis, most economies other than Malaysia, Thailand, and Vietnam experienced a rise in unemployment. Of course, we should be careful with the different definitions of unemployment in each economy. For example, the unemployment rate in Thailand is a figure that excludes the “seasonally inactive labor force”; this workforce component becomes sizeable during the agricultural off-season. On the other hand, the unemployment rate in Indonesia after 2000 includes discouraged workers (Dhanani et al. 2009: 54). Obviously, Thailand’s rate is underestimated, while that of Indonesia is overestimated. In any case, the unemployment problem in East Asia has emerged since the economic crisis.

Figure 1: Unemployment is a new experience for East Asia



Data Source: ILO, *Key Indicators of the Labour Market*

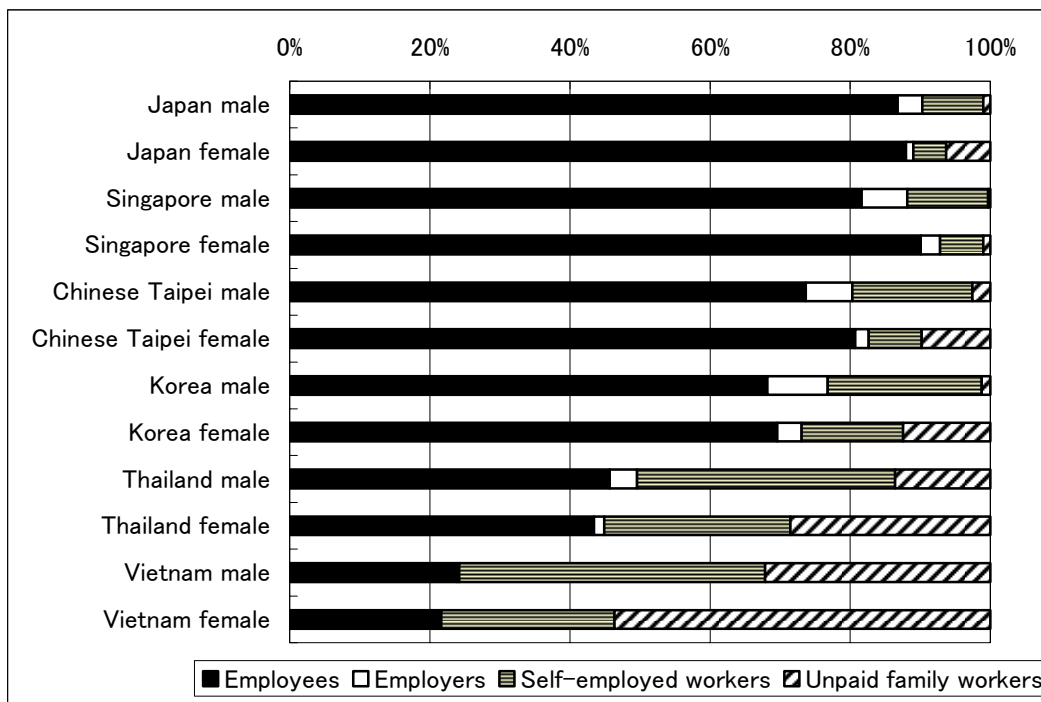
Figure 2: Different phases of industrialization



Data Sources: UNDP, *Human Development Report 2007/2008*. For Chinese Taipei, Directorate General of Budget, Accounting and Statistics, *Statistical Yearbook of the Republic of China 2007*. For China, National Bureau of Statistics of China, *China Statistical Yearbook 2008*. For the EU economies, OECD, *StatExtracts* (data for 2005).

The significance of unemployment, however, varies depending on the sector-based structure of each economy. In agrarian economies, underemployment and poverty rather than unemployment may be the central problems, whereas industrial economies likely have many workers who need traditional types of unemployment insurance. In post-industrial economies, the scheme should bear the characteristics of active labor market policy that make it suitable for the knowledge economy. As figure 2 shows, while there are some post-industrial economies in the region, such as Japan, Korea, and Chinese Taipei, most East Asian economies seem to still be in the industrialization process. (Black dots represent East Asian economies; white dots, as a reference, represent EU member countries. Chinese provinces are represented by “+.” Here I would like to stress China’s internal disparities.) Some of the coastal provinces of China, such as Zhejiang, Jiangsu, and Tianjin, seem to be at the peak of the industrial stage and are worthy of the name “Workshop of the World” (Kamimura 2010: 90). Thus, it is time to introduce or strengthen unemployment insurance in such economies.

Figure 3: Different labor-market structures

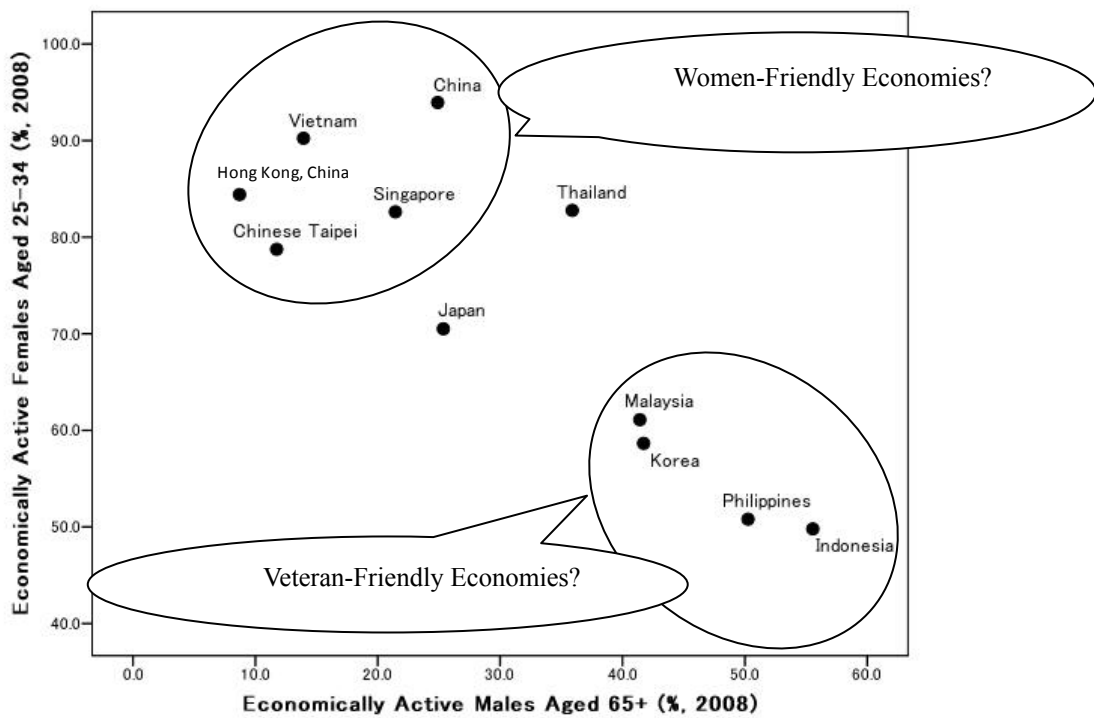


Data Sources: For Japan, Statistics Bureau, *Labor Force Survey 2009*. For Singapore, Ministry of Manpower, *Report on Labour Force in Singapore 2009*. For Chinese Taipei, Directorate General of Budget, Accounting and Statistics, *Manpower Survey 2009*. For Korea, National Statistical Office, *Economically Active Population Survey 2008*. For Thailand, National Statistical Office, *Report of the Labor Force Survey 2009*. For Vietnam, ILO, *Vietnam Employment Trends 2009* (data for 2007).

Figure 3 illustrates that there are certain people who work as employees, even in largely agrarian economies such as Vietnam. Of course, sector-based distribution varies from economy to economy. It is difficult to introduce unemployment insurance for self-employed workers or unpaid family workers; however, even in economies where the agricultural sector dominates, there are certain unemployment insurance needs.

It is worth noting here that, to date, there is a dearth of comparative study into labor markets in East Asia, at least upon which social policy arguments can be based. Figure 4 suggests that there are different types of labor markets in East Asia. Differences here cannot be explained away by economic levels or by any other single factor. This kind of divergence requires further investigation.

Figure 4: Different types of labor market?

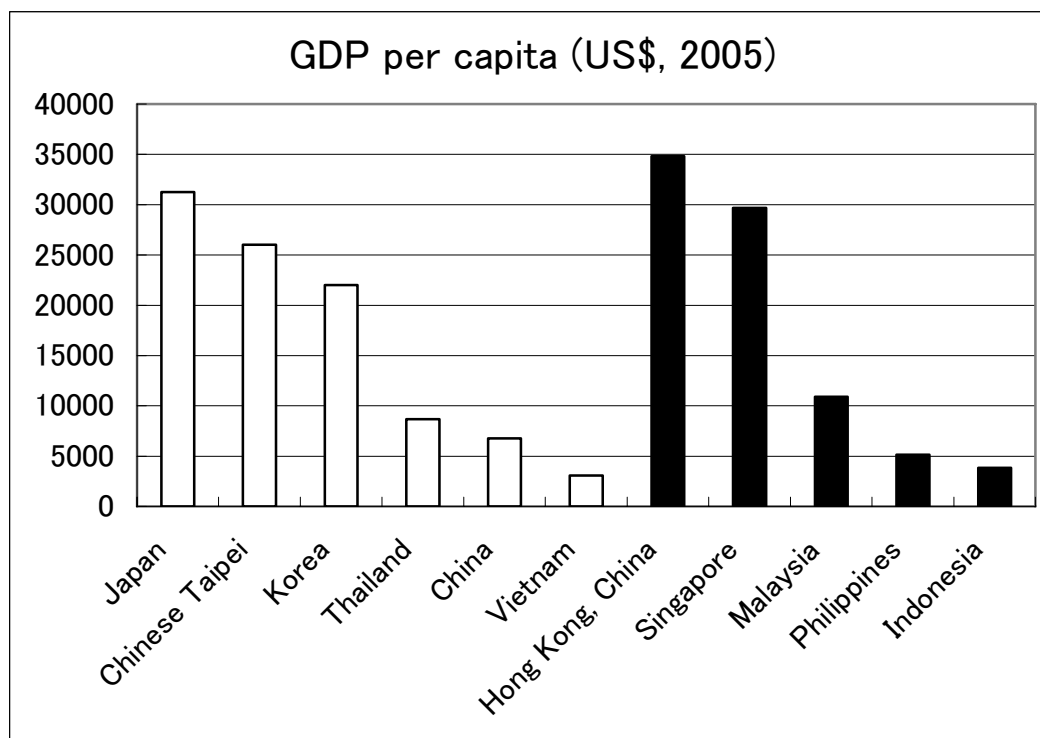


Data Source: ILO, *Key Indicators of the Labour Market*

5. Structure Does Not Explain the Lack of Unemployment Insurance

There are economies that have unemployment insurance schemes: Japan, Chinese Taipei, Korea, Thailand, China, and Vietnam. There are also economies that do not have unemployment insurance schemes: Hong Kong (China), Singapore, Malaysia, the Philippines, and Indonesia. What explains the differences between them? The purpose of the following analysis is not to criticize the latter set of economies; every economy has its own philosophy and measures to cope with unemployment. I would like to suggest, however, that sharing experiences among economies is useful in removing misunderstandings concerning structural barriers to the introduction of unemployment insurance schemes.

Figure 5: Economic level does not matter

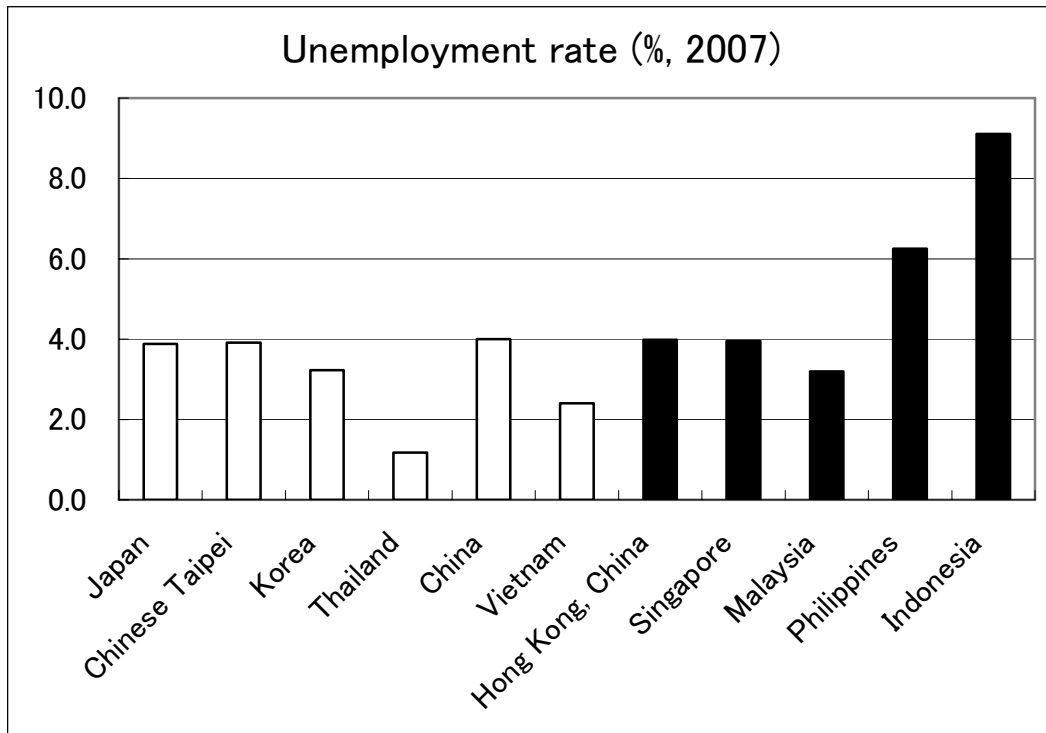


Data Sources: UNDP, *Human Development Report 2007/2008*. For Chinese Taipei, Directorate General of Budget, Accounting and Statistics, *Statistical Yearbook of the Republic of China 2007*.

Some people believe that only rich economies can afford unemployment insurance. That is not the case, however. Figure 5 compares the economic levels of economies that have unemployment insurance (white bars) and those that do not (black bars). Both sets include rich and not-so-rich economies. Obviously, one cannot conclude that economic level matters with regard to unemployment insurance provisions.

Some people may worry that unemployment insurance discourages the unemployed from searching for work and eventually increases the overall unemployment rate. This is not the case in East Asia, however. Figure 6 shows that unemployment rates in economies that have unemployment insurance are not necessarily higher than those in economies that do not. Note that the high rate in Indonesia and the low rate in Thailand are due to different definitions of “unemployment” in each economy, as discussed.

Figure 6: Social protection does not cause unemployment

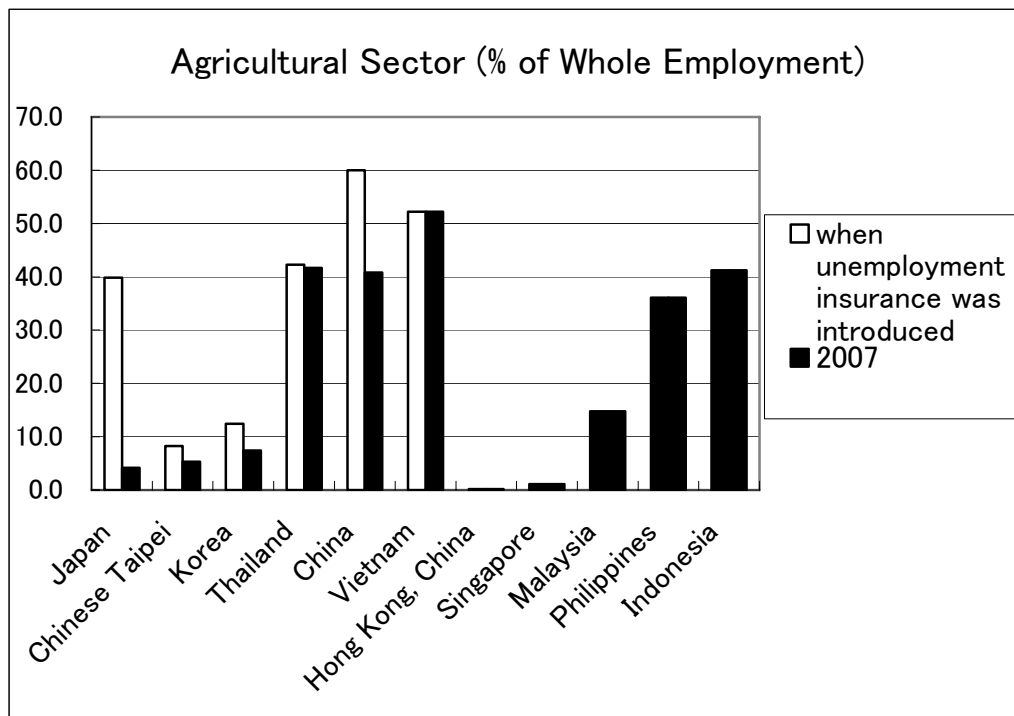


Data Sources: ILO, *Key Indicators of the Labour Market*. For Vietnam, ILO, *Vietnam Employment Trends 2009*.

Some people may think that agrarian economies like Indonesia and the Philippines do not need unemployment insurance, for two reasons. One is that self-employed farmers do not need unemployment insurance if they have their own land; the other is that dismissed workers in agrarian economies can go back to their home village and rely on their family. As discussed in previously, however, there are employees even in agrarian economies, and not all dismissed workers can rely upon their family. Figure 7 shows that some agrarian economies like Vietnam, Thailand, and China have already introduced unemployment insurance. Moreover, Japan was a highly agrarian economy when it introduced unemployment insurance in 1947. Thus, the size of an economy's agricultural sector is not a structural barrier to its introduction of unemployment insurance.

To conclude, structural barriers do not interfere with the introduction of unemployment insurance. Whether or not unemployment insurance is feasible depends upon an economy's philosophy and political leadership, rather than its structural conditions.

Figure 7: Agriculture and introduction of unemployment insurance



Data Sources: ILO, *Key Indicators of the Labour Market*. For Japan (when unemployment insurance was introduced), Statistics Bureau, *Labor Force Survey*. (However, the data is for 1953, not for 1947.) For Chinese Taipei, Directorate General of Budget, Accounting and Statistics, *Manpower Survey 2009*. For China (2007), National Bureau of Statistics of China, *China Statistical Yearbook 2008*. For Vietnam, ILO, *Vietnam Employment Trends 2009*.

6. Existing Unemployment Insurance Is Not Necessarily Effective

How do existing unemployment insurance schemes function in Japan, Chinese Taipei, Korea, Thailand, China, and Vietnam? Are the existing schemes effective, especially in terms of coverage? Comparisons make it possible to detect and improve weak points in each economy.

General Description

As Table 1 shows, Japan introduced unemployment insurance relatively early, as part of postwar reforms. China introduced it following the start of economic reforms. Korea and Chinese Taipei each introduced it after democratization, and Thailand and Vietnam each introduced it only recently.

Table 1: Unemployment insurance in East Asian economies

	Japan	China	Korea	Chinese Taipei	Thailand	Vietnam
First implementation (Current law)	1947 (1974)	1986	1995	1999 (2002)	2004	2007
Type of program	Social insurance	<u>Local government-administered social insurance</u>	Social insurance	Social insurance	Social insurance	Social insurance
Covered persons	Employees	<u>Employees of urban enterprises and institutions</u>	Employees	Employees	Employees	Employees
Qualifying conditions	12 months of insurance during the last 24 months.	12 months of insurance; <u>must be involuntarily unemployed.</u>	6 months of insurance during the last 18 months; <u>must be involuntarily unemployed.</u>	12 months of insurance; <u>must be involuntarily unemployed.</u>	6 months of insurance during the last 15 months.	12 months of insurance during the last 24 months.

Data Source: International Social Security Association, *Social Security Country Profiles* (www.issa.int/aiss/Observatory)

Unlike the schemes in the other economies studied, unemployment insurance in China is run by local governments, and only employees of urban enterprises are covered. Okochi's aforementioned theory of unemployment teaches us that unemployment insurance need not cover those who have their own means of production. Farmers who have their own land need not be covered, for example. Employees who work in rural areas, however, should be covered under a certain scheme.

In each of China, Korea, and Chinese Taipei, benefits are provided only to those who are "involuntarily unemployed." The differences between "voluntary" and "involuntary" unemployment are not clear, however; it is difficult to generate a precise demarcation between the two categories. It is therefore advisable to include both categories of unemployed workers in the scheme.

Contributions and Benefits

As Table 2 indicates, contribution rates vary among economies. The highest two are those of China and Vietnam, the two socialist economies in the study sample, while the lowest is that of Chinese Taipei. Table 3 shows the benefits; the benefit rate in most economies is proportional to the former average earnings of the unemployed, while in China it is a flat rate that is determined by the local government. The duration of benefits in China is longer than in the other economies.

Table 2: Contributors to unemployment insurance

	Japan	China	Korea	Chinese Taipei	Thailand	Vietnam
Employee	0.5%	1.0%	0.45%	0.2%	0.5%	1.0%
Employer	0.9%	2.0%	0.7~1.3%	0.7%	0.5%	1.0%
Government	Subsidies	Subsidies	None	0.1%	0.25%	1.0%

Data Source: International Social Security Association, *Social Security Country Profiles* (www.issa.int/aiss/Observatory)

Table 3: Unemployment insurance benefits

	Japan	China	Korea	Chinese Taipei	Thailand	Vietnam
The amount of benefit	50 to 80% of the insured's average daily wage; The minimum daily benefit is 1,656 yen. The maximum daily benefit is 7,775 yen.	Higher than the local public assistance benefit but lower than the local minimum wage.	50% of the insured's average daily earnings. The minimum daily benefit is 22,320 won. The maximum daily benefit is 40,000 won.	60% of the insured's average monthly earnings.	50% of the insured's average daily wage for the involuntarily unemployed, 30% of the insured's average daily wage for the voluntarily unemployed. The maximum daily benefit is 250 baht.	60% of the insured's average monthly earnings.
The duration of benefit	3 to 11 months	12 to 24 months	3 to 8 months	6 months	6 months in any 1 year for the involuntarily unemployed, 3 months in any 1 year for the voluntarily unemployed.	3 to 12 months.
Exchange rate	US\$1.00 = 105.52yen.	US\$1.00 = 6.94yuan.	US\$1.00 = 1028.50won.	US\$1.00 = 30.40NT\$.	US\$1.00 = 38.49baht.	US\$1.00 = 16,245dong.

Data Source: International Social Security Association, *Social Security Country Profiles* (www.issa.int/aiss/Observatory)

Legal and Effective Coverage

The most important matter with respect to unemployment insurance schemes is how many people are protected from the economic uncertainty caused by unemployment. Table 4 reveals the real function of each scheme. *Legal Coverage* refers to the ratio of insured persons as a percentage of the total labor force (Scholz et al. 2010: 345). Rates vary from economy to economy; the highest is that of Japan, while the lowest two are those of Vietnam and Thailand.

It is misleading, however, to conclude that unemployment insurance in these latter two economies is not useful. As shown earlier, Vietnam and Thailand each has a large agricultural sector, and so there are many self-employed workers for whom unemployment insurance would not be suitable. If we take the ratio of insured persons to all employees (i.e., *Covered Employees*), there we find an unexpected proximity: the rates of Vietnam and Thailand are almost similar to that of Korea. We can guess that the schemes of these economies have a significant role in the formal sector, at least.

Table 4: Unemployment insurance coverage

	Japan	China	Korea	Chinese Taipei	Thailand	Vietnam
Legal Coverage (Insured/Labor force)	56.1%	4.7~54.4% (varies among provinces)	38.5%	49.9%	24.4%	11.8%
Covered Employees (Insured/Employees)	64.3%	NA	56.0%	65.0%	54.8%	52.3%
Effective Coverage (Beneficiary/Unemployed)	22.9%	11.7~74.2% (varies among provinces)	NA	23.7%	6.7~17.7% (varies among months)	0.7%

Data Sources: Calculated by the author based on national statistics (2007 for China, 2008 for other countries).

For the rates of Thailand, I am grateful to Professor Yasuhito Asami for providing the data.

When it comes to *Effective Coverage*, which is the ratio of the beneficiaries to all those unemployed (ibid.), the picture changes. Rates are quite low across all the economies studied. Compared to other advanced economies, even the rates of Chinese Taipei and Japan are ranked at the bottom. The rates of European economies such as the United Kingdom, France, and Sweden are above 50%, and Germany's rate is almost 100% (Scholz et al. 2010: 349).

Goishi (2009) points out that the decline in effective coverage in Japan can be explained by increases in non-regular employment and long-term unemployment in that economy. Moreover, there are some vulnerable groups such as young workers who are not effectively covered by the existing scheme. As figure 8 shows, more than half of young workers in Japan, Korea, and Chinese Taipei are legally covered by unemployment insurance. As figure 9 reveals, however, their effective coverage in Japan and Chinese Taipei (possibly in Korea also) is quite low. Unemployment insurance in these economies is inadequate for coping with current "youth problems" (Kamimura, forthcoming).

Figure 8: More than half of young workers are legally covered

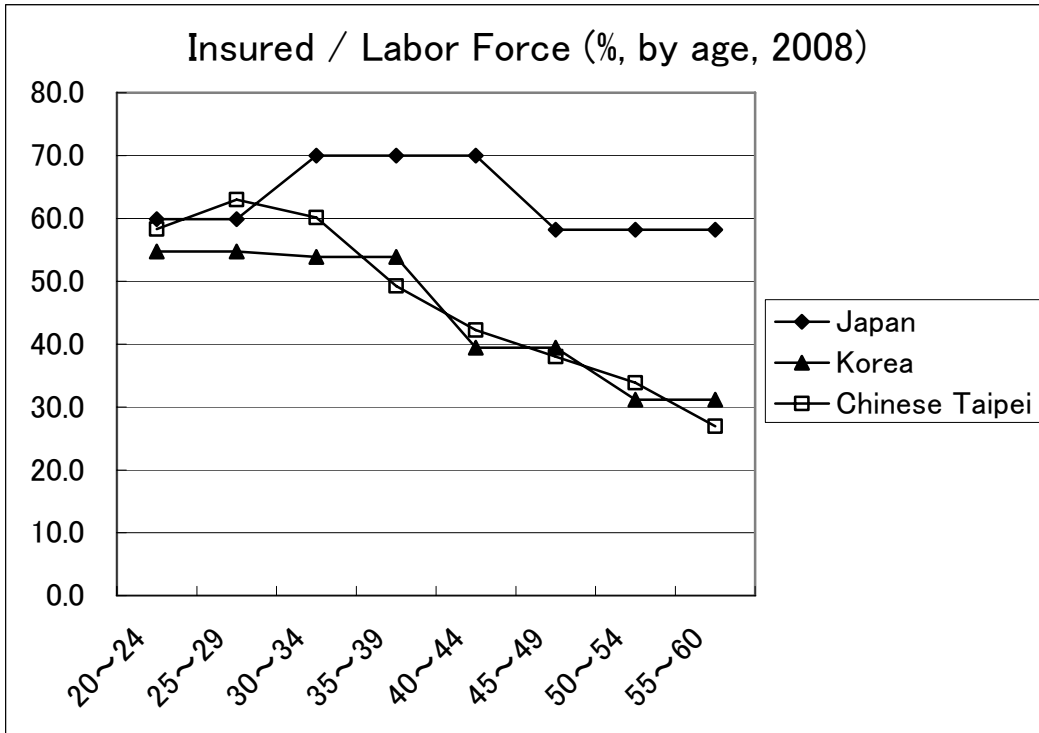
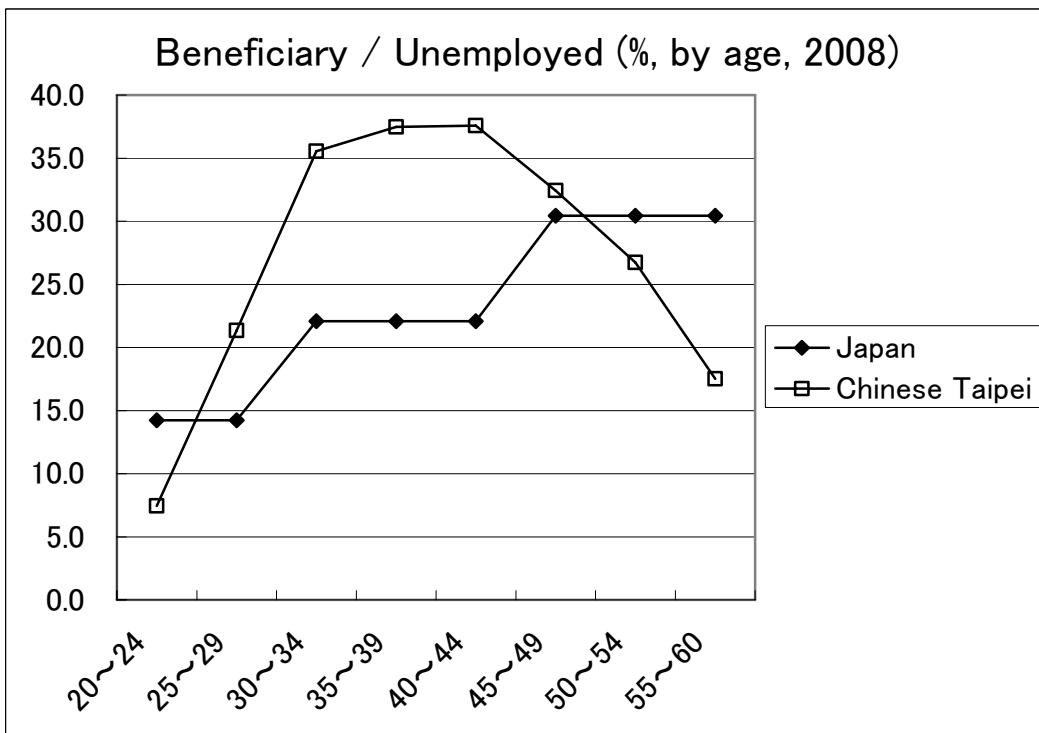
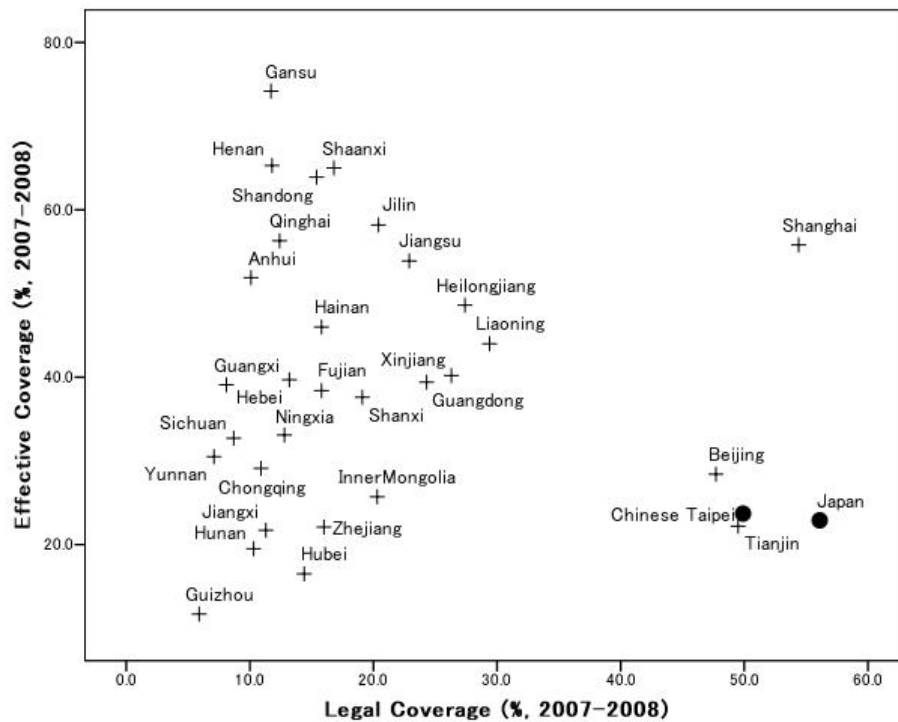


Figure 9: Young workers are not always covered effectively



Data Sources for figures 8 and 9: For Japan, Ministry of Health, Labour and Welfare, *Yearbook of Employment Insurance Program 2008*. For Korea, Korea Employment Information Service, *Employment Insurance Statistics Yearbook 2008*. For Chinese Taipei, Council of Labor Affairs, *Labor Insurance Statistics Yearbook 2008*.

Figure 10: Diversity of legal and effective coverage



Data Sources: For China (data for 2007), National Bureau of Statistics of China, *China Statistical Yearbook 2008*. For Japan, Ministry of Health, Labour and Welfare, *Yearbook of Employment Insurance Program 2008*. For Chinese Taipei, Council of Labor Affairs, *Labor Insurance Statistics Yearbook 2008*.

Here it is appropriate to note diversities in legal and effective coverage among the provinces of China. As figure 10 shows, while the legal coverage (horizontal axis) is lower than 30% in most provinces, the effective coverage (vertical axis) varies widely among the provinces. One may guess that, in some provinces with high effective coverage, unemployment insurance is a kind of privilege for the former employees of state enterprises. If this is true, Chinese unemployment insurance also seems inadequate for supporting those who truly need help.

7. Conclusion

There are two conclusions. First, it is possible for Hong Kong (China), Singapore, Malaysia, the Philippines, and Indonesia to consider introducing unemployment insurance or strengthening other schemes that would suit their situation. As noted above, the choices that each economy makes depend upon the economy's philosophy and political leadership rather than structural conditions. The economies that already have unemployment insurance can provide technical cooperation. Unilateral assistance is, however, inappropriate in an era of regional cooperation. Each economy can freely draw lessons that are learned through comparative study. It is useful to compare the merits and demerits of relatively advanced systems of Japan, Korea, and Chinese Taipei as well as to learn from the experiences of economies with similar labor market structures.

For example, it is advisable for Indonesia to investigate the policies and practices of Thailand if it is looking to introduce an unemployment insurance scheme.

Second, for economies that already have unemployment insurance, it is recommended that they reform the schemes that cover people who really need social protection. The most important challenge is to increase the effective coverage of unemployment insurance. It is advisable to extend legal coverage to non-regular workers, and it is also worth considering a combination of unemployment insurance with an unemployment assistance scheme. The problems that Japan, Korea, and Chinese Taipei face are not totally different; these economies can compete with each other in proposing policies to increase effective coverage, and in more fully developing active labor market policies. Such competition would be beneficial not only for the economies involved but also for other economies. To promote policy innovation, it is essential to compile comparable and longitudinal data; for this purpose, it is expected that the StatsAPEC will be upgraded to the level of the Eurostat in the EU.

Acknowledgments

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Unemployment Insurance in Thailand: Rationales for the Early Introduction in a Second-Tier Newly Industrializing Economy

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I. Introduction

Unemployment insurance (UI) has often been considered as a “luxury good” that only rich economies can afford. Thailand, however, introduced UI in 2004. By examining Thailand’s experience with UI, this paper argues that newly industrializing middle-income economies can also have UI without putting a burden on the government’s coffers or hurting their overall international competitiveness. It also argues that, if properly designed and managed, UI can facilitate timely adjustments to a volatile global economy, and reduce political tension, especially in small middle-income states with an open economy like Thailand.

As we will see in detail later, Thailand’s UI scheme has been generating healthy annual surpluses since its start in 2004. Involuntarily laid-off workers can receive 50% of their monthly salary for six months after losing their jobs, if they worked and contributed to UI for at least six months prior to their job interruption, while those who resign voluntarily can receive 30% of their salary for three months. Employers and employees are required to equally contribute 0.5% of each employee’s salary to UI, while the government contributes 0.25% of the salary. With this arrangement, it is very unlikely for Thailand’s UI scheme to run a deficit, unless a large portion of the fund is used for other purposes than UI benefits to the eligible unemployed workers.

The duration and amount of UI benefits in Thailand are kept shorter and lower than those in most of the developed economies. But even with such limited benefits, the UI scheme in Thailand alleviated the plights of unemployed workers, at least to some extent, when the Thai economy was hit hard by the worldwide economic downturn in 2009.

In the book that won the 1986 Woodrow Wilson Foundation Award for the best book on government, politics, and international affairs, Peter Katzenstein (1986) argued that small states in Europe, such as Netherlands, Belgium, Austria, Sweden, Norway, Denmark, and Switzerland, have achieved and maintained a high level of economic prosperity by pursuing a different set of policies from big states like the United States, Britain, France, and Japan. He wrote:

For the small European states, economic change is a fact of life. They have not chosen it; it is thrust upon them. These states, because of their small size, are very dependent on world markets, and protectionism is therefore not a viable option for them. ... Instead, elites in the small European states, while letting international markets force economic adjustments,

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choose a variety of economic and social policies that prevent the costs of change from causing political eruptions. They live with change by compensating for it. ... Their strategy differs profoundly from the liberal and statist principles that inform the political choices and structures of the large industrial states. (Katzenstein 1986: 24)

Thailand, as well as other second-tier NIEs, such as Malaysia and the Philippines, is facing a similar situation to the small states in Europe studied by Katzenstein. Though their population size is larger, the size of their GDP is even smaller than that of “small” states in Europe. Like their counterparts in Europe, “small” second-tier NIEs are very dependent on world markets. Protectionism is not a viable option for them, either. They therefore cannot escape from the volatility of the global market. Many of Southeast Asian economies, especially Thailand, learned a bitter lesson on how politically disastrous and socially painful the adverse effect of the increasingly precarious global economy can be, when the region was ravaged by the Asian financial crisis in 1997.

If neither protectionism nor a retreat from the global economy is a viable option, small second-tier NIEs have only two options: 1) to implement social policies that prevent the costs of economic fluctuation and structural change from causing political eruptions as small states in Europe did, or 2) to strengthen the power of the government vis-à-vis various societal groups so that the government can force those who suffer from the adverse impact of the precarious global economy to withstand the pain without any pain-killers, as some authoritarian states did. This paper argues that the first option is less risky and less painful than the second one in many of the cases, and also that UI is a useful and relatively inexpensive tool to reduce the social pain associated with economic adjustments imposed by international markets.

However, as Milan Vodopivec, a World Bank specialist on UI, pointed out, the “standard OECD-style” UI program is unlikely to function well in the developing economies “faced by large informal sectors, weak administrative capacity, large political risk, and environment prone to corruption” (Vodopivec 2009: 1). The UI scheme in Thailand differs from those in European economies on some of the important aspects. Now that a number of other middle-income economies, such as Malaysia and the Philippines, started considering the introduction of the UI programs seriously¹, it will be meaningful to examine Thailand’s six-year experience with the UI scheme to draw some policy implications for other second-tier NIEs.

II. Overview of Thailand’s Unemployment Insurance

II-1 Coverage

Unemployment insurance (UI) was introduced in Thailand in 2004 as a part of the social security system. The social security system started in 1991. Though the Social Security Act

¹ Interviews with officials in the Philippines’ Social Security System in July 2009, and in Malaysia’s Social Security Organization in March 2010.

promulgated in 1990 had provisions on unemployment insurance, its implementation was postponed until 2004. When the social security system started in 1991, it covered only those who worked in the formally registered business enterprises with 20 or more employees. The coverage expanded to the workplace with 10 or more employees in 1993, and further extended to include all the regular employees in the formal sectors regardless of the size of the workplace in 2002. The participation in the social security system is compulsory for all the private employees in the formal sectors with a few exceptions². There are provisions (namely, articles 39 and 40 of the Social Security Act) for those who are not a regular employee in the formal sectors to voluntarily participate in the social security system. But, as their participation is not compulsory and they are required to pay a much higher amount of contributions if they are to participate, the number of insured persons who are not a regular employee in the formal sectors has remained small.

As of March 2010, the number of people insured by the social security system in Thailand is 9,443,629, out of which 8,744,795 or 92.5% are private employees in the formal sectors. Unlike other social security benefits, such as old-age pension and maternity benefit, those who are not a regular employee in the formal sectors are not allowed to join in the UI scheme. Therefore, the number of the people under the UI scheme as of March 2010 is 8,744,795 and it occupies about one-quarter of the total labor force in Thailand. The vast majority of the workers not covered by UI are farmers, workers in the informal sectors, and irregular workers, whose income is generally lower than that of regular workers in the formal sectors.

II-2 Unemployment Benefits and Qualifying Conditions

A. Qualifying Conditions

Only those who meet the following qualifying conditions are entitled to receive unemployment benefits³.

- 1) The insured must have worked and paid contribution to the Social Security Fund for at least six months in the 15 months before unemployment.
- 2) The insured must be registered with the Government Employment Service Office (ESO), and report his/her work status at least once a month, be ready to participate in skill development or job training programs arranged by the Department of Skill Development, and accept any suitable job offer made by the ESO.
- 3) An interruption of employment must not be a consequence of (a) a job violation, (b) a serious criminal act by the insured.
- 4) The insured must not be receiving the Old Age Pension benefit simultaneously.

² Employees of foreign governments or international organizations as well as temporary and seasonal workers are not required to participate in the social security system. Companies with superior employee benefit schemes already established before the establishment of the social security system were also granted exemption upon request. Civil servants and employees of state enterprises are under separate and more benevolent benefit schemes.

³ Article 78, Social Security Act.

B. Unemployment Benefits

The monthly unemployment benefit for those who are involuntarily unemployed is equal to 50% of the insured's average monthly salary in the highest paid 3 months in the 9 months before unemployment, and they can receive it for up to six months in any one year. For those who are voluntarily unemployed, the monthly benefit is equal to 30% of their average salary, and they can receive it for only three months in any one year.

C. Contribution Rate

Insured workers are required to pay 0.5% of their monthly earnings as a contribution to UI, and employers are also required to contribute 0.5% of their employees' salaries to UI, while the government contributes 0.25% of workers' salaries. It should be noted, however, that the maximum monthly earnings for contribution calculation purposes are set at 15,000 baht. Therefore, the amount of workers' monthly contribution does not exceed 75 baht, even if their salary is higher than 15,000 baht.

D. The Number of Unemployment Benefit (UB) Recipients

Table II-1 shows the number of unemployment benefit recipients in December of each year since the start of UI in Thailand and that of the first six months of 2010. As clearly shown in the table, the number of the recipients has been increasing.

An increase in the first four years is mainly attributable to workers' growing familiarity with UI. It is reported that, in the first few years of the implementation of UI, a number of qualified unemployed workers failed to receive unemployment benefits because they were not familiar with the procedures they had to go through to get UB (Chutima 2008).

The upsurge in 2009 was caused by the adverse effects of the abrupt downturn of the global economy triggered by the collapse of some of the leading financial institutions in the United States. The constant increase of the unemployment benefit recipients, however, seems to have stopped in 2010, partly because the Thai economy started recovering despite political turmoil caused by the pro-Thaksin red-shirt protesters in the first half of 2010, and also because most of the workers in the formal sectors have already become well familiar with the UI regulations⁴.

⁴ UI was spotlighted when the Abhisit administration announced that the Social Security Office would temporarily extend the duration of unemployment benefits for involuntarily laid-off workers from six months to eight months as a part of the economic stimulus package to mitigate the adverse impact of the global economic slowdown in July 2009. The Social Security Office repeatedly broadcasted TV ads on this temporary extension.

Table II-1: Number of Unemployment Benefit Recipients 2004-2010

	(1) UB Recipients	(2) Insured Persons	(1)/(2)
Dec. 2004	15,722	7,434,237	0.2%
Dec. 2005	28,021	7,831,463	0.4%
Dec. 2006	39,902	8,225,477	0.5%
Dec. 2007	56,581	8,537,801	0.7%
Dec. 2008	71,951	8,781,262	0.8%
Dec. 2009	139,165	8,779,131	1.6%
Jan. 2010	117,210	8,662,410	1.4%
Feb. 2010	104,793	8,704,302	1.2%
Mar. 2010	121,794	8,744,795	1.4%
Apr. 2010	119,755	n.a.	n.a.
May 2010	111,780	n.a.	n.a.
Jun. 2010	128,071	n.a.	n.a.

Source: Social Security Office

E. The Ratio of Unemployment Benefit (UB) Recipients to the Number of Unemployed

Table II-2 shows the ratio of UB recipients to the total number of unemployed in the first six months of 2010. In the Labor Force Survey conducted by the National Statistical Office, those who are in the labor force are classified into the three categories, namely, employed, unemployed, and seasonally inactive. As shown in Table II-3, about 30-40% of Thailand's labor force work in the agricultural sector, and the number of those who work in the agricultural sector fluctuates considerably; It increases in the planting (mid-May to August) and harvesting (November to December) seasons, and decreases in the dry season (February to mid-May). The annual fluctuation in 2009 was more than 4 million. Therefore, they have a relatively large number of seasonally inactive persons in the dry seasons.

If we take into the consideration that only regular workers in the formal sectors are covered by UI, and UB lasts only for six months⁵, the ratio of UB recipients to unemployed is impressively high, though it still leaves much room for improvement.

⁵ The extension of the duration of unemployment benefits from six to eight months explained above applies to those who were laid-off between January 1 and December 31, 2009. For those who were laid-off after January 1, 2010 can get the UB only for six months.

Table II-2: Ratio of Unemployment Benefit (UB) Recipients to Unemployed 2010

	(1) UB Recipients	(2) Employed	(3) Unemployed	(4) Seasonally Inactive	(1)/(3)	(1)/(3+4)
Jan. 2010	117,210	37,040,000	530,000	230,000	22.1%	15.4%
Feb. 2010	104,793	38,270,000	380,000	290,000	27.6%	15.6%
Mar. 2010	121,794	37,600,000	380,000	320,000	32.1%	17.4%
Apr. 2010	119,755	37,260,000	450,000	420,000	26.6%	13.8%
May 2010	111,780	37,020,000	590,000	460,000	18.9%	10.6%
Jun. 2010	128,071	38,100,000	460,000	190,000	27.8%	19.7%

Source: Social Security Office & National Statistical Office

* Own-account workers, including farmers, are classified into “employed” in the above table.

Table II-3: Monthly Fluctuation in the Share of Agricultural Employment

	(1) Agriculture	(2) Employed Persons	(1) / (2)
Jan. 2009	12,000	36,200	33.1%
Feb. 2009	11,190	36,670	32.5%
Mar. 2009	12,000	36,570	32.8%
Apr. 2009	11,890	37,060	32.1%
May 2009	13,310	37,510	35.5%
Jun. 2009	15,560	38,360	40.6%
Jul. 2009	16,010	38,790	41.3%
Aug. 2009	15,050	38,300	39.3%
Sep. 2009	14,550	37,800	38.5%
Oct. 2009	13,720	37,660	36.4%
Nov. 2009	14,660	38,330	38.2%
Dec. 2009	15,550	38,540	40.3%

Source: National Statistical Office

* Fishery is not included in Agriculture

** Own-account workers are included in “employed” persons

II-3 Financial Sustainability

As shown in Figure II-1, the unemployment rate in Thailand has not been very high even in the period of economic slowdown. As Thailand’s UI covers only the regular workers in the formal sectors, which constitute about one-fourth of total labor force, however, the unemployment rate in the informal sectors does not directly affect the balance sheets of the UI scheme. It is the ratio of unemployment benefit recipients to those who pay contributions to UI that directly determines the balance sheets of UI. As we have already seen in Table II-2, this ratio has never exceeded 2%.

As the contribution rate is set at 0.5% for employees and employers, and 0.25% for the government, the Social Security Office receives 1.25% of each insured person’s salary as their contribution every month. If we assume that there is no difference in the wage distribution between laid-off workers and those who were not laid-off, and also that a half of unemployed workers lose their job involuntarily and the remaining half voluntarily, the total amount of UB will be $0.4\alpha\beta/(100-\alpha)$, where α represents the percentage ratio of UB recipients to the insured workers, and β the sum of all the insured workers’ salaries, while the total amount of the contribution will be 0.0125β . The total amount of UB, $0.4\alpha\beta/(1-\alpha)$, exceeds the total amount of contribution, 0.0125β , only when α is larger than $12.5/4.125 \doteq 3$. In reality, the average wage of the laid-off workers tends to be lower than that of non-laid-off workers, because those who receive higher salaries, in general, tend to have better job security. It should also be noted that, as we will see later, the “voluntarily” unemployed workers far outnumber involuntary ones in Thailand. Therefore, the break-even-point we calculated by assuming no difference in wage distribution and the equal numbers of voluntary and involuntary unemployment, is probably lower than the real figure. As shown in Table II-2, the ratio of UB recipients to the insured persons in Thailand has been much lower than this “lower-than-real” breaking point.

Figure II-1: Unemployment Rate in Thailand 2001-2009

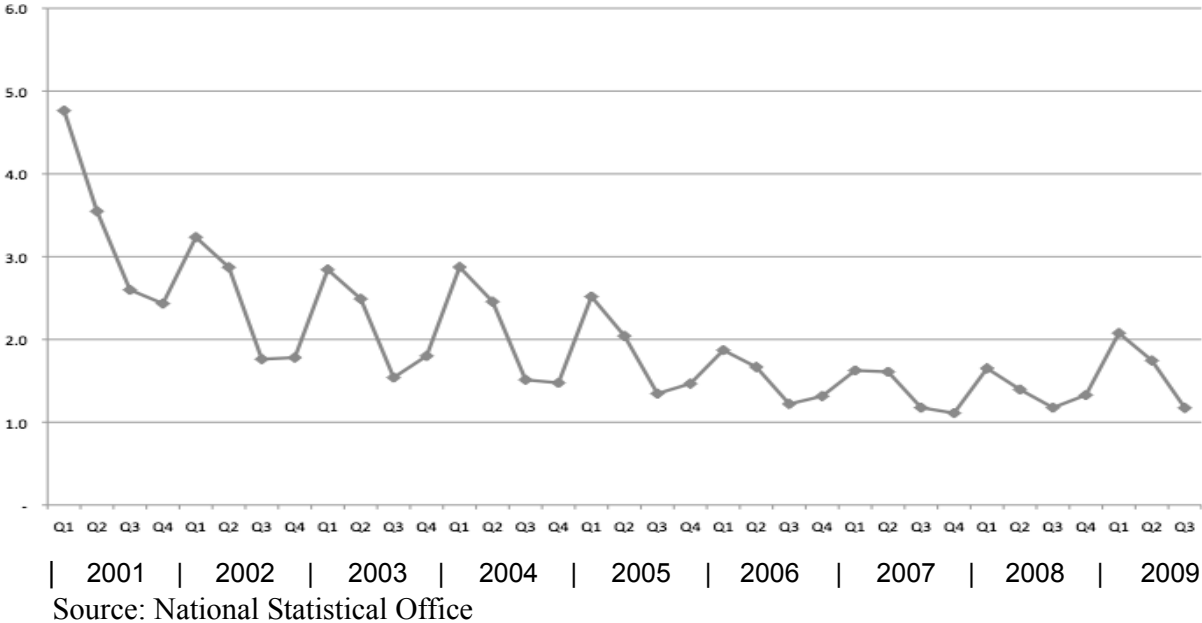
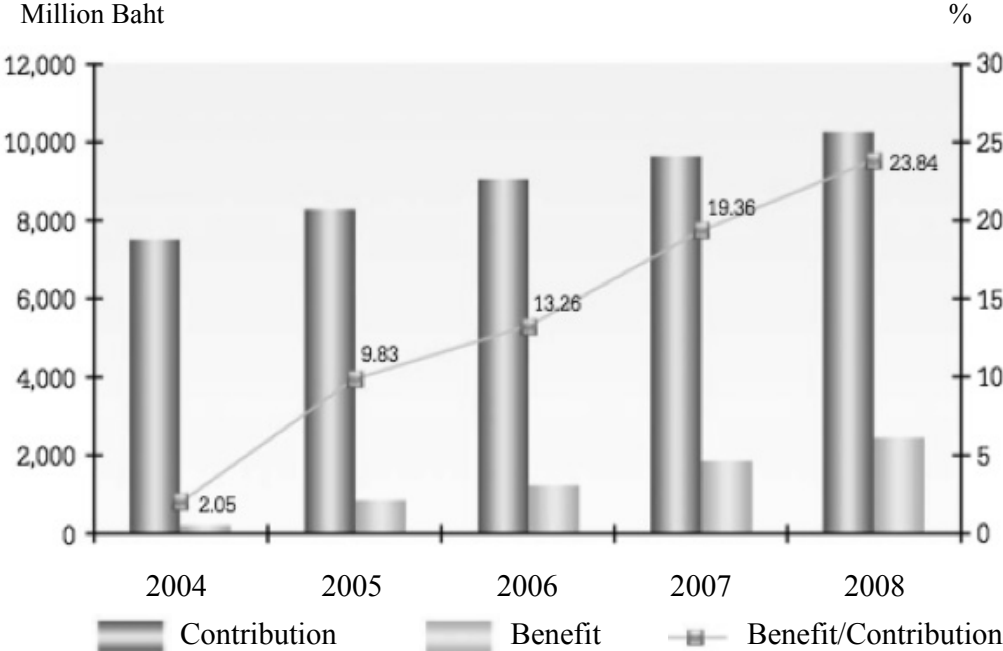


Figure II-2 compares the real amount of UB and that of UI contribution in the past five years. Thailand’s UI scheme has been recording large surpluses since its start in 2004. Before the introduction of UI, some academics and business leaders argued that, the introduction of UI would increase an unemployment rate, because some workers would rather remain unemployed to get unemployment benefits than seek a new job. They also warned that, without an effective mechanism to distinguish genuinely unemployed workers from disguised ones, UI would run a

deficit⁶. As shown in Figure II-1, the introduction of UI in 2004 did not increase an unemployment rate in Thailand, and it did not run a deficit even when the Thai economy was hit very hard by the global economic slowdown in 2009.⁷

Figure II-2: Contribution-Benefit Ratio of the Unemployment Insurance Scheme 2004-2008



Source: Social Security Office, *Annual Report 2008*, p. 39.

Table II-4 shows the wage distribution of the insured workers. The workers whose monthly salary exceeds 15,000 baht are included in the wage range of 14,001 to 15,000 in this table, because the maximum monthly earnings for contribution calculation purposes are set at 15,000 baht.

As shown in Table II-4, about three quarters of the insured workers are receiving less than 10,000 baht a month. The minimum wage in Bangkok and surrounding provinces is about 200 baht a day⁸. A six-days-a-week work with the minimum wage will yield a monthly income of about 5,000 baht. As involuntarily laid-off workers can get 50% of their salaries as an unemployment benefit, only those whose monthly income exceeds 10,000 baht can get a higher-than-the minimum-wage unemployment benefit. Or in other words, according to Table II-4, the amount of unemployment benefit for three quarters of the insured workers will be lower than the minimum wage, even if their unemployment is involuntary.

⁶ See, for example, the article titled “Wijai Chi Prakan Wang-ngan Dab Song Khom, ‘Rabob Khomun Huai’ Kongthun Thangtaek,” in *Prachachat Turakij*, January 6, 2003.

⁷ Thailand’s GDP growth rate dropped from 2.5% in 2008 to -2.3% in 2009.

⁸ The minimum daily wage is set at 206 baht in Bangkok and Samutprakan, 205 baht in Nakhonpathom, Nonthaburi, Pathumthani, and Samudsakhon, and 204 baht in Phuket. About 60% of the insured workers live in these seven provinces.

Table II-4: Number of Insured Persons by Wage and Sex (December 2008)

unit: person

Wage (Baht)	Male	Female	Total
Total	4,395,974	4,383,157	8,779,131
1,650	133,855	157,473	291,328
1,651 - 2,000	47,868	50,458	98,326
2,001 - 3,000	153,219	155,005	308,224
3,001 - 4,000	260,967	288,749	549,716
4,001 - 5,000	542,062	647,337	1,189,399
5,001 - 6,000	676,784	814,504	1,491,288
6,001 - 7,000	547,357	518,349	1,065,706
7,001 - 8,000	364,533	335,522	700,055
8,001 - 9,000	264,757	237,355	502,112
9,001 - 10,000	201,733	181,577	383,310
10,001 - 11,000	138,599	137,577	276,176
11,001 - 12,000	112,279	103,684	215,963
12,001 - 13,000	85,763	78,033	163,796
13,001 - 14,000	71,294	64,771	136,065
14,001 - 15,000	794,904	612,763	1,407,667

Source: Social Security Office, *Social Security Statistics 2008*, p.35.

There is also an upper limit for the amount of unemployment benefit. The maximum monthly earnings for contribution/benefit calculation purposes are set at 15,000 baht. So as far as the calculation of UI contribution and benefit is concerned, those who receive a higher-than-15,000-baht monthly salary are regarded as just receiving 15,000 baht a month. That means, no matter high their salary is, 7,500 baht (50% of 15,000 baht) is the upper limit for monthly unemployment benefit.

As for voluntary unemployment, even the richest worker would not be able to get a higher-than-the minimum-wage unemployment benefit. No matter how high their salary is, if their unemployment is voluntary, they can get only 4,500 baht a month (30% of 15,000 baht), which is lower than the minimum wage.

The comparison of unemployment benefit and the minimum wage reveals that unemployment benefit in Thailand is not designed to cover all the expenses during unemployment. It is designed just to partially alleviate their plights. For most of the insured workers, they cannot expect to rely solely on unemployment benefits for their survival even in their first few months after their job loss.

Table II-5 and II-6 show the durations and amounts of unemployment benefits paid for each category of workers from July 2004 to December 2005. Both tables show a very clear positive correlation between the amount of salary and the duration of UB. Those whose salary is low tend

to receive UB for a shorter period. It should be noted that the average monthly salary of those who received UB for only one month is almost equal to the minimum wage level⁹, while the average monthly salary of those who received UB for three months or longer is well above the minimum wage level. It is difficult for the workers whose salary is at the minimum wage level or slightly higher to remain unemployed for more than two months, because their UB is below the subsistence level, and not many of them have enough savings to live on for many weeks. Table II-5 and II-6 imply that a low level of UB, especially for those whose salary is at the minimum wage level, gives the unemployed workers a strong incentive to look for a new job.

Table II-5: The Duration and Amount of Unemployment Benefits (UB) Paid to Voluntarily Unemployed Workers (July 2004 – December 2005)

Duration	No. of Recipients	%	Average Amount of UB	Average Monthly Salary
1 month	24,357	26.7	1,478 baht	4,927 baht
2 months	25,057	27.4	1,941 baht	6,470 baht
3 months	41,923	45.9	2,345 baht	7,817 baht
total	91,337	100.0	2,003 baht	6,677 baht

Source: Worawan, *et. al.*, (2006: 79)

Table II-6: The Duration and Amount of Unemployment Benefits (UB) Paid to Voluntarily Employed Workers (July 2004 – December 2005)

Duration	No. of Recipients	%	Average Amount of UB	Average Monthly Salary
1 month	4,232	13.1	2,323	4,646
2 months	2,993	9.2	3,340	6,680
3 months	2,249	6.9	3,819	7,638
4 months	2,417	7.5	3,953	7,906
5 months	3,693	11.4	3,853	7,706
6 months	16,833	51.9	4,186	8,372
total	32,417	100.0	3,784	7,568

Source: Worawan, *et. al.*, (2006: 70)

II-4 Voluntary and Involuntary Unemployment

As shown in Table II-7, according to the classification by the Social Security Office, those who were involuntarily laid-off occupy about one-third of all the benefit recipients. Some Thai academics claim that those who quit their job voluntarily should not be entitled to any unemployment benefits, and warn that the large share of voluntarily unemployed workers would

⁹ The minimum daily wage in outer provinces is lower than that in Bangkok and its vicinity. The lowest minimum wage is 151 baht in Phayao, Phijit, Prae, and Maehongson.

put unnecessary financial burden on the social security system¹⁰. On the other hand, labor union leaders and workers' rights advocates argue that many of those who are classified as "voluntarily" unemployed by the Social Security Office are, in fact, laid-off involuntarily¹¹.

Table II-7: Number of UB Recipients Classified by the Benefit Claims

(unit: person)							
	Laid-off	%	Voluntary Resignation	%	End of Employment Contact	%	Total
Dec. 2004	5,432	34.6	8,102	51.5	2,188	13.9	15,722
Dec. 2005	9,074	32.4	14,821	52.9	4,126	14.7	28,021
Dec. 2006	14,767	37.0	22,427	56.2	2,708	6.8	39,902
Dec. 2007	20,470	36.2	33,573	59.3	2,538	4.5	56,581
Dec. 2008	21,926	30.5	45,545	63.3	4,480	6.2	71,951

Source: Social Security Office, *Social Security Statistics 2008*, Nonthaburi: Social Security Office, p.79

Though it is difficult to estimate how prevalent it is for employers to "force" their employees to "voluntarily" resign, judging from the field researches this author conducted in Thailand in the past two decades, it would be safe to say that such practices are not "rare," especially in the small- and medium-sized companies. One of the most common reasons for some employers' preference of forced or solicited "voluntary" resignation to outright lay-off is their aversion to providing severance pay to departing employees. Thailand's Labor Protection Law stipulates that the employer must provide severance pay when he/she fires his/her employees (Article 118). The amount of compulsory severance pay varies from 30 to 300 days' pay, depending on the length of the period for which a fired employee worked (Article 118). But the employers are not required to provide a severance pay, when an employee "voluntarily" resigns.

It is also reported that the criteria used by the Social Security Office staff to distinguish involuntary lay-off from voluntary resignation are sometimes not so transparent. In July 2009, more than 200 former employees of NMB Minebea Thai staged a demonstration in front of the Angthong branch of the Social Security Office (SSO). Those 200 workers had a dispute with the SSO's Angthong branch regarding the classification of their unemployment status, for several months. According to a newspaper report, 2,700 workers were dismissed from NMB Minebea Thai at the beginning of 2009. Although all the dismissed workers who went to register at the other branch of the SSO were classified as involuntarily laid-off, and received 50% of their salary for six months, those 200 workers who registered at the Angthong branch were classified as voluntarily resigned, and given only 30% of their salary for three months. After those 200 workers staged a demonstration for three hours, the director of the SSO's Angthong branch reluctantly

¹⁰ For example, see Aphichart (2006), Somchai & Pat (2009: 16), and Kriengsak (2007)

¹¹ For labor leaders' views, see Thai Journalist Association (2006).

agreed to reclassify them and increased their unemployment benefit.¹²

II-5 Job Placement and Skill Development

Active unemployment policies, such as job placement and skill development, are embedded in Thailand's UI scheme. Those who receive unemployment benefits are required to report at least once a month to the Government Employment Service Office. However, only a small fraction of the unemployment benefit recipients attend skill development programs arranged by the Department of Skill Development.

According to the statistics released by the Department of Employment, out of 31,867 unemployment benefit recipients who got a new job between July 2004 and December 2005, only 4,246 workers, or 13.3%, got a new job through the Government Employment Service Office, and the remaining 27,621 workers, or 86.7%, found a new job by themselves (Worawan, *et. al.*, 2006: 78).

Many workers complain that skill development programs arranged by the Department of Skill Development do not match their needs and market demand (Wasana, 2006). Their programs are so unpopular that only 198 unemployment recipients attended the programs between July 2004 and December 2005 (Worawan, *et. al.*, 2006: 78, Bundit 2005: 14).

In almost all the developed economies, active unemployment policies are embedded in the UI scheme. But, in newly industrializing middle-income economies with a limited administrative capacity in job placement and skill development, like Thailand, we cannot expect those active unemployment policies to be very effective. Except for Bangkok and its vicinity, each province has only one Employment Service Office. If unlimited resources in terms of budget and personnel were available, it would be recommendable to spend those resources to increase the number of the Employment Service Offices and improve the quality of skill development programs. But if we take into consideration the very limited amount of available resources and what Milan Vodopivec called "environment prone to corruption" (Vodopivec 2009: 1), it does not seem advisable to spend a lot of resources on those active employment policies in the early phase of the UI scheme¹³. For the early phase of the UI scheme, it would be better to concentrate on the quick and fair disbursement of unemployment benefits, efficient and accurate collection of contribution, and the financial stability of the scheme.

III. Fallacies of the Conventional Arguments against the Early Introduction of UI

As shown in Table III-1, when Korea and Chinese Taipei introduced UI in the latter half of the 1990s, the vast majority of their labor force worked in the non-agricultural sectors. But Thailand introduced UI when more than one-third of its labor force was in the agricultural sector.

¹² "Panakngan Minebea Ji So. Po. So. Angthong Jai Chotchoei Wang-ngan 50%," *Krungthep Turakit*, July 9, 2009.

¹³ In June 2009, the National Anti-Corruption Commission unanimously decided to file a criminal charge against a former director-general of the Social Security Office for irregularities in the rental contract of computers with a private company, which cost 2.8 billion baht (*Krungthep Turakit*, June 16, 2009).

Because of the large number of farmers as well as own-account and unpaid family workers, less than half of Thailand’s labor force were employees at the time of the introduction of UI, while employees occupied about two-thirds of the labor force in Korea and Chinese Taipei. Thailand’s GDP per capita in 2004 was less than one-fourth of that of Korea and Chinese Taipei in the latter half of the 1990s. Although Malaysia surpasses Thailand in all the three indices shown in Table III-1, UI has not been introduced in Malaysia, yet.

Table III-1: Comparison of the Level of Economic Development at the Time of the Introduction of Unemployment Insurance (Korea, Chinese Taipei, Malaysia, Thailand, the Philippines)

	GDP per capita	Agriculture / Labor Force	Employee / Labor Force
Chinese Taipei (1999)	US\$13,535	8.1 %	70.6 %
Korea (1995)	US\$11,779	11.8 %	62.6 %
Malaysia (2004)	US\$ 4,898	13.3 %	74.6 %
Thailand (2004)	US\$ 2,479	41.2 %	43.8 %
Philippines (2004)	US\$ 1,040	31.7 %	52.1 %

Source: International Monetary Fund, World Economic Outlook Database, 2010
 International Labor Organization, LABORSTA (<http://laborsta.ilo.org/>)

* UI was introduced in Korea in 1995, and in Chinese Taipei in 1999. Malaysia and the Philippines have not introduced UI, yet.

It was not until they felt acute “social pain” caused by the Asian financial crisis in 1997 when the Thai government started seriously considering the introduction of UI¹⁴. ILO wrote in one of their reports published in 2001:

The recent Asian financial crisis has made it clear that unemployment insurance schemes could have played a substantial role in coping with the unacceptable levels of hardship caused by rapidly escalating unemployment. They would also have helped to limit the collapse of consumer demand and business confidence which made the crisis much more acute than it would otherwise have been. (ILO 2001, 52)

But the Chuan administration (Nov. 1997 – Feb. 2001) took a very cautious attitude toward the introduction of UI. The business leaders also expressed their concern with the adverse impact of the introduction of UI on the already badly weakened economy (Worawan, *et. al.*, 2006: 49-50). The main reasons raised by opponents of the introduction of UI are: 1) fiscal constraints of the government, 2) possible abuse of the system in the absence of effective monitoring mechanisms,

¹⁴ Thailand’s GDP shrank 10.5 percent in 1998.

and 3) untimely and harmful burdens on employers¹⁵. Six years of relatively successful operation of UI in Thailand, however, show that these obstacles and problems are not insurmountable.

III-1 Fiscal Constraints of the Government

If UI is designed to cover all the unemployed with a sufficient amount of allowance for their survival no matter how long they remain jobless, it will put a very heavy burden on the government's coffer, for sure. Infeasibility of such a "perfect" form of UI, however, does not mean that any forms of UI are infeasible in developing economies. With limited coverage (about 25%) and small benefits (not more than 50% of the salary) only for a short period (not longer than 6 months), the UI scheme in Thailand has been operating in surplus since its start in 2004, as we have seen in the previous section of this paper.

Even when an unemployment rate is high, the ratio of unemployment benefit (UB) recipients to the insured can be kept low by limiting the coverage of UI. To illustrate this point, let us examine a very simplified hypothetical case, where 1% of workers are laid-off every month and all the laid-off workers remain jobless for 10 months. Under this hypothesis, the unemployment rate would reach 10% in ten months, and remain there from the 11th month on. If UI covers all the unemployed, the ratio of UB recipients to the insured would be 1:9. However, if UI covers only the first three months of unemployment, this ratio would drop to 1:30¹⁶. With this 1:30 ratio, it is not difficult to avoid a deficit in the UI scheme even if a contribution rate for employees and employers is set at a modest level.

Relatively short duration of UB is recommendable not only for a financial reason, but also for social fairness. As Table II-5 and II-6 in the previous section showed, those who remain jobless for a longer period tend to have a higher pre-unemployment salary than those who remain jobless for a shorter period. It is because those who are in dire poverty cannot afford to remain jobless for a long period, for they have very small, if any, savings to rely on. A similar view is expressed in a report written by World Bank experts when they examined the pros and cons of the introduction of UI in the Philippines:

The peculiarity of developing economies like the Philippines is that unemployment is more common among non-poor workers, that is, members of more prosperous households are more than proportionally represented in the ranks of the unemployed. For example, in 1997, of the households whose heads were not employed only 12.1 percent were poor, in comparison to a 25 percent poverty incidence in general. It therefore seems that given the country's present level of economic development, members of less prosperous households

¹⁵ Opponents of the introduction of the UI in the Philippines have also made similar arguments. See, for example, Esguera, Jude H., Makoto Ogawa, and Milan Vodopivec (2002) and Manasan (2009). Counter-arguments against such oppositions in the Philippines can be found in Weber (2010).

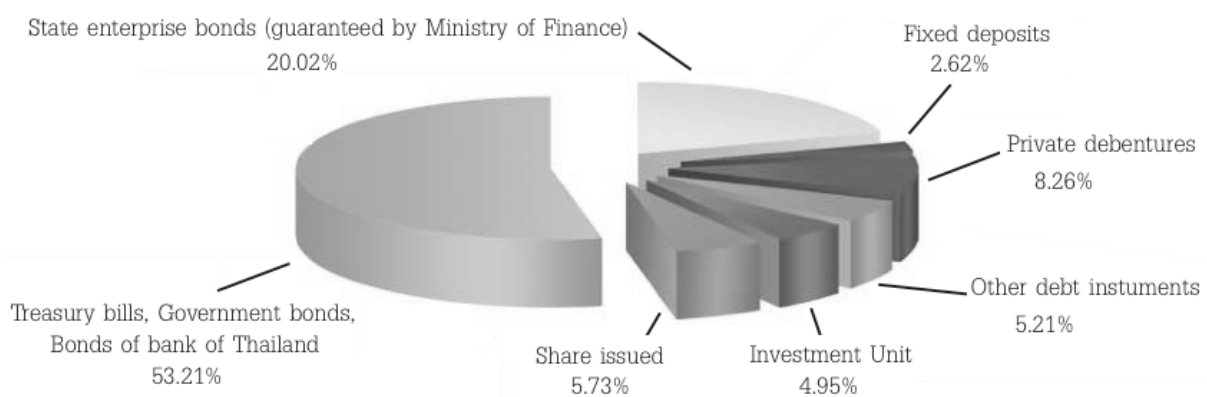
¹⁶ From the 11th month on, 90% of labor force would be employed and obliged to pay contribution to UI. If UI covers only the first three months of unemployment, 30% of the unemployed would get unemployment benefits, while the remaining 70% would be disqualified.

cannot afford to stay unemployed for a prolonged period of time. They try to cushion the loss of earnings by opting for low productivity jobs instead of not working at all while they continue to pursue more adequate job opportunities. (Esguerra, Ogawa, and Vodopivec 2002: 9)

If we take into consideration the limited resources the governments in the developing economies have and the wide spread poverty among farmers and peasants in the rural areas as well as those who work in the urban informal sectors, it might not be justifiable to provide too benevolent UB to regular workers in the formal sectors. However, if regular workers in the formal sectors are given no protection when they lose their job and no other option than to seek refuge in the informal economy or go back to the rural areas, it will make over-supply of labor in those sectors worse, and those workers' skills obtained from their work in the formal sectors might be wasted. The first two or three months are often a critical period for not-so-affluent dismissed workers to find a new job in the formal sector again. To provide UB to them for the first few months of unemployment would not only alleviate their plights but also prevent their skills from being wasted.

It should also be stressed that UI in Thailand has been generating a large amount of surplus as shown in Figure II-2 in the previous section. As UI in Thailand is established as a part of the social security system, which also provides old-age pension, maternity benefit, child allowance, invalidity benefit, funeral benefit, and medical insurance, the surplus generated by UI is put into the Social Security Fund together with surpluses in the other fields of the social security system. The social security system in Thailand has been making over-all surplus since its start in 1991. Figure III-1 shows the investment portfolio of the Social Security Fund in 2008.

Figure III-1: Investment Portfolio of the Social Security Fund (2008)



Source: Social Security Office, *Annual Report 2008*, p. 44.

If we regard state enterprises as a part of the government, Figure III-1 shows that 73.23% of the investment made by the Social Security Fund went to the government's coffer. As the total amount of investment the Social Security Fund made in 2008 was 567,906 million baht, it means

that 415,878 million baht went to the government's coffer from the Social Security Fund in 2008 in exchange for treasury bills, government bonds, the central bank's bonds, and state enterprise bonds.

The total amount of contribution UI collected in 2008 was 10,222 million baht (Social Security Office 2009b: 38) with one-fifth of them from the government. That means, in 2008, the government paid 2,044 million baht as their contribution to UI. The total amount of unemployment benefit payment in 2008 was 2,437 million baht. Therefore the amount of UI's current surplus was 7,785 million baht. If we assume that 73.23% of this surplus was spent on the bonds issued by government agencies, it means that 5,701 million baht, which is much larger than the amount of the government's contribution to UI, went to the government agencies from UI in exchange for various forms of bonds.

The government expenditure on staff and equipment for the operation of UI is excluded from the above calculation, and the government will eventually have to pay back those bonds. The above calculation, however, shows that, even if the government pays contribution to UI, if the contribution rate is kept low, it will not put a burden on the government's coffer, at least in the short-run.

III-2 Possible Abuse of the System in the Absence of Effective Monitoring Mechanisms

The combination of a large informal sector and weak administrative capacity makes it difficult to prevent abuse of the UI system. When the Thai government started seriously considering the introduction of UI in 1998, the social security system in Thailand only covered workers in the business enterprises with 10 or more employees. ILO recommended the Thai government to expand the coverage of the social security system and include all the regular workers regardless the size of companies they work before the introduction of UI, so that they can monitor the employment status of workers more effectively (Worawan, *et. al.*, 2006: 49). The coverage of the social security system was expanded in 2002, and it became compulsory for all the regular workers in the formal sectors to enroll in the social security system. However, even after the expansion of the coverage in 2002, the social security system covers less than 30% of Thailand's labor force. Most of those who are not covered by the social security system are farmers, own-account and unpaid family workers, and those who work in unregistered workplaces in the informal sectors.

As it is difficult for the Social Security Office to know who works in the informal sectors, the dismissed workers can continue to get UB even after they start working in the informal sectors or in the paddy fields. Though some Thai academics expressed serious concerns about the possibility that such illegitimate UB claims might put an unbearable burden on UI, it turned out that adverse effects of illegitimate UB claims were not as big as they worried.

In a sense, Thailand's UI is designed on the assumption that many of UB recipients would do a part-time job in the informal sector during the period for which they receive UB. UB for

voluntarily unemployed workers is set at 30% of their salary. Without doing some part-time job in the informal sector, it is difficult for many of them to survive. In addition, the provision of UB for voluntarily employed workers lasts for only three months. As the average income of the regular workers in the formal sector is higher than that of those who work in the informal sector, many of workers who lost their job in the informal sector try to find a new job in the formal sector. Some of them succeed, while others fail.

For those who successfully find a new job in the formal sector, it is difficult to continue to receive UB after they get a new job, because once they start working in the formal sector, the Social Security Office will be informed of their new employment status. According to Table II-5 and II-6 in the previous section, 54.1% of those who received UB as voluntarily unemployed workers stopped receiving UB before the third month, and 48.1% of those who received UB as involuntarily laid-off workers stopped receiving UB before the six month. Many of those who stopped receiving UB before the UB duration expires are probably those who found a new job in the formal sector again within three or six months¹⁷.

Many of UB recipients do a part-time job in the informal sector, but not many of them do a full-time job in their first few months after their dismissal from the formal sector, because they prefer to spare enough time for job seeking activities. Though the amount of UB is not large enough to cover all of their daily expenses, they can survive by combining it with their income from a part-time job in the informal sector.

It should also be noted that the qualifying condition for UB regarding the duration of the enrollment in the social security system is quite generous. If one works and pays contribution to UI for six months in the 15 months before unemployment, one can get UB, as explained in the previous section. In the un-irrigated areas, which constitute the vast majority of farmlands in Thailand, farmers have little to do in the dry season, which starts in February and ends in mid-May. If they go to work in the city for three months from mid-February to mid-May, and work in their farmland for the rest of the year, and do the same thing in the second year, they can get UB when they quit their job in the city in the second year, because by the time they go back to their farmland in mid-May in the second year, they will have worked for six months in the 15 months before “unemployment.” No reliable statistics are available on how prevalent these practices are. But judging from the amount of UB paid each year, it does not seem that such practices are so rampant. There are many farmers who come to work in the city during the dry season. But it is very hard for them to find a full-time job in the formal sector. Most of them work in the informal sector, or work as a part-time or irregular worker in the formal sector. Therefore, not so many of them can enroll in the social security system.

¹⁷ Some of them stop receiving UB, even when they cannot find a new job in the formal sector. One of the most common reasons is travelling cost to the Government Employment Service Office (ESO). As there is only one Employment Service Office in most of the outer provinces, traveling costs can become prohibitively high for those who live far from ESO. See for example, Wasana (2006).

III-3 Harmful Burdens on Employers and the Economy

Like in many other economies with UI, employers are also obliged to pay contribution to UI in Thailand as well. Though the contribution rate is as low as 0.5% of employees' salaries, it puts some burden on employers, for sure. Therefore, it is not surprising at all that business leaders in Thailand lobbied against the introduction of UI, when the Thaksin administration showed much stronger willingness to introduce UI than the previous administrations. On November 13, 2003, when the Social Security Office was scheduled to start collecting contribution for UI in less than two months, Federation of Thai Industries, Thai Bankers' Association, and Thai Chamber of Commerce jointly submitted a petition to the Thaksin administration to postpone the implementation of UI, and make an amendment to exclude voluntarily unemployed workers from UB recipients and also to abolish the mandatory severance pay in exchange for the introduction of UI (Bundit 2004: 14). But the Thaksin administration rejected their requests, and started collecting contribution in January 2004 as scheduled without making any amendment.

Though employers showed their dissatisfaction with some provisions in the UI regulations, they did not deny the societal needs of UI, and did not oppose the implementation of UI so strongly. The biggest reason for their weak resistance was the low rate of contribution, which was set at 0.5% of employees' salary with the maximum monthly ceiling amount at 75 baht (about US\$2.5) per employee. With this small amount, its adverse impact on the profitability of their businesses is limited. Another important reason was employers' awareness of the importance of some forms of a social safety net.

As shown in Figure III-2, the Thai economy was hard hit by the Asian financial crisis in 1997, and political and social turmoil ensued. In the early 2000s, there was widely shared consensus that the adverse impact of financial crisis would have been smaller if they had had a proper social safety net. Thailand's export-dependent economy is susceptible to the fluctuation of the global economy. Without an effective social safety net, economic downturn caused by an external shock is likely to trigger a vicious circle. The number of workers who are laid-off or afraid that they might be laid-off increases, and those workers will reduce their consumption expenditure to the very minimum. The decline of domestic demand will further dampen the economy, and it will result in more lay-offs and deepen political and social turmoil, which will scare away foreign investment. The decline in foreign investment will make an already bad economic situation much worse.

But if UI can alleviate workers' sense of fear about their uncertain future to a certain extent by providing UB for the first several months of their unemployment, the decline of domestic demand will be mitigated¹⁸. Having learned a bitter lesson from the financial crisis in 1997 and unprecedented economic slump in 1998, many of employers in Thailand came to realize the importance of a social safety net for workers.

¹⁸ UI's role as an alleviator of the decline of domestic consumption in the time of economic downturn was emphasized in the statement made by the Social Security Office on February 7, 2007, which is downloadable at <http://praitwiset.is.in.th/?md=content&ma=show&id=245>

IV. Policy Implications

Thailand's six-year experience with UI shows that the implementation of UI, if properly designed, is not only feasible but also desirable even at the relatively early stage of industrialization. Because of the differences in the size of the informal sectors, administrative capacity, and economic affluence, however, the standard OECD-type UI is unlikely to function well in second-tier NIEs. We can draw a number of policy implications from Thailand's experience to figure out a more suitable form of UI for second-tier NIEs.

(1) Modest Unemployment Benefits

Unemployment benefits (UB) do not have to be so generous. Provision of 50% of the salary for the first three to six months can make a significant difference in alleviating the plights of the unemployed workers. By making the duration shorter and the amount smaller, UI can maintain surpluses even with a low contribution rate. By lowering a contribution rate, we can reduce the burden on employers and weaken their opposition to the introduction of UI.

The presence of the large informal sector, high labor mobility between rural and urban areas, and limited administrative capacities make it difficult to prevent those who start working in the informal sector after losing a job in the formal sector from receiving UB. In the second-tier NIEs, UI should be designed on the more realistic assumption that many of UB recipients will do a part-time job in the informal sector while they look for a new job. If the amount of UB is set at 50% of the salary, those workers whose income was just a little above the subsistence level would not be able to survive by solely relying on UB. But if they can supplement their income by doing a part-time job in the informal sector, they can continue to look for a more decent job, preferably in the formal sector, for several more months.

Small amount and short duration of UB give unemployed workers a strong incentive to look for a new job seriously. Needless to say, not all the unemployed workers will be able to find a decent new job in the formal sector within several months, no matter how hard they look for it. Some of them might go back to the rural areas, and others might take a full-time job in the informal sector. If they do so, it is very likely for their income to decline. In order to prevent it, one may feel like making the duration of UB longer. But we should also take into consideration the fact that, in developing economies, a large number of people are working in the agricultural sector or in the informal sector without ever receiving UB, because they have never worked in the formal sector. To continue to provide UB for a very long period to those who used to work in the formal sector, while providing nothing to those who have never worked in the formal sector might not be socially justifiable.

(2) Limited Effectiveness of Active Unemployment Policies

Skill development programs run by the Thai government have been ineffective. Only a small fraction of the UB recipients attends government-sponsored skill development programs,

because most of workers know that those programs would not improve their prospect of getting a new decent job much. The government agencies in Thailand do not seem to have comparative advantage to the private sector in the field of skill development. If we take into consideration the limited administrative capability of the Department of Skill Development and widespread corruption in those government-sponsored skill development programs, it does not seem worth spending much budget on them.

For developing economies where government agencies in charge of workers' skill development have insufficient administrative capabilities and susceptibility to corruption, active unemployment policies are unlikely to work well, and it would be better to concentrate on the improvement of the efficiency and transparency in contribution collection and benefit payment of the UI scheme, at least in the first decade of its implementation.

(3) Severance Pay

Like many other developing economies, Thailand made it mandatory for employers to provide severance pay to laid-off workers. When Thailand started considering the introduction of UI seriously in the early 2000's, some of the World Bank experts recommended the Thai government to abolish the mandatory severance pay system. Their recommendation was supported by the three main business organizations in Thailand. But the proposal to abolish mandatory severance pay in exchange for the introduction of UI was strongly opposed by labor organizations (Bundit 2004: 10). The populist government led by Thaksin Shinawatra decided to keep the mandatory severance pay system even after the introduction of UI.

As shown in Table IV-1, the amount of mandatory severance pay differs depending on the length of employment before lay-off. For those who worked for more than six years under one employer, the amount of severance pay would be larger than that of UB. Weakness of the severance pay system, however, is its susceptibility to moral hazard by employers. Severance pay is mandatory only when workers are laid-off involuntarily without any misconduct. As explained in the second section, it is not rare for employers to force their employees to "voluntarily" resign in order to avoid severance pay. Those who work in profit-making large-scale companies with stable and less oppressive labor relations are likely to get severance pay in a full amount when they are laid-off, while their counterparts in smaller companies operating in the red with more oppressive labor relations are less likely to get it.

Table IV-1: Mandatory Severance Pay

Length of Employment	Severance Pay Entitlement
More than 120 days but less than one year	30 days pay
Not less than one years but less than three years	90 days pay
Not less than three years but less than six years	180 days pay
Not less than six years but less than ten years	240 days pay
Not less than ten years	300 days pay

Source: Article 118, Labor Protection Law 1988

As there are significant overlaps in coverage, the mandatory severance pay system should be integrated into UI in the long run. But the abolishment of mandatory severance pay at the time of the introduction of UI might complicate the negotiations on the design of UI. If the monthly amount of UB is set at 50% of their pre-lay-off salary, workers would not agree with the abolishment of mandatory severance pay unless UI provides UB for at least 20 months to those who are laid-off after having worked for more than 10 years, because mandatory severance pay to them, that is 300 days' pay, is equivalent to UB of 50% of their monthly salary for 20 months. But if UB is to be provided for 20 months to those who have worked for more than 10 years, and for 16 months to those who have worked for not less than six years but less than 10 years, the UI's contribution rate for employers and employees must be much higher. It will not be an easy task for the government to persuade employers and employees to agree with such a high contribution rate. To start UI with modest UB without abolishing mandatory severance pay might be a practical way to introduce UI at an early stage of industrialization.

(4) Timing of the Introduction of UI

Thailand introduced UI seven years after the Asian financial crisis. As shown in Figure III-1 in the previous section, the Thai economy started recovering in 1999, and GDP growth rate reached an impressive 7.1% in 2003. It was in 2003 when the Thai government made its final decision on the introduction of UI, and they started collecting contribution in January 2004.

The economic crisis in 1997 changed the public perception of unemployment considerably. It was not only low-educated factory workers but also a large number of high-educated white-collar workers in the banking and financial sectors who lost their job suddenly. Many people came to view unemployment not as a consequence of lack of diligence and ability but as a consequence of macro-economic turbulence often caused by the volatile global economy.

Widely shared awareness of the necessity of a social safety net facilitates the introduction of UI. But it is often infeasible to start collecting contribution when many businesses are struggling just to stay afloat. In hindsight, the year 2004 happened to be the best timing for Thailand to introduce UI. The Thai economy was in a good shape, but people's memory about social pain

caused by economic turmoil in 1997/98 was still vivid. The Thai economy was hit hard again by the turbulences in the global economy in the last quarter of 2008, and the number of lay-offs increased in 2009. But social pain was at least partially alleviated by UI this time. The large amount of surplus accumulated by the UI scheme during the four years of the operation of UI before the economic slowdown in the last quarter of 2008 made employees as well as political leaders confident about the sustainability of UI even in the time of economic slump.

Thailand's experience seems to imply that the best timing for other second-tier NIEs to introduce UI is when their economy is recovering from the economic slowdown caused by the turbulences in the global economy.

(5) Political Attractiveness

It should also be noted that the introduction of UI is likely to raise the popularity of political leaders who play a prominent role in its implementation. The labor minister as well as his deputies received a lot of media attention when they made a statement on their plans to introduce UI. It was under the Thaksin administration that the detailed design of UI was finalized and the final decision to introduce UI was made. UI started paying UB to the unemployed in July 2004, only seven months before the scheduled general election in February 2005. Though the introduction of UI was not the only reason behind it, the incumbent government party led by Thaksin won an unprecedented landslide victory by getting more than two-thirds of the seats in this election¹⁹.

(6) Role of International Organizations

One of the strongest supports for the introduction of UI came from inside the Ministry Labor and the Social Security Office, partly because they learned the effectiveness of UI from the experiences of other economies, such as Korea and Japan²⁰, and partly because they hoped the introduction of UI would increase the amount of budget and the number of personnel allocated to their agencies.

Their proposal to introduce UI, however, was not so warmly welcomed by other government agencies, especially the Ministry of Finance, and faced a cool response from business associations when they started advocating its introduction in 1998. Many of the bureaucrats in other ministries and business leaders had a negative view on UI. They had an impression that UI is a very costly program. Some of them were afraid that UI might spoil the workers, and others thought that UI was one of the main reasons for European welfare states' economic failure, which Thailand should not repeat. In order to dispel those negative images, Thailand's Social Security Office asked various international organizations, such as International Labor Organization, World

¹⁹ As for the analysis of political factors behind the introduction of UI, see Worawan, *et. al.*, 2006: 57-60.

²⁰ Interview with officials at the Social Security Office in August 2009. Thailand's UI has more similarity to those in Korea and Japan than to those in Western Europe. Korea accepted study teams from Thailand several times, and Japan International Cooperation Agency sent a number of Japanese specialists to provide technical assistance in the designing process of, as well as in the initial stage of implementation of, Thailand's UI.

Bank, and Japan International Cooperation Agency to conduct a feasibility study.

The feasibility studies conducted by those international organizations turned out to be a very effective tool for the Ministry of Labor and the Social Security Office to persuade other government agencies and business leaders to agree with the introduction of UI. One of the feasibility study reports submitted by ILO wrote: “the contribution rate necessary to finance a modest unemployment insurance scheme would in the long run be less than 1 per cent of earnings,” (ILO 2001, 52) and played an important role in reshaping the perception of UI in Thailand.

Thailand’s experience suggests that the advocates of UI in other second-tier NIEs might also be able to use feasibility studies and policy advices by international organizations as an effective tool to change their opponents’ perception of UI.

(7) Once-and-for-All Chance

A caveat must be mentioned at this point. If properly designed and properly managed, UI can maintain its financial sustainability and alleviate the plights of the unemployed even in newly industrializing economies. But that also means that UI might become financially unsustainable and might not mitigate the sufferings of the unemployed much, if improperly designed and/or improperly managed. Risk of ending up with having improperly-designed and/or improperly-operated UI is not small in many of developing economies.

Once improperly designed UI is introduced, or once the UI scheme is seriously plagued with corruption and inefficiency in the first several years of its operation, the public will lose their confidence in UI, and both employers and employees will start resorting to all means available to evade the payment of their contribution to UI. The morale of the staffs in charge of UI will also deteriorate, and the abuse of the UI scheme by unqualified claimants will also become rampant.

In this sense, the introduction of UI is a once-and-for-all chance. If a proper UI scheme is successfully installed, it will do a lot of good things. But if not, it may do more harm than good. To make it worse, once it is installed, it is difficult to uninstall. However, it should also be added that, though the introduction of UI is a risky endeavor, it is more risky for small export-dependent second-tier NIEs to face the volatility of the global market without having UI.

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Employment Insurance and Active Labor Market Policies in Chinese Taipei

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I. Introduction

The financial crisis erupted in 2008 and is considered by many economists as the worst one since the Great Depression in the 1930s; it has not only resulted in the collapse of financial institutions, but also triggered seriously rising unemployment around the world. A senior economist, Mr Gyorgy Sziraczki, in the ILO's Regional Office for Asia and the Pacific said: "It is estimated that as many as 100 million people in Asia could be unemployed this year". However, "Few countries in the region have an adequate unemployment insurance scheme, especially those in the so-called "informal economy". "So, in extraordinary times like we are now experiencing, extending social protection becomes critical", stated Ms Sachiko Yamamoto, the ILO's Regional Director for Asia and the Pacific¹. Therefore, in June 2009 during the International Labor Conference, ILO member states adopted a 'Global Jobs Pact', i.e., one global policy instrument addressing the social and employment impact of the international financial and economic crisis, centering on investments, employment and social protection.

In line with ILO Global Jobs Pact, the APEC Leaders' Meeting of 2009 in Singapore also addressed the risks of job crisis and got back on the track with the creation of decent work². Initiated by the bubble real estate market in the U.S. and the collapse of Lehman Brothers in the first half of 2008, the world has encountered the financial crisis since the latter half of 2008 with a declining gross domestic product (GDP)³ and then a higher unemployment rate. Under such circumstances, every economy, including Chinese Taipei, has tried to revive its economy and alleviate the suffering of unemployment. In terms of employment and social policy, a mechanism of (un)employment insurance and active labor market policies (ALMPs) play the core roles to support the income of the unemployed and assist reintegration into employment.

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¹ Data Source: The Economic Crisis in Asia: It's about real people, real jobs. 26 June 2009. Retrieved http://www.ilo.org/global/About_the_ILO/Media_and_public_information/Feature_stories/lang--en/WCMS_108585/index.htm

² Data Source: Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting 2009-ITUC/APLN Statement, A Priority: tackling the Financial and economic crisis. Singapore, 14-15 November 2009. Retrieved from <http://www.ituc-csi.org/asia-pacific-economic-cooperation.html?lang=en>

³ From the composition of $GDP=C$ (consumption) + I (investment) + G (government expenditure) + X (exports) - M (imports), GDP has declined significantly since C , I , X and M have declined substantially.

Although the global economy has started to recover recently, the labor markets have not improved too much (ILO 2010). The unemployment rate in Chinese Taipei is still very high despite the joining of Chinese Taipei to the World Trade Organization (WTO) in 2002 and the stable recovery of the current economy in Chinese Taipei after the impacts of the global financial crisis on job opportunities. The Chinese Taipei government is facing the challenges of how to shorten the recovery time in employment due to the high unemployment rate. The problems of unemployment and the structures of job opportunities are significantly affected by the seasons of school graduation and the entry into the Economic Cooperation Framework Agreement (ECFA). As a result, it is very difficult for Chinese Taipei to go back to the era of full employment and low unemployment. By contrast, Chinese Taipei society and government need to deal with challenges posed by globalization and population ageing and the following issues of the high rate of the unemployment and repeat unemployment as well as the largely worsening income distribution between the rich and the poor (Chou 2010a).

The short-term rate of unemployment exceeded 2% and remained below 2% in the rest of the period during two periods of the oil crisis in the 1980s. The unemployment rate has increased in Chinese Taipei since 1996 and exceeded 2%. In 2002, the unemployment rate in Chinese Taipei reached 5.17% due to global recession. In addition, the rate of unemployment exceeded 6% in July, August, and September 2009 and 0.64 million persons were unemployed in 2009 due to the global financial crisis in 2008. The average rate of unemployment reached 5.85% in 2009 which broke the historical record of the past five decades.

Recession is not a new experience for the international community. OECD economies had adopted a variety of strategies to fight against the high unemployment rate in the 20th century. For example, in the 1970s, some OECD economies adopted the early retirement option and lowering requirements of disability benefits (OECD 2009: 16). In the 1990s, France, Germany and the U.S. provided a subsidy to re-employed workers of the part earnings differential between current and previous jobs if compensation for the current job was lower. Finland and France lowered their unemployment benefits to promote reemployment while Korea relaxed its coverage of unemployment insurance to help unemployed workers. (OECD 2006: 57)

As for reactions to the financial crisis in 2008, OECD economies mostly adopted providing vocational training to unemployed and employed workers, promoting labor demand, creating short-term employment opportunities, and assisting in job search (OECD 2009: 11). In assessing various policies, OECD (2009) pointed out that governments shall adopt various measures to assist unemployed older workers, youths, and new entrants; fiscal sustainability under unemployment benefits extension and unemployed workers who were not covered by unemployment insurance would be challenges of the social security system; related policy shall integrate measures of social assistance; the effectiveness of requiring the unemployed's responsibility of an active job search decline with depression; creation of public works would encounter the problem of rationing; short-time work schemes of subsidizing workers' incomes

under shrinking work hours had to be kept short-term for efficiency; employment subsidy of hiring vulnerable groups did not reveal a significant positive effect; non-discriminated ALMPs shall be promoted to immigrants to attract and integrate immigrants; ALMPs shall be adjusted timely, aiming at target groups and keeping temporary, to avoid the negative effect of reentering the traditional labor market.

Encountering an unprecedented higher unemployment rate due to the financial crisis in 2008⁴, Chinese Taipei has adopted⁵ a variety of employment and social policies to fight against it as well. Scholars may be interested in the following issues.

1. What were the unemployment problems in Chinese Taipei for the past decades and during the global financial crisis?
2. What has been the historical development and the actual conditions of employment insurance as well as their political/economic implications in Chinese Taipei?
3. What are the current active labor market programs available in Chinese Taipei and their effects?
4. What are the existing challenges of Chinese Taipei's employment insurance and the policy suggestions?

The Employment Insurance (EI) in Chinese Taipei has contributed partly to ease the unemployed person's economic hardship during recessions and has been amended in reaction to the financial crisis. Other ALMPs have been provided through the Employment Services Act with the Employment Stabilization Fund which is collected from employers of (low-skilled) foreign workers. Therefore the EI and ALMPs related to the Employment Services Act will be explored primarily. To cope with recent changes and future challenges, the social safety net, in particular the EI, in Chinese Taipei shall have a better framework to keep the resilience of the society of Chinese Taipei. Thus some suggestions will be provided in the final section.

This article concentrates on the analysis of unemployment problems and public policy. Contents of collective bargaining or individual bargaining are ignored because the trade unions do not have significant bargaining power and individual bargaining is difficult to be detected.

II. Features of the Labor Market in Chinese Taipei

Due to the global financial crisis, Figure 1 shows that the economic growth rate in Chinese Taipei has become negative (-0.8%) since the third quarter of 2008 and dropped to -9.06% in the first quarter of 2009. Although the economic growth rate has become positive since the fourth

⁴ The unemployment rate in Chinese Taipei increased from May 2008 (3.81% in April 2008 was the lowest level), surpassed 5% in December 2008, surpassed 6% in July 2009, reached a record high of 6.13% in August 2009, declined since then and was 5.68% in January 2010. The exports and imports in Chinese Taipei had declined from September 2008 to December 2009 and the GDP has declined from the fourth quarter of 2008 to the third quarter of 2009.

⁵ In order to boost GDP, Chinese Taipei also issued a consumption coupon of NT\$85.6 billion to all residents in January 2009, increased NT\$84.6 billion government expenditure on public construction projects, and promoted trade and initiated the ECFA (Economic Cooperation Framework Agreement) negotiation with China to stimulate exports.

quarter of 2009, the relative unemployment rate did not improve too much in Chinese Taipei, that is, jobless growth. Jobless growth was defined as economic growth while maintaining or decreasing the level of employment.

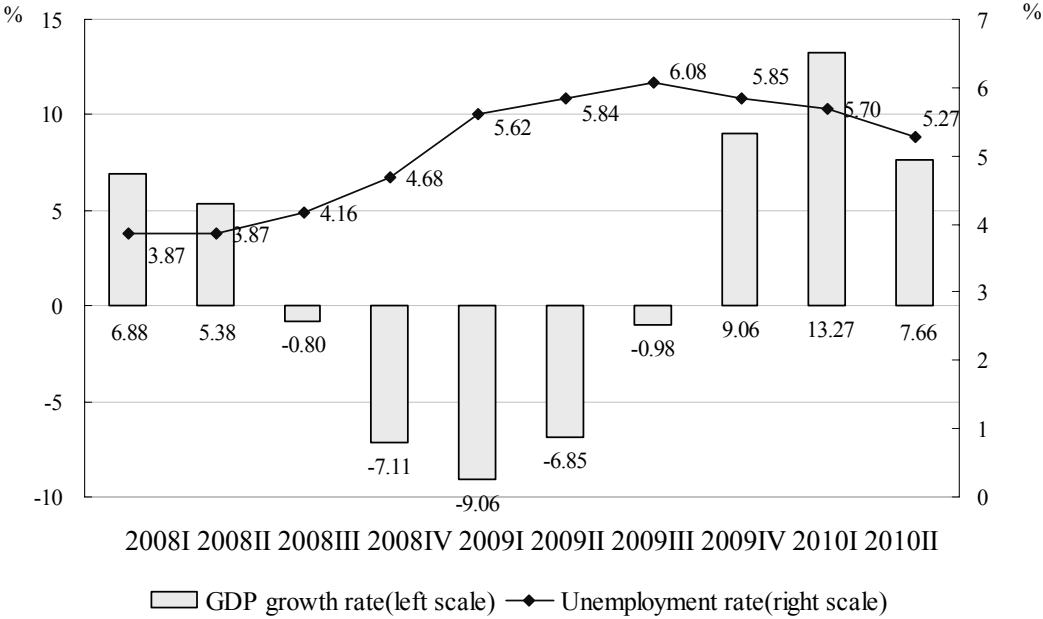


Figure 1. 2008-2010 GDP Growth Rate and Unemployment Rate in Chinese Taipei

Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan

Figure 2 mainly explains the increasing number of recipients of UI benefits in Chinese Taipei during the global financial crisis. It shows that the number of recipients of UI benefits showed significant growth as compared to the previous year during the global financial crisis. However, these unemployed persons in Chinese Taipei could at least get their basic protections of income security owing to the Employment Insurance Act.

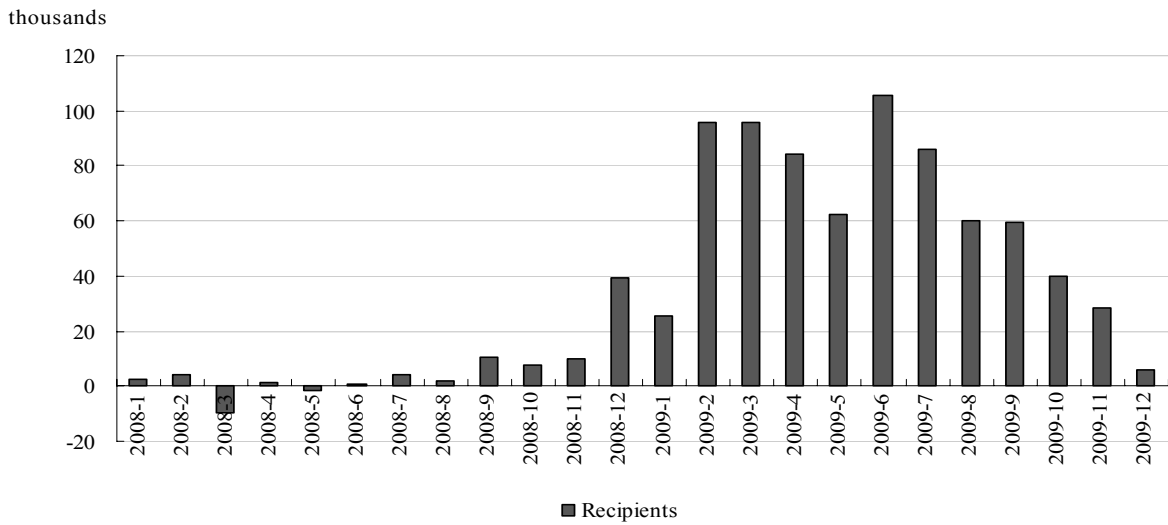


Figure 2. Number of the Recipients of UI Benefits (changes over the previous year) in Chinese Taipei, 2007-2009

Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan

Figure 3 shows that the cause of the early two periods of high unemployment rates in Chinese Taipei was the oil crisis (1983 and 1985) and the unemployment rate afterwards remained below 2% until 1996 (2.6%). After that, the unemployment rate reached the peak twice in 2002 and 2009 due to a change of structures and transitions of Chinese Taipei's industrial structures and the global financial crisis (Chou 2010a).

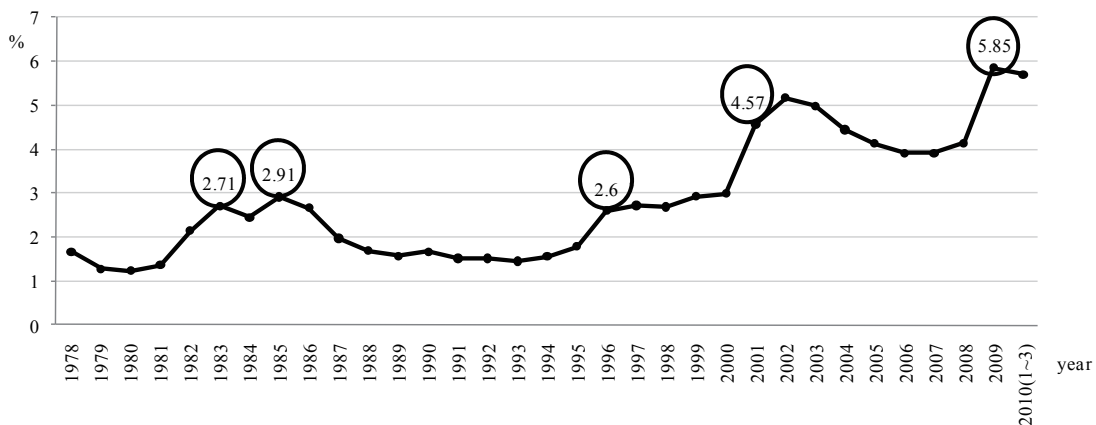


Figure 3. Historical Trends of Unemployment Rates in Chinese Taipei, 1978-2010

Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan (2010)

Chinese Taipei has been a member of the WTO since January 2002 and promoted a higher

degree of globalization. The growth of trade with China across the Strait is the most significant development in recent years⁶. This section briefly depicts Chinese Taipei labor market from features of labor force, employment, unemployment, and work compensation.

2.1 Labor Force

The number of civilian population aged 15 years and over and the labor force grew steadily in the long-run even during the financial crisis (Figure 4). They were 18,855,000 and 10,917,000 persons in 2009, respectively. Nevertheless, persons older than 65 years old showed a growing trend (Figure 5) which was estimated to result in an increasing dependency ratio⁷. Total dependency ratio was about 37.8% in 2008 and was projected to increase to 45.1% by 2023 and then expected to increase to 91.2 % in 2056. The implications of population ageing on the labor market and productivity for the case of Chinese Taipei could also be referred to Chou (2010b).

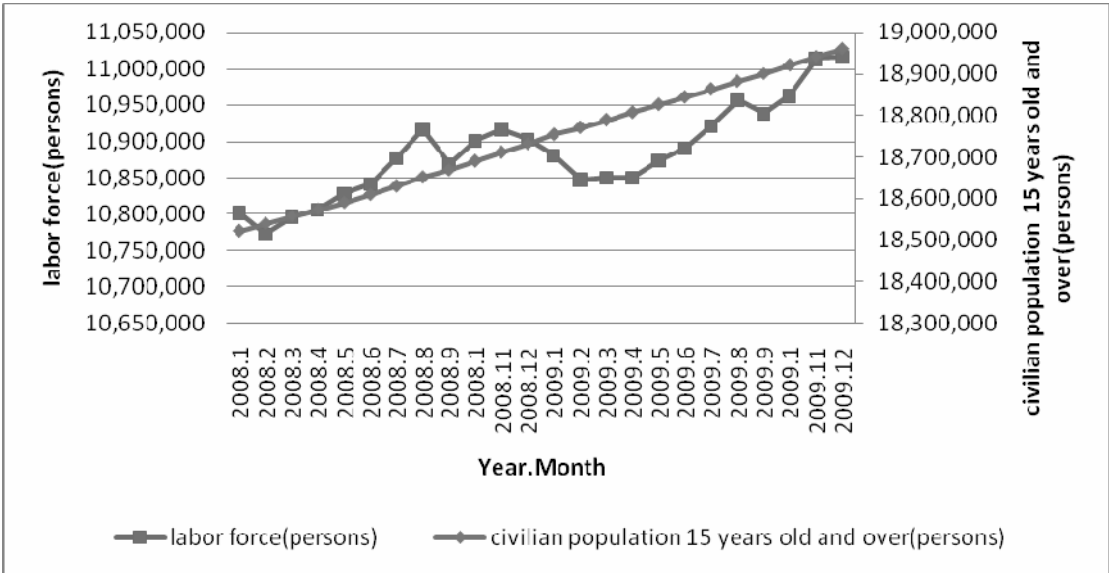


Figure 4. Number of Civilian Population 15 Years Old and Over and Labor Force

Source: Council of Labor Affairs website, labor statistics.

⁶ More than 40% of exports and imports are across the Strait.

⁷ Dependency ratio is defined as (population of 14 years or under + population of 65 years or over) / (population of 15-64 years) *100.

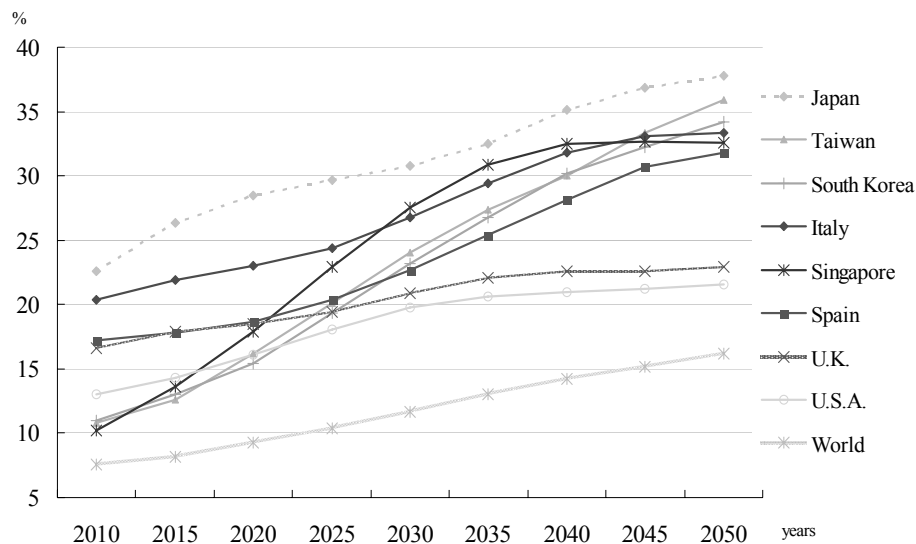


Figure 5. Population 65 Years Old and Over in Selected Major Economies

- Sources: 1. United Nations, World Population Prospects: The 2008 Revision;
 2. Population Projections for Chinese Taipei Areas: 2008 ~ 2056 (2008), Council for Economic Planning & Development, Chinese Taipei

(a) Trend of Labor Force Participation Rate

The LFPR had a relatively low level in 2001 (57.23%), then increased until 2008 (58.28%) and declined in 2009 (57.90%) due to the financial crisis (Figure 6). The LFPR and the unemployment rate changed in opposite directions during Aug. 2008-Nov. 2009 (left part of Figure 5) which reflected a discouraged workers effect. The LFPR by gender showed a declining male LFPR (66.40% in 2009) and an increasing female LFPR (49.62% in 2009) (Figure 7) reflecting the effect of promoting female employment by government over two decades⁸. The expansion of service sectors and the increasing number of dual-income and dual career families has also partly explained the increase of female labor force participation rates.

⁸ Some may argue that females are a reserved labor force (claiming that females will participate in the labor market more under a recession and retreat from the labor market in a boom), yet females may not encounter a better employment environment without government assistance.

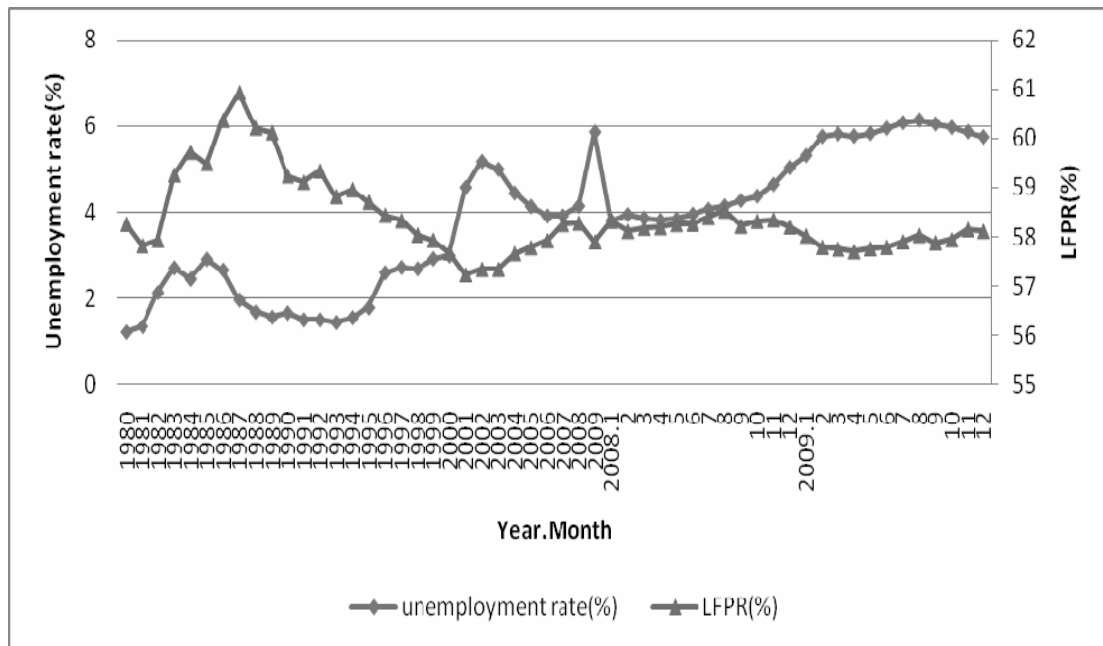


Figure 6. Unemployment Rate and Labor Force Participation Rate

Source: Council of Labor Affairs website, labor statistics.

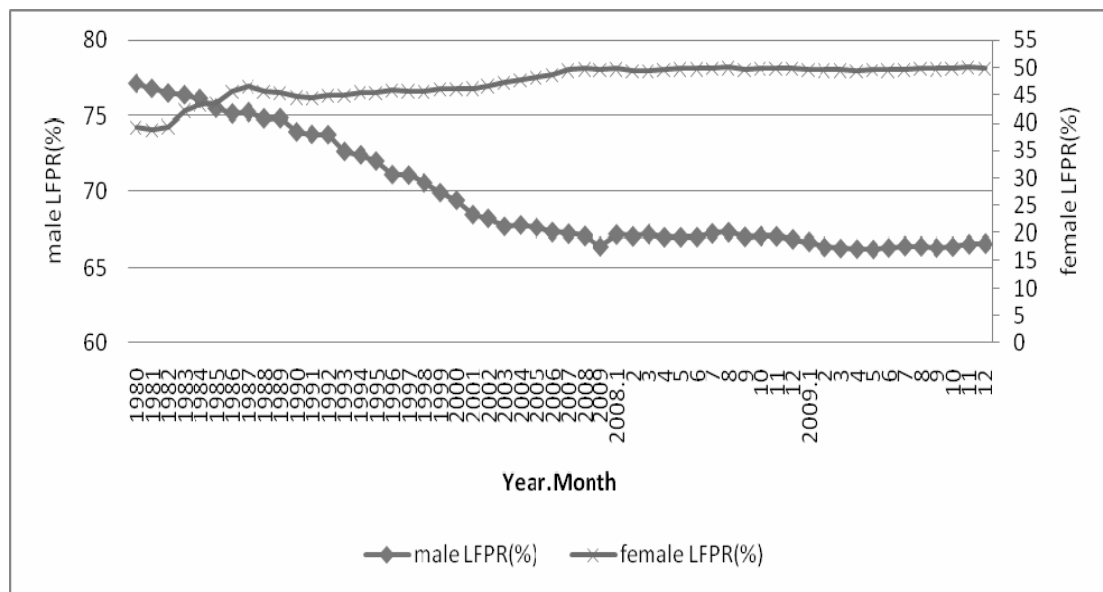


Figure 7. Labor Force Participation Rate by Gender

Source: Council of Labor Affairs website, labor statistics.

Concerning the LFPR by age group, the age group of 25-44 presented the highest LFPR (84.19% in 2009), the age group of 45-64 the second (60.25% in 2009), the age group of 15-24 the third (28.62% in 2009), and the age group of 65 or over the lowest (8.05% in 2009). During the financial crisis, the age group of 25-44 kept increasing the LFPR (83.81% in 2008), while

age groups of 15-24 (30.17% in 2008), 45-64 (60.83% in 2008) and 65 or over (8.10% in 2008) were declining (Figure 8). These showed that the financial crisis was a setback to the LFPR of age groups of 15-24, 45-64 and 65 or over.

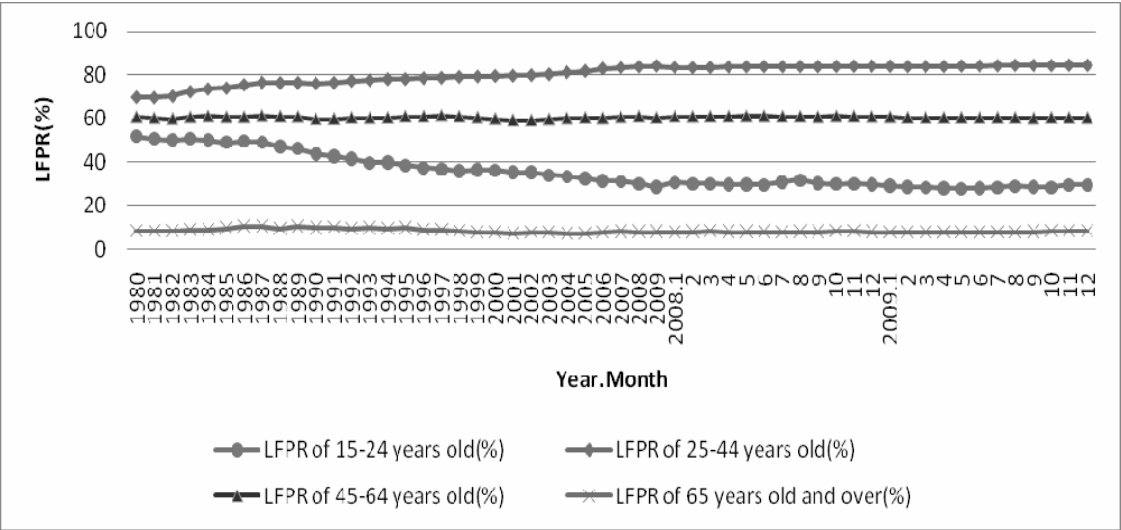


Figure 8. Labor Force Participation Rate by Age Group

Source: Council of Labor Affairs website, labor statistics.

Concerning the LFPR by education, college and above showed the highest LFPR (68.40% in 2009), high school the second (62.61% in 2009), and junior high the least (41.67% in 2009), which were closely related to the increase of educational level over time and the reducing numbers of young workers due to a lower fertility rate. During the financial crisis, the LFPR of college and above kept increasing (68.18% in 2008), junior high and below kept decreasing (42.87% in 2008), while high school decreased (63.64% in 2008, 62.61% in 2009) from its peak in 2007 (63.95%) (Figure 9). Hence high school was the victim group of the financial crisis in terms of LFPR.

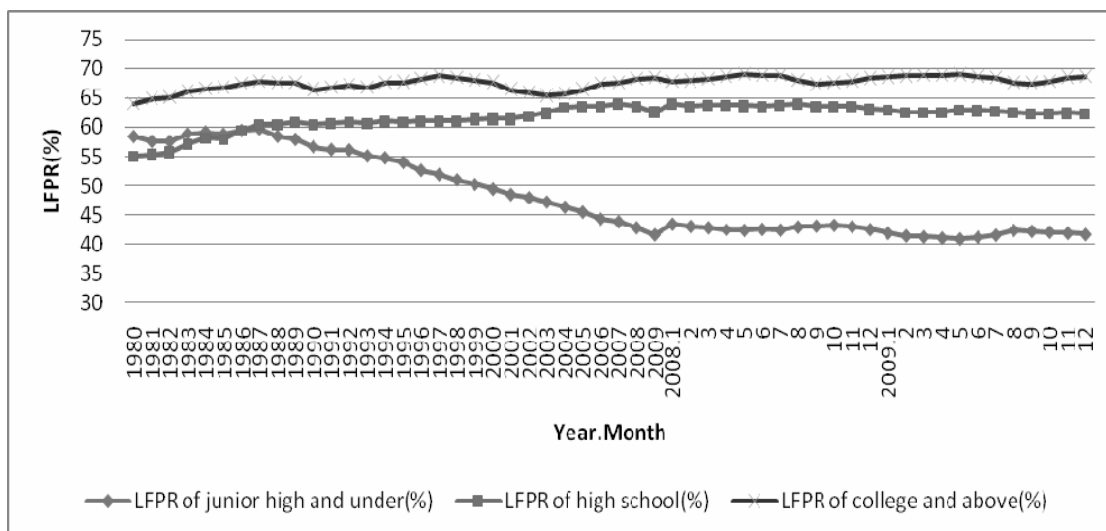


Figure 9. Labor Force Participation Rate by Education

Source: Council of Labor Affairs website, labor statistics.

(b) Number of (Low-Skilled) Foreign Workers

Due to declining LFPR, low fertility rate, NT dollar appreciation, increase of educational level, and the enactment of the Labor Standards Act, a labor shortage of low-skilled workers had become an issue in the late 1980s. In reaction to alleviate the labor shortage, Chinese Taipei has opened its door to (low-skilled) foreign workers since 1989. The number of foreign workers had increased rapidly to 351,016 persons by the end of 2009. During the financial crisis, the number of foreign workers decreased from the peak of 374,147 persons in July 2008 to the lowest 341,484 persons in June 2009, primarily due to the reduction of foreign workers hired in manufacturing (194,258 persons in July 2008, 158,728 persons in June 2009) (Figure 10)⁹.

⁹ Possible reasons include the market mechanism (layoff some foreign workers and nationals at the same period) and government policy to restrict new hiring of foreign workers.

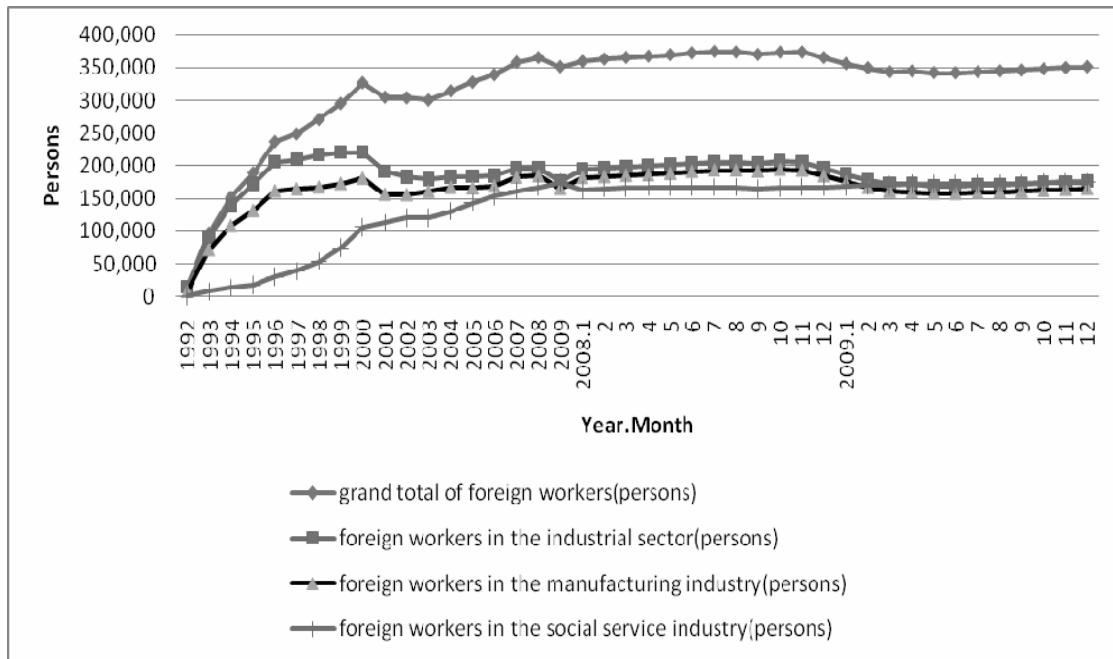


Figure 10. Trend of Foreign Workers

Source: Council of Labor Affairs website, labor statistics.

2.2 Employment/Unemployment

Under globalization, the labor demand in Chinese Taipei has changed fast and promoted polarization. Skilled jobs a decade ago may become low-skilled ones because of deskilling or contracting out overseas. In searching for flexibility, there is a growing share of contingent (non-standard, atypical) workers, particularly dispatched workers and a routine to rotate work-sites around the world. Nondiscrimination has been highlighted for decades, but employers' demand for flexibility may cause avoiding such social responsibility.

On the supply side, a significant amount of low-skilled foreign workers have been hired (357,937 persons in the end of 2007, 351,016 persons in the end of 2009)¹⁰. Low-skilled nationals may face a more competitive labor market than before and they prefer local jobs while afraid of migration due to asymmetric information. The capacity of colleges has expanded fast so that a lot more college graduates are supplied to the market each year which results in larger new entrants' unemployment. In the following, number of employed, employment by class of workers, nonstandard workers, and unemployment rate are analyzed.

(a) Number of Employed

The number of those employed in the tertiary sector has grown the fastest over the past three decades and reached its peak in 2008 (3,540,343 persons). The number of those employed in the industrial sector has grown slower over the past three decades yet reached its peak in 2008

¹⁰ The number of low-skilled foreign workers had increased to 359,583 persons in June 2010 (Council of Labor Affairs 2010: 176).

(3,048,257 persons) as well. Both declined in 2009 (3,446,509 persons in the tertiary sector and 2,884,127 persons in the industrial sector) due to the financial crisis. The number of those employed in the primary sector has shrunk over the past three decades and reached its bottom in 2008 (535,000 persons), but it increased in 2009 (543,000 persons) to absorb some urban unemployed (Figure 11).

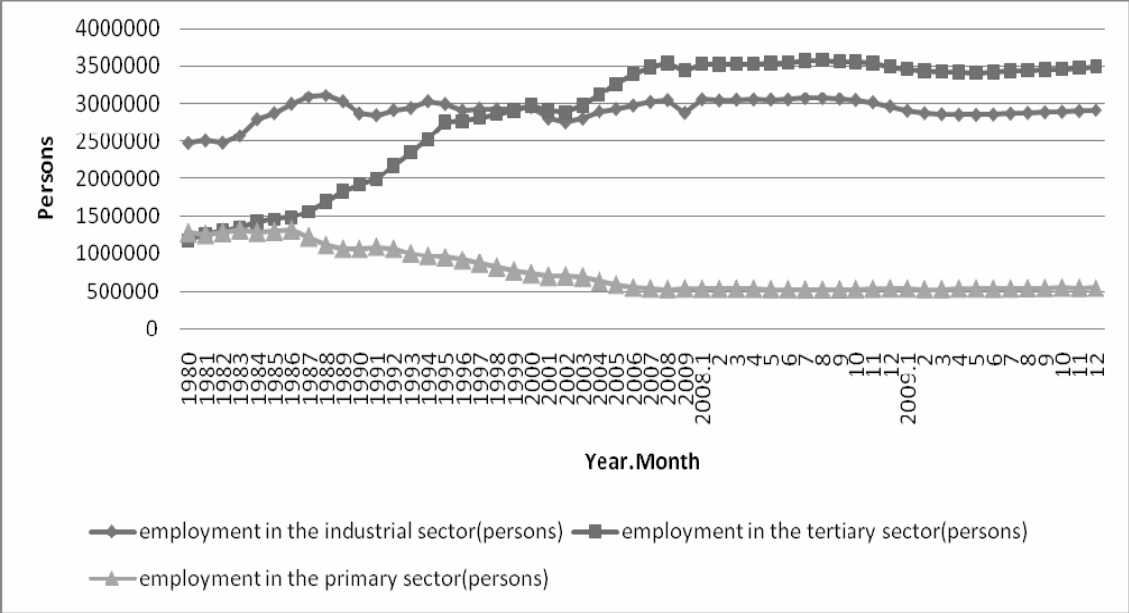


Figure 11. Number of Employed in Three Sectors

Source: Number of employed in the industrial and the tertiary sectors are collected from www.dgbas.gov.tw, number of employed in the primary sector are collected from Council of Labor Affairs website, labor statistics.

Disabled person employment peaked in 2006 (187,602 persons), lowered significantly to 134,432 persons in 2007 (no data is available for 2008) and increased to 163,112 persons in 2009 (Figure 12). It seems that disabled person employment does not suffer from the financial crisis, which increment may be related to governmental specific programs to promote employment of vulnerable groups. As for aborigines, their employment peaked in Dec. 2005 (207,493 persons), then declined up to Sept. 2009 (198,950 persons) and increased in Dec. 2009 (203,412 persons) (Figure 13). Hence aboriginal employment suffered from the impact of the financial crisis until Sept. 2009.

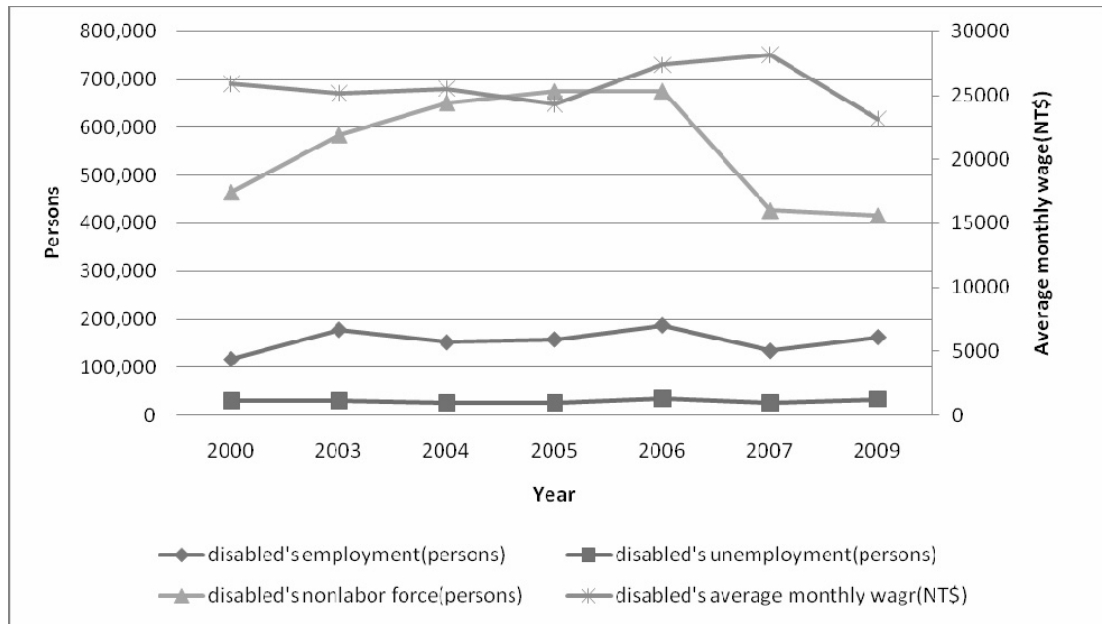


Figure 12. Disabled's Employment and Monthly Wages

Source: Council of Labor Affairs website, labor statistics.

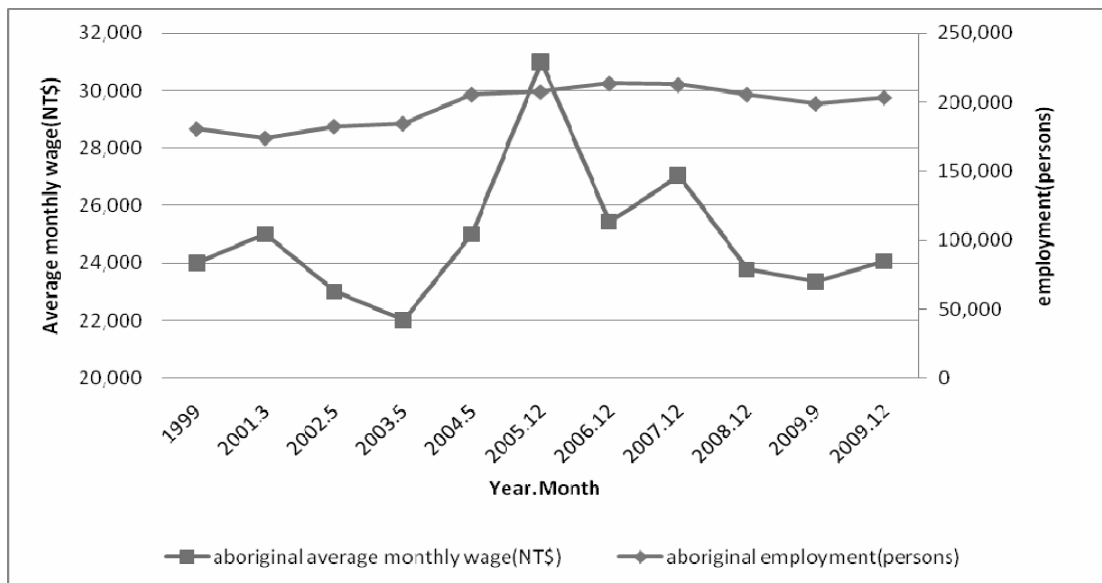


Figure 13. Aboriginal Employment and Average Wage

Source: Council of Aboriginal Affairs website, *Surveys of Aboriginal Employment*.

(b) Employment by Class of Workers

Regarding employed persons by class of workers, it can be detected that private employees are the largest group, growing in the long-run and peaking in 2008 (6,945,000 persons), number of employers or self-employed the second, peaking in 2000 (2,036,000 persons) then declining

until 2009 (1,802,000 persons), number of government employees the third, peaking in 2000 (1,027,000 persons) then declining but varying (low points observed in 2000, 2002 and 2007) to increase in 2008-2009 (958,000 persons in 2008) and peaking in 2009 (1,040,000 persons), and the number of unpaid family workers the least, declining since 1987 and reaching its lowest level in 2009 (588,000 persons) (Figure 14).

Over the period of 2007-2009, it is found that private employees varied (6,803, 6,945 and 6,850 thousand in 2007-2009 respectively) that employers or self-employed (1,919, 1,882 and 1,802 thousand in 2007-2009 respectively) and unpaid family workers (641, 619 and 588 thousand in 2007-2009 respectively) declined while government employees increased (932, 958 and 1,000 thousand in 2007-2009 respectively). These trends imply that various programs of ALMPs adopted in recent years may have attracted other class workers to migrate into the public sector.



Figure 14. Employed Persons by Four Classes of Workers

Source: Council of Labor Affairs website, labor statistics.

(c) Nonstandard Workers

Nonstandard workers, particularly dispatched workers, have grown rapidly and that has raised concern¹¹ in recent years. According to enterprises, dispatched workers can be utilized to substitute permanent hiring in an uncertain recovery to preserve resilience. As recovery becomes certain, dispatched workers with good performance may be recruited to permanent positions. According to the surveys conducted by the Directorate-General of Budget, Accounting and Statistics (DGBAS), the number of nonstandard workers increased steadily with 368,000

¹¹ For example, reasons for dispatched workers prevail, how dispatched workers rights can be protected effectively, whether a Dispatched Act shall be enacted (the CLA proposes currently to amend the Labor Standards Act to cover the phenomenon of dispatched workers).

part-time workers and 517,000 temporary or dispatched workers in 2009, which grew from the figures in 2008 (311,000 part-time workers and 498,000 temporary or dispatched workers) (Figure 15).

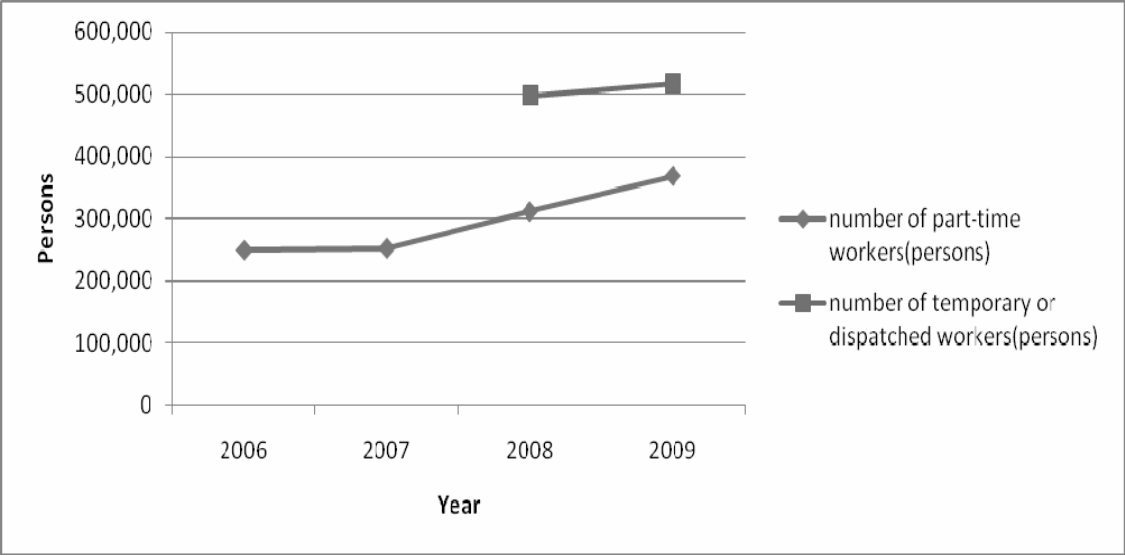


Figure 15. Number of Nonstandard Workers

Source: www.dgbas.gov.tw, *Manpower Utilization Survey Report*.

(d) Unemployment Rate

Unemployment rate is used as the indicator of unemployment here. The unemployment rate in Chinese Taipei had surpassed 2% since 1996 and then 4% since 2001. The former one pushed the start of offering UB under the Labor Insurance in 1999 while the latter promoted the enactment of EI Act in 2003. The unemployment rate reached its peak in 2002 (5.17%), then declined to 3.91% in 2007, increased to 4.14% in 2008, and reached a new high of 5.85% in 2009 (Figure 16).

The unemployment rate revealed its relatively lowest level in April 2008 (3.81%), increased from May 2008, surpassed 5% in December 2008, surpassed 6% in July 2009, reached its highest (6.13%) in August 2009, declined thereafter, and was 5.74% in the end of 2009¹² (www.dgbas.gov.tw). Comparing with the LFPR¹³, the impact of the financial crisis may be more striking if comparing August 2009 to August 2008¹⁴.

The high record of the unemployment rate during the financial crisis induced amendment of the EI Act in May 2009 to extend UB and provide an employment stabilization clause. Moreover, the unemployment rate in Chinese Taipei has started to increase since May 2008 (3.81% in April

¹² The unemployment rate declined further to 5.14% in June 2010. President Ma had claimed to lower the unemployment rate to be below 5% by the end of 2010 in February 25, 2010. This goal is equivalent to reducing unemployment of 240,000 persons from the figure in Jan. 2010.

¹³ The LFPR reached its highest in August 2008 (58.53%), declined thereafter, down to 57.70% in April 2009, increased from May 2009 (57.76%) and was 58.11% in December 2009. (www.dgbas.gov.tw)

¹⁴ Such comparison may avoid seasonal factors as well.

2008 was the lowest level), surpassed 5% in Dec. 2008, and surpassed 6% in July 2009 (6.07%). Unemployment rate is a traditional indicator of the business cycle; however, the Chinese Taipei government did not detect the message of recession until Oct. 2008 when the furlough prevailed.

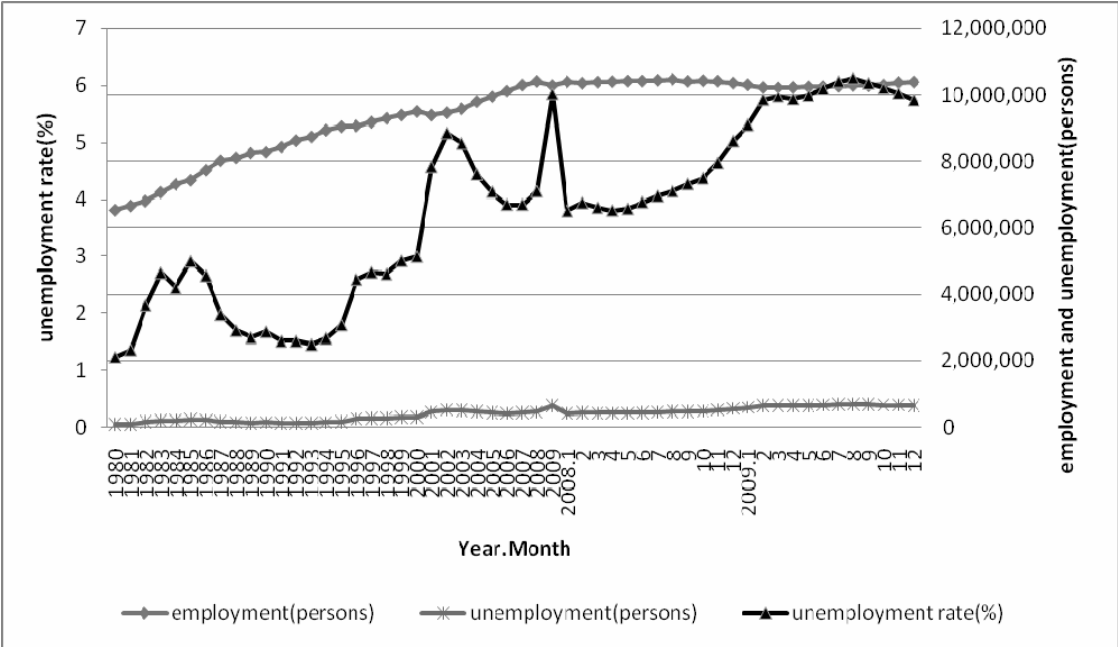


Figure 16. Trends of Employment, Unemployment and Unemployment Rate

Source: Council of Labor Affairs website, labor statistics.

Looking into the unemployment rates by education level, high school has the highest level (4.31%, 4.34% and 6.19% over the period of 2007-2009, respectively), college and above the second (4.00%, 4.21% and 5.57% over the period of 2007-2009, respectively), and junior high or under the third (3.22%, 3.76% and 5.84% over the period of 2007-2009, respectively) (Figure 17). The unemployment rate of junior high or under was higher than that of college and above in 2009, which may be ascribed to government policy leaning to promote employment of those in college and above.

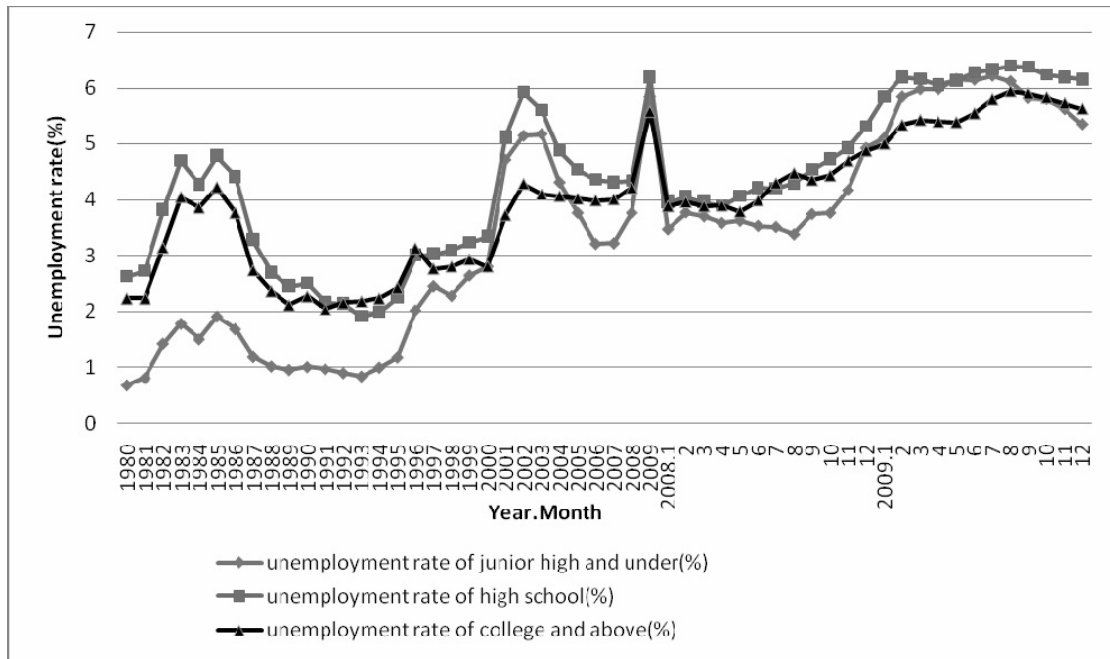


Figure 17. Unemployment Rates by Education

Source: Council of Labor Affairs website, labor statistics.

The unemployment rates by gender show that males have presented a higher level systematically than females since 1996. Over the period of 2007-2009, female unemployment rates were 3.72%, 3.83% and 4.96%, respectively, while male unemployment rates were 4.05%, 4.39% and 6.53%, respectively showing that the gender gap enlarged¹⁵ during the financial crisis (Figure 18). Such observation may be a result of actively promoting female employment by government.

¹⁵ Say, $4.05/3.72=1.0887$, $4.39/3.83=1.1462$, $6.53/4.96=1.3165$.

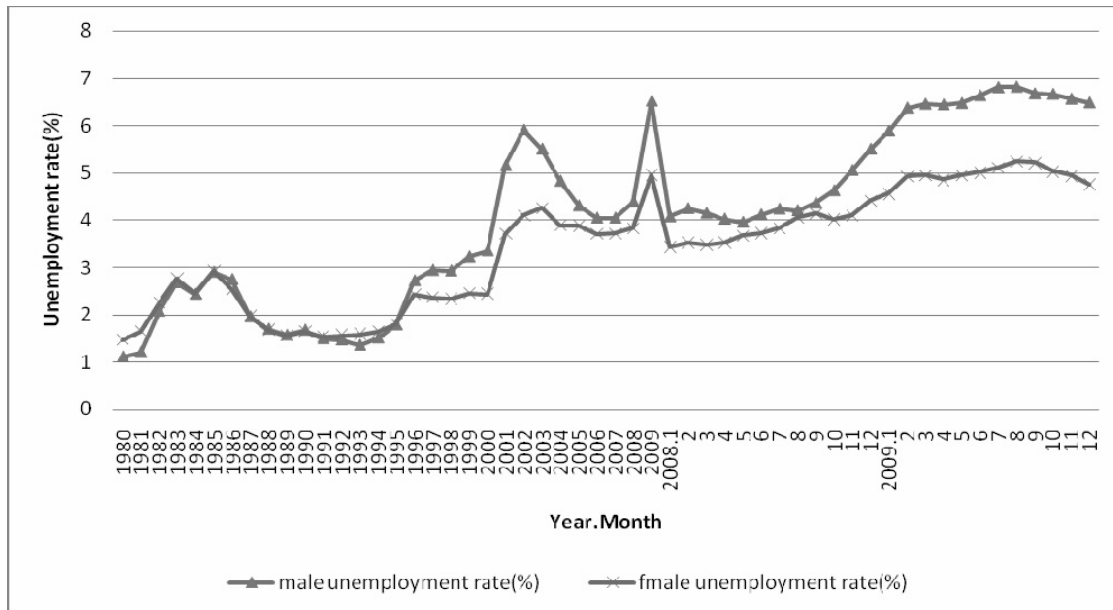


Figure 18. Unemployment Rates by Gender

Source: Council of Labor Affairs website, labor statistics.

As for the unemployment rates by age group, the age group of 15-24 had the highest level (10.65%, 11.81% and 14.49% over the period of 2007-2009, respectively), the age group of 25-44 the second (3.86%, 4.02% and 5.93% over the period of 2007-2009, respectively), the age group of 45-64 the third (2.24%, 2.54% and 3.90% over the period of 2007-2009, respectively), and the age group of 65 or over the lowest (0.16%, 0.17% and 0.13% over the period of 2007-2009, respectively) (Figure 19). These revealed that the age group of 45-64 increased its unemployment rate with the largest proportion over the period of 2007-2009¹⁶, the age group of 25-44 the second¹⁷, and the age group of 15-24 the third¹⁸. Moreover, age groups of 15-24, 25-44 and 45-64 had a higher unemployment rate due to the financial crisis while that of the age group of 65 or over declined; the latter might be a result of the discouraged workers effect.

¹⁶ $3.90\%/2.24\%=1.741$.

¹⁷ $5.93\%/3.86\%=1.536$.

¹⁸ $14.49\%/10.65\%=1.361$.

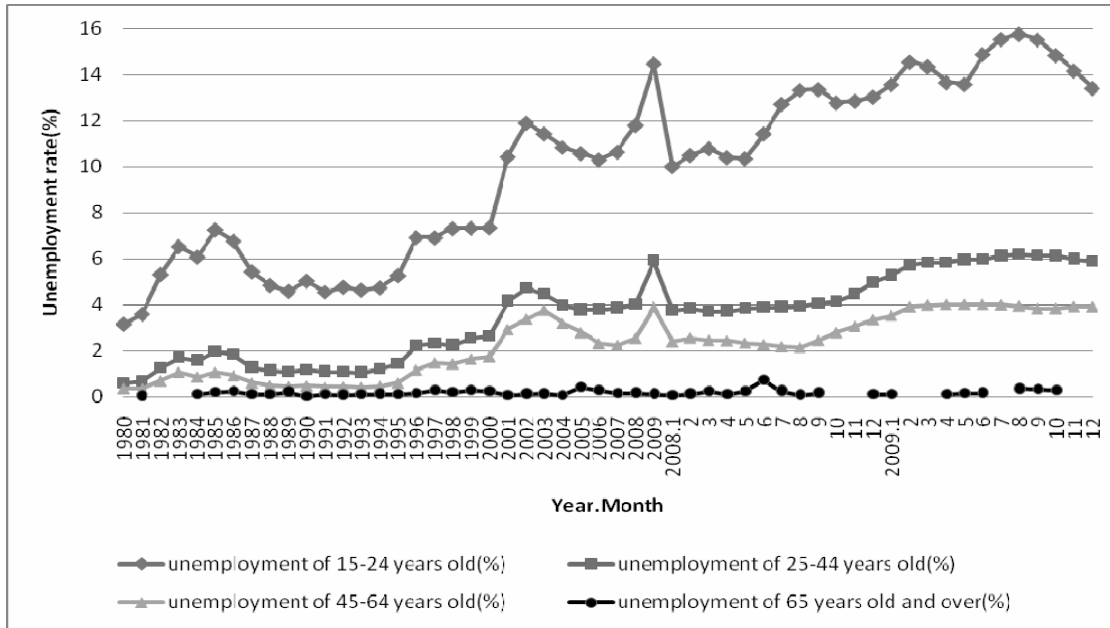


Figure 19. Unemployment Rates by Age Group

Source: Council of Labor Affairs website, labor statistics.

Disabled person’s unemployment rate remains high constantly, with a peak revealed in 2000 (20.93%), the lowest level appeared in 2005 (14.55%), then it increased to 16.70% in 2007 and further to 17.30% in 2009 (Figure 20). In combination with the increment of disabled person employment, it is inferred that the disabled transfer their status between non labor force and labor force.

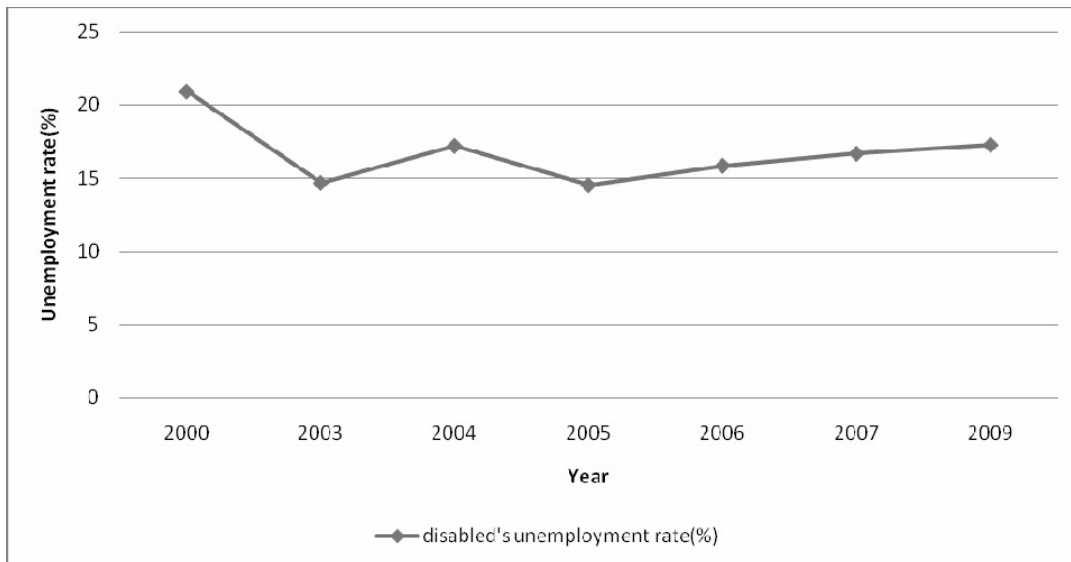


Figure 20. Disabled Person’s Unemployment Rate

Source: Council of Labor Affairs website, labor statistics.

Aboriginal unemployment and unemployment rate reached the lowest level in Dec. 2005 (unemployment was 9,263 persons, unemployment rate was 4.27%), then increased gradually in Sept. 2009 (unemployment was 19,306 persons, unemployment rate was 8.85%) and declined in Dec. 2009 (unemployment was 16,053 persons, unemployment rate was 7.31%) (Figure 21). These imply that aborigines suffered increasing unemployment rates before the financial crisis and became worse off during the financial crisis.

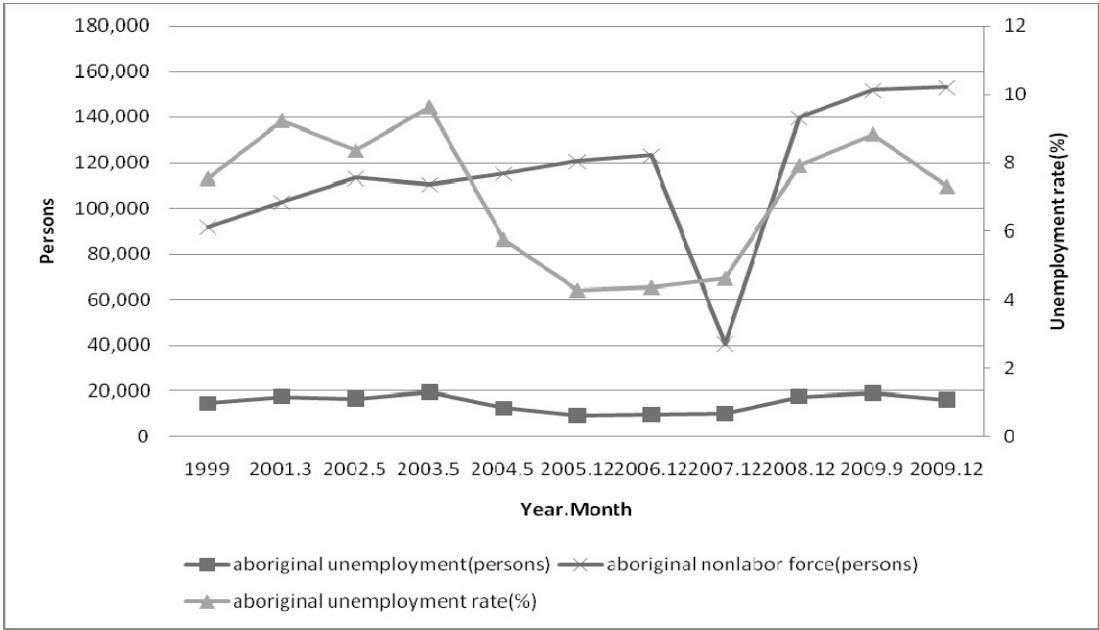


Figure 21. Aboriginal Unemployment, Unemployment Rate and Non labor Force

Source: Council of Aboriginal Affairs website, *Surveys of Aboriginal Employment*.

2.3 Work Compensation

In the financial crisis, the furlough has been adopted gradually by enterprises as a substitute for layoffs. The phenomenon of the furlough became a concern by the mass media in October 2008 and resulted in a tracing survey by the government. The number furloughed was 202,000 persons, mostly (71.4%) in enterprises with 500 or more workers in December 2008 (<http://file.ejob.gov.tw/Uploadfiles/4642.doc>). The number climbed to the highest 238,000 persons in March 2009 (Aug. 17, 2009, United Evening News), and then declined to 144,000 persons in April 2009 (Shin 2009:10), 66,709 persons in August 2009 (Aug. 17, 2009, United Evening News) and 10,000 persons in the end of 2009 (Feb. 25, 2010, DGBAS News Brief).

The financial crisis has lowered work compensation. The average wages of employees in the industrial and tertiary sectors and the manufacturing showed a decreasing trend from August 2008 to August 2009. The decreased proportions were 4.00% (1-39827/41486) and 9.74% (1-36524/40466), respectively. Additionally, the proportions of regular wage in the industrial and tertiary sectors and the manufacturing were not stable. For example, the proportions were 88.14% and 85.47% in August 2008, 90.09% and 89.21% in August 2009, and 84.78% and 81.16% in

December 2009. However, over the period of 1999-2009, Chinese Taipei GDP increased by 17.5%, but the average wage in the industrial sector decreased by 4.3%, so it was claimed that workers' compensation did not keep up with economic growth.

Employees' average monthly wages by industry showed a growing trend, up to 2008 when the financial crisis occurred. Among them, the industrial sector (NT\$43,302), the manufacturing (NT\$43,169) and the banking and insurance (NT\$75,732) presented their peak in 2007, while the tertiary sector (NT\$45,450) and the computer, electronic and optical products manufacturing (NT\$49,754) had their peak in 2008 (Figure 22).

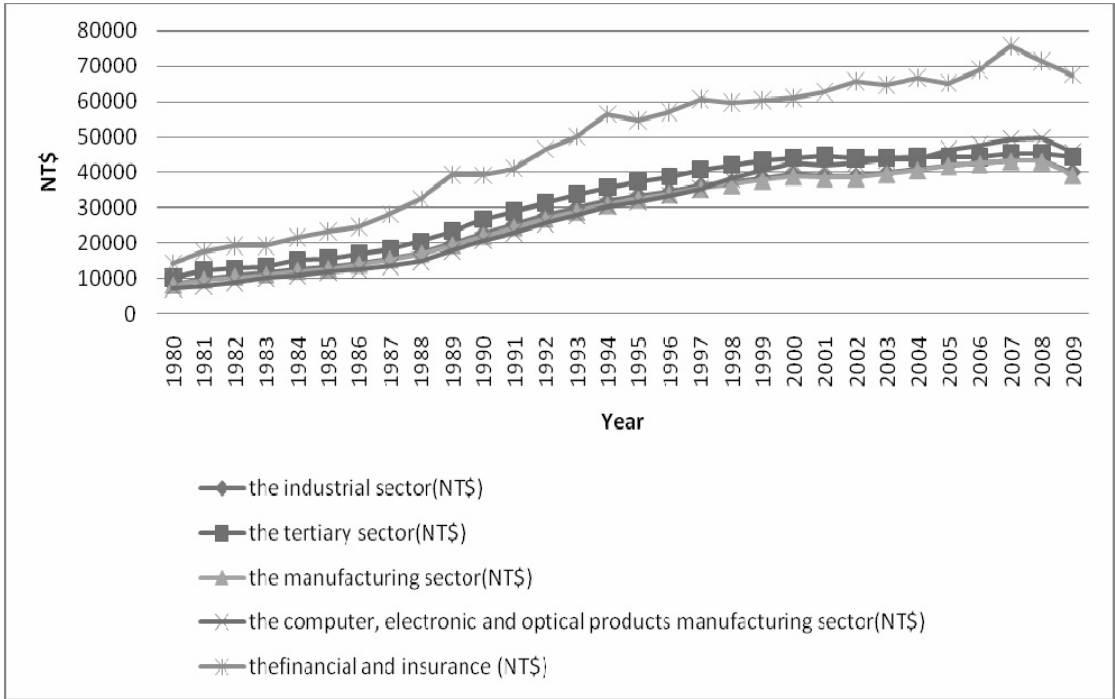


Figure 22. Employees' Average Monthly Wages by Industry

Source: DGBAS website, www.dgbas.gov.tw.

Wages for disabled persons (Figure 12) and aboriginals (Figure 13) were lower than the levels of the general society (Figure 22). Before the financial crisis, work compensation in Chinese Taipei showed a bonus-inclined trend, namely, regular wage proportion decreased while irregular wage proportion increased over time. For example, the regular wage proportions of the industrial and tertiary sectors and the manufacturing declined over the period of 2003-2007 and reversed their direction in 2008-2009. That of the computer, electronics and optical products declined over the period of 2002-2007 and reversed its direction in 2008-2009. That of the banking and insurance declined over the period of 2005-2008 and reversed its direction in 2009 (Figure 23). The irregular wage proportions reflected the opposite trend (Figure 24). Increasing irregular wage proportion might be ascribed to strategic human resource management adopted by enterprises in reaction to increasing nonwage personnel costs. Under the financial crisis,

enterprises presented more resilience to a lower irregular wage (hence a lower irregular wage proportion and a higher regular wage proportion) to alleviate the impact of depression.

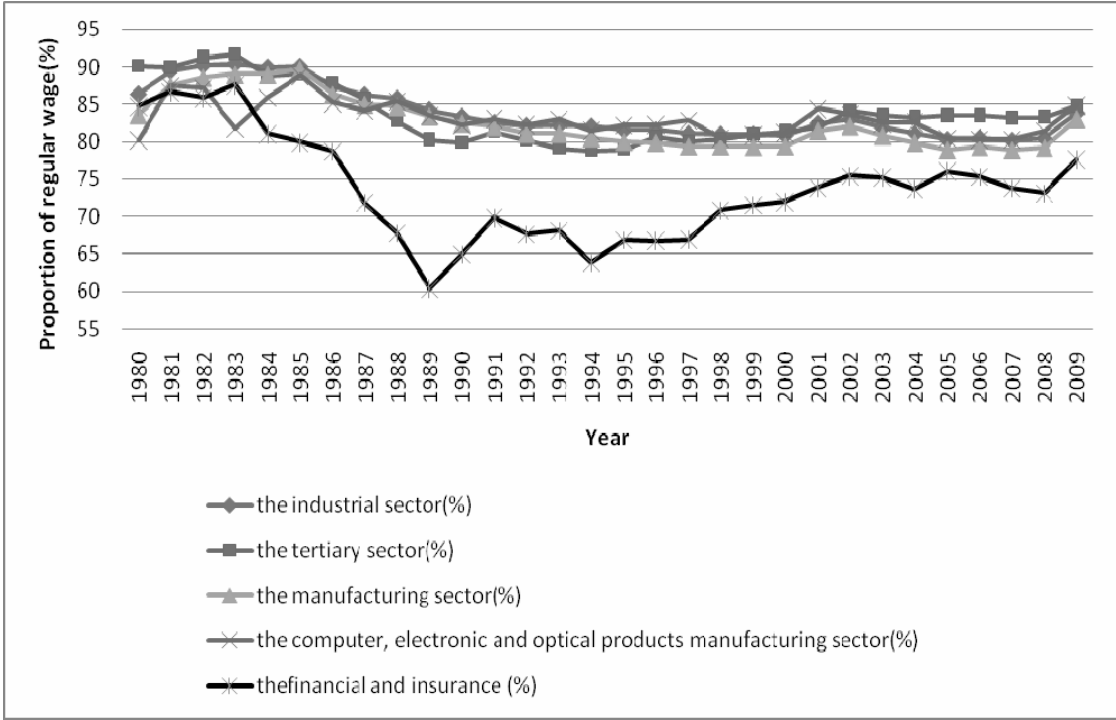


Figure 23. Employees' Regular Wage Proportion

Source: DGBAS website, www.dgbas.gov.tw.

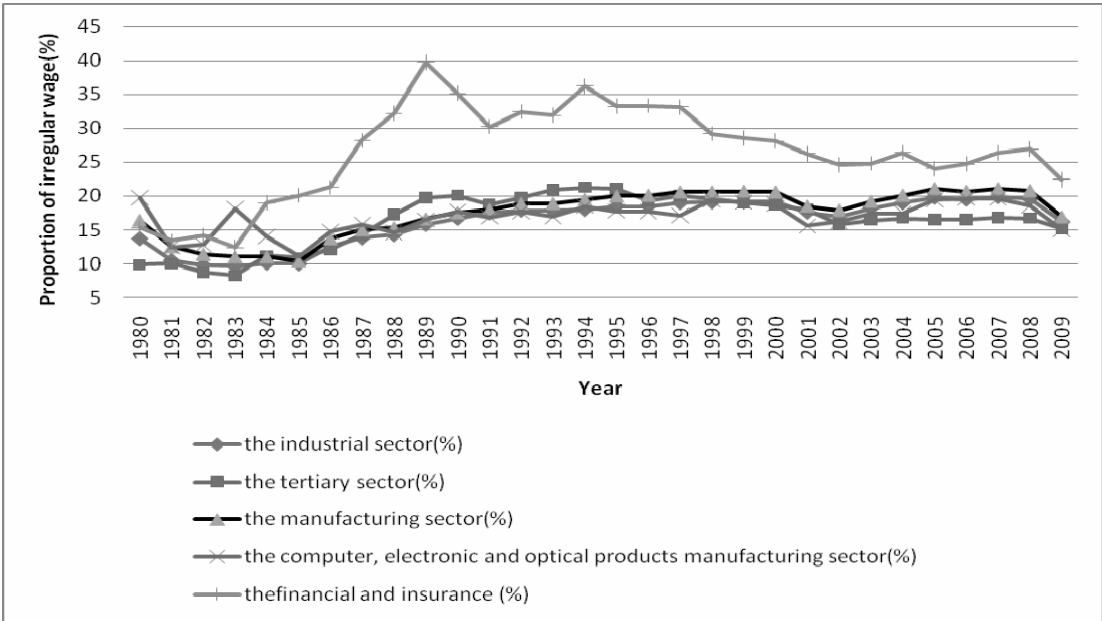


Figure 24. Employees' Irregular Wage Proportion

Source: DGBAS website, www.dgbas.gov.tw.

Income distribution is another concern. The Gini coefficient in Chinese Taipei revealed an

increasing trend since 1980 (0.278), reached its peak in 2001 (0.350), declined thereafter to 0.340 in 2007 and 0.341 in 2008 (no data is available for 2009 yet) (Figure 25). Thus the financial crisis seems to make income distribution worse a little bit.

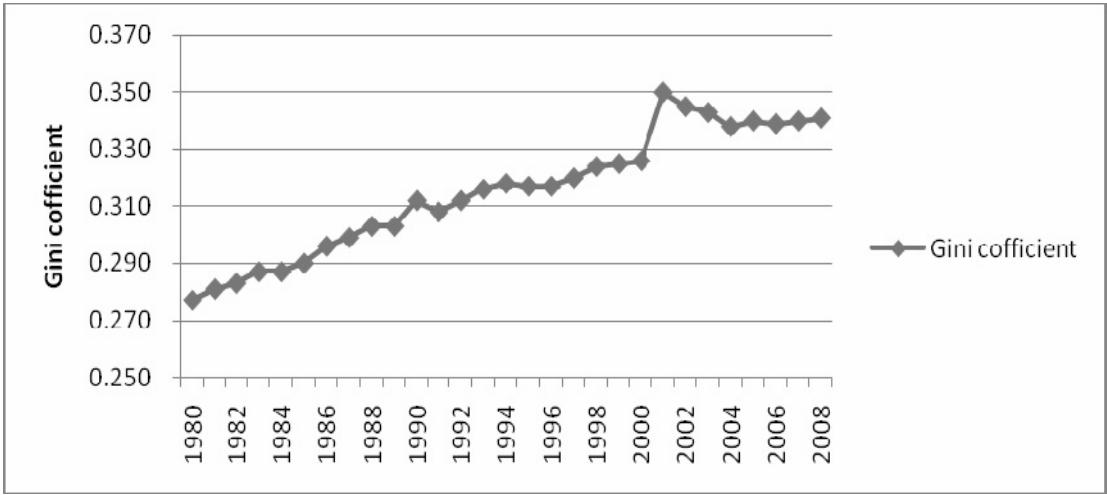


Figure 25. Gini Coefficient in Chinese Taipei

Source: DGBAS website, www.dgbas.gov.tw.

III. Overview of the Employment Insurance

This section sketches the evolution and features of the Employment Insurance and the role of the Employment Services Act.

3.1 Historical Development of Employment Insurance in Chinese Taipei

When the provision of Labor Insurance Act was passed in 1958, it was supposed to enact the unemployment benefits within the shortest period. However, it was not implemented since unemployment problems did not become problems and social concerns in the society at that time. Council of Labor Affairs (i.e., Ministry of Labor), established in 1989, has drafted the Unemployment Insurance Act and has been long ignored by the Legislative Yuan. However, the unemployment rate has started to be over 2% from 1996 (see also Figure 3) and the absence of unemployment insurance has been seriously questioned by labor groups. Therefore, the Legislative Yuan firstly passed “Implementing Methods of Unemployment Benefits” as part of Labor Insurance Act on December 28, 1998 and it was in 1999 when Chinese Taipei first started to provide unemployment benefits for unemployed. It was not until 2003, when the Employment Insurance Act (to correspond to the global trend of Active Labor Market Policy) was independently enacted, through temporary financial support from the Labor Insurance (Chou 2010a).

The employment system was amended in April 2009 in order to adapt to the global crisis, unemployment problems and ageing population. It raised beneficial ages of insured persons from 60 years old to 65 years old, added the middle-aged and older adults aged 45-65 and physically

and mentally disabled persons to beneficiaries, as well as extended unemployment pay to nine months. In addition, the limit of unemployment pay was 60% of monthly insured salary for the general unemployed persons and could be added an extra 10% to 20% if the general unemployed persons had family to foster.

Maintenance of people's income is facing a significant unsafe and unstable status due to global and Chinese Taipei economic changes. Those unemployed persons who receive full unemployment pay and still can not get jobs may be reduced to poverty, when unemployed persons and long-term unemployed persons are continuing to increase. In addition to current systems of the unemployment pay, the government should provide unemployment assistance or other subsidies. In most of the current OECD economies, unemployment pay includes two levels, as the beginning stage of unemployment pay based on the principles of social insurance and the longer spells of unemployment based on basic survival needs of social welfare protections to provide unemployment assistance or basic income protections (Schmid and Reissert 1996).

3.2 Evolution of the Employment Insurance

Over the past decades, Chinese Taipei has encountered a trend of ageing and declining fertility rate. For example, the proportion of population over 65 years old had passed 7% in 1993 and increased to 10.63% in 2008, and the fertility rate per thousand decreased from 15.07 in 1997 to 8.3 in 2009 (www.cepd.gov.tw). These contributed to an ageing labor force, smaller labor supply growth, and a potential labor shortage. Moreover, Chinese Taipei has evolved into a democratic society since the lifting of the Martial Law in 1987 and further integrated into globalization when it joined the World Trade Organization in January 2002 (under the name of TPKM). Therefore, lobbying for particular interests has become more prevalent and the demand for a better social safety net has been gradually enhancing¹⁹. In addition to expecting a better designed pension system²⁰ and comprehensive medicare system²¹, workers in Chinese Taipei anticipate to have sound employment safety.

In the 1990s, Chinese Taipei provided some ALMPs (such as placement services, vocational training, and employment promotion programs to vulnerable groups) solely through the Employment Services Act²². Before 1995, the unemployment rate in Chinese Taipei had been below 2%, so employment safety had rarely been an important issue. The unemployment rate had surpassed 2% since 1996, so the demand of unemployment benefits had strengthened. Hence

¹⁹ Including the enactment of the Labor Retirement Pension Act in 2005 to substitute for the retirement payment system stipulated in the Labor Standards Act and the amendment of the Labor Insurance Act in April 2009 to offer pensions.

²⁰ For example, due to the ageing demographic structure and employers' preference to hire younger workers, older workers maintain a larger lobby pressure after they have suffered a higher unemployment rate. Additionally, under globalization, Chinese Taipei enterprises have evolved industrial up gradation as a time lapse which results in occupational position polarization such that low-skilled workers become more vulnerable to unemployment because they are less capable to migrate for employment and having fewer options to be promoted for employment through occupational training.

²¹ Particularly the National Health System has been implemented since March 1995.

²² The Employment Services Act was enacted in 1992 mainly to manage the hiring of low-skilled foreign workers.

some unemployment benefits were offered through the Labor Insurance Act in 1999²³. However, as the qualification had been too strict and the unemployment rate had surpassed 4% since 2001, the Employment Insurance Act was enacted in 2003 to provide better designed unemployment benefits.

Facing the significant impact of the financial crisis outburst in 2008, the Employment Insurance Act was amended in April 2009 (to be effective since May 2009) to extend unemployment benefits (from six to nine months maximally) for older workers (defined as more than 45 years old), the disabled (defined as qualifying for the national standards), and the unemployed, offer extra payment to dependents (10% of insured wage to each dependent, 20% in maximum), as well as stipulate an employment stabilization clause and an emergency clause of extending unemployment benefits (from six to twelve months maximally) to all unemployed²⁴. But the implementation of the employment stabilization clause and the emergency clause are still pending on a severe environment because the economy has been recovered from March 2009. Furthermore, whether better benefits of the Employment Insurance may or may not promote a lower unemployment rate, a longer duration of unemployment and/or a higher labor force participation rate depend on an empirical study of time-series.

3.3 Current Features

3.3.1 Coverage of the Employment Insurance

All national (including a native's spouse who has obtained the status of permanent resident) employees within the age of 15-65 are required to join the EI compulsorily. Foreigners are not allowed to join the EI because (low-skilled) foreign workers are in full employment and foreign professionals are capable to take care of themselves²⁵. Insurees of the Labor Insurance through occupational trade unions are not allowed to join the EI because their unemployment status is very difficult to verify. However, some insurees of the Labor Insurance through occupational trade unions are actually employees of units (enterprises or institutes) with four or less workers (so called micro-enterprise) or employees with unstable employment. Disqualifying their joining the EI has been debated for a decade.

Not all non-regular employees or employees in units with four or less workers would join the EI. Since all employees shall join the EI, non-regular employees are covered by the Act. Yet

²³ The Labor Insurance Act enacted in 1958 includes the category of unemployment insurance in Article 2. But the unemployment insurance under the Labor Insurance Act has never been implemented until 1999.

²⁴ In the same amendment, Parental Leave Allowance was offered and insurees' maximum age was increased from 60 to 65. But both are not regarded as a measure to fight against recession. In essence, offering Parental Leave Allowance is one of President Ma's presidential campaign commitments and has been treated as welfare to parents (female in particular) while increasing insurees' maximum age is a corresponding amendment with the pension qualification stipulated in the Labor Insurance Act.

²⁵ Once low-skilled foreign workers were unemployed, either the government would help them to find a new job or the foreign workers would have to fly back to their mother economies. Foreign professionals may be unemployed but they are regarded as capable to get another job or migrate back to their home economy for support, so their unemployment is not an issue to be concerned.

some employers of non-regular employees do not observe the Act²⁶. Furthermore, employees in units with four or less workers are required to join the EI even though they are not required compulsorily to join the Labor Insurance. However, it has been estimated that 70% of units with four or less workers and 60% of their employees did not join the EI in 2006 (Lan and Chen 2009: 103-104). Such defects are due to ineffective inspection and monitoring²⁷.

The grand total of the insured in the EI grew over the period of 2003-2007 (5,024,816 persons in 2003), declined in 2008 and increased again in 2009 (5,584,169 persons) (Figure 26). The decline in 2008 obviously was a result of the financial crisis while the increment in 2009 probably was a result of special governmental programs (ALMPs) to promote employment in reaction to the financial crisis as the Chinese Taipei government required enterprises which hired subsidized workers to ask them to join the EI. The insured in the EI by gender showed that there were more male than female and that the proportion of male/female revealed a declining trend (figures over the period of 2005-2009 were 1.065, 1.060, 1.061, 1.053 and 1.046). The decline of male/female proportion from 2008 to 2009 might be partly a long trend and partly a result of ALMPs favoring female employment.

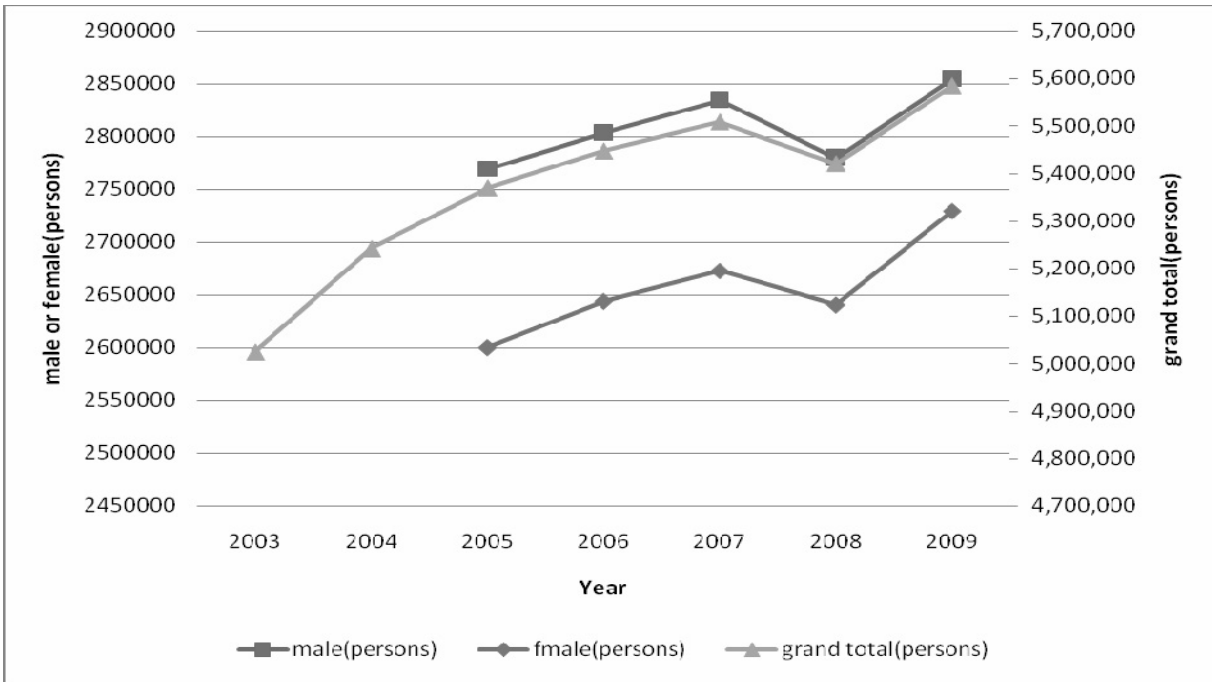


Figure 26. Insured in the Employment Insurance Grand Total and by Gender

Note: There were no statistics by gender in 2003 and 2004.

²⁶ For example, employers may offer life insurance to part-time workers as a substitute, ask dispatched workers to participate in the Labor Insurance through occupational trade unions to avoid the requirement of joining the Employment Insurance or do not offer the Employment Insurance to temporary workers claiming the feature of an unstable job.

²⁷ These proportions may be biased because they are the end of year figure divided by the average of year figure.

Source: Bureau of Labor Insurance website, *Statistics Annals of Bureau of Labor Insurance*, <http://www.bli.gov.tw/sub.aspx?a=FcGrI9gVwyc%3d>.

The insured in the EI by age group showed that the group of 25-44 years old was the majority (3,262,409 persons and 64.93% in 2003, 3,680,314 persons and 65.91% in 2009) with a growing trend, the group of 45-60 years old also showed a growing trend (1,020,806 persons and 20.32% in 2003, 1,285,463 persons and 23.02% in 2009²⁸), but the group of 15-24 years old declined (741,601 persons and 14.76% in 2003, 562,426 persons and 10.07% in 2009) (Figure 27). Since the qualification of employment insurance is the records of attending insurance beyond one year, for those first-entry young unemployed workers, current employment insurance could not provide assistance (Chou 2009).

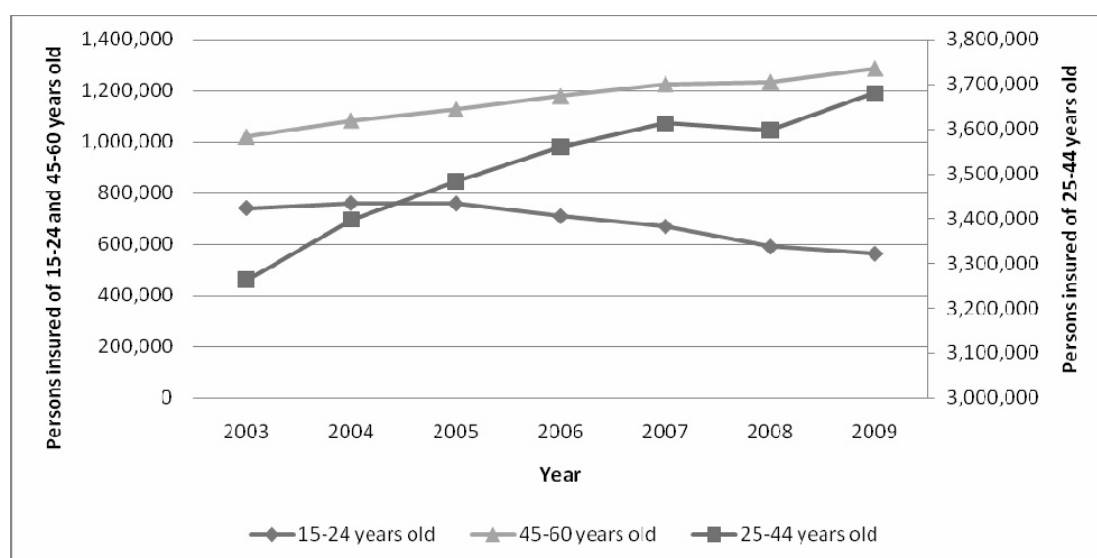


Figure 27. Insured in the Employment Insurance by Age Group

Source: Bureau of Labor Insurance website, *Statistics Annals of Bureau of Labor Insurance*, <http://www.bli.gov.tw/sub.aspx?a=FcGrI9gVwyc%3d>.

The insured in the EI by size of work unit showed that persons insured in each size increased over the period of 2005-2009²⁹, but the proportion insured in most sizes decreased except in sizes of 1-4 persons and 500 or more persons. For example, size of 1-4 persons was 512,637 persons (9.55%) in 2005 and 534,605 persons (9.57%) in 2009, size of 5-99 persons was 2,504,643 persons (46.65%) in 2005 and 2,561,466 persons (45.87%) in 2009, size of 100-499 persons was 1,015,916 persons (18.92%) in 2005 and 1,029,728 persons (18.44%) in 2009, and size of 500 or more persons was 1,336,082 persons (24.88%) in 2005 and 1,458,370 persons (26.12%) in 2009. Calculating in different sizes, size of 1-99 persons was 3,017,280 persons

²⁸ Due to the amendment of increasing the maximum age of participants in the EI in May 2009, there were 55,966 persons (1.00% of grand total) of 60-64 years old.

²⁹ Data of 2003-2004 are not available.

(56.20%) in 2005 and 3,096,071 persons (55.44%) in 2009, while size of 1-199 persons was 3,452,725 persons (64.31%) in 2005 and 3,559,304 persons (63.74%) in 2009. (Figure 28).

It is interesting to highlight the figures of size of 1-4 persons, which was 512,637 persons (9.55%) in 2005, 524,254 persons (9.62%) in 2006, 527,552 persons (9.58%) in 2007, 529,241 persons (9.76%) in 2008, and 534,605 persons (9.57%) in 2009. The peak proportion of 9.76% in 2008 was consistent with the earlier inference that special ALMPs programs adopted after the financial crisis requiring participants to join the EI might have encouraged the growth of insured with respect to the size of 1-4 persons in the EI.

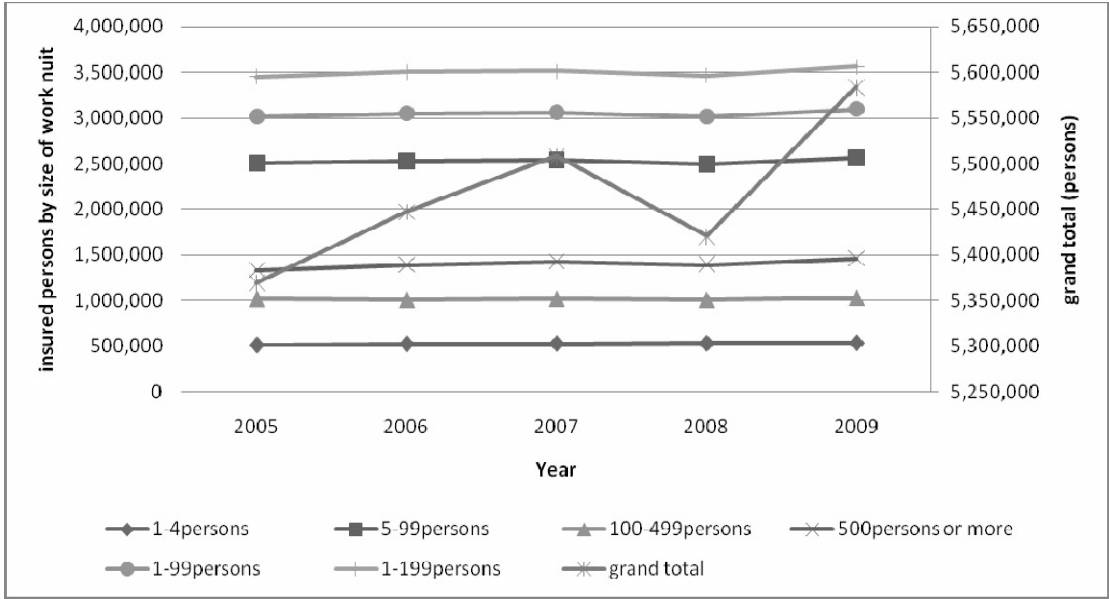


Figure 28. Insured in the Employment Insurance by Size of Work Unit

Source: Bureau of Labor Insurance website, *Statistics Annals of Bureau of Labor Insurance*, <http://www.bli.gov.tw/sub.aspx?a=FcGrI9gVwyc%3d>.

Comparing to total employees who shall have joined the EI, coverage rates of the EI over the period of 2003-2009 were 85.02%, 85.42%, 84.24%, 82.44%, 80.96%, 78.05% and 81.52%, respectively (Table 1). These proportions³⁰ showed a declining trend till 2008. Possible reasons included that employers and employees wanted to save the premium and lacked comprehensive inspection. The increased coverage rate in 2009 might have resulted from the special ALMPs programs adopted in 2008-2009 requiring participating workers to join the EI in order to get a subsidy.

³⁰ These proportions may be biased because they are the end of year figure divided by the average of year figure.

Table 1. Coverage Rates of the Employment Insurance in Chinese Taipei (2003-2009)

Year	(1) Number of persons participating in Employment Insurance (end of year figure) (Persons)	(2) Number of employees in the private sector (average of year figure) (Persons)	(3)=(1)/(2)
2003	5,024,816	5,910,000	85.02%
2004	5,242,310	6,137,000	85.42%
2005	5,369,278	6,374,000	84.24%
2006	5,447,373	6,608,000	82.44%
2007	5,507,865	6,803,000	80.96%
2008	5,420,549	6,945,000	78.05%
2009	5,584,169	6,850,000	81.52%

Sources: Council of Labor Affairs (2009), www.dgbas.gov.tw.

3.3.2 Premium and Benefits of the Employment Insurance

(a) Premium of the EI

The EI premium has been 1% (which can be raised to 2% when necessary by the Act) of insured wages (which range from NT\$17,280³¹ to NT\$43,900 and are consistent with the Labor Insurance) since 2003. The insured wages usually are lower than actual earnings because only regular earnings will be taken into account. In December 2008, among 5,420,549 insured, 19.65% were insured at NT\$17,280 or below, and 23.26 % were insured at NT\$43,900. In December 2009, among 5,584,169 insured, 20.28% were insured at NT\$17,280 or below, and 22.86 % were insured at NT\$43,900. And the average insured wages over the period of 2007-2009 were NT\$29,539, NT\$29,756 and NT\$29,525, respectively.³² Hence the insured wages might only have lowered just a minor amount due to the financial crisis because they were usually lower than actual earnings.

(b) Qualification of Unemployment Benefits

To be qualified for unemployment benefits, the insured shall obtain evidence of being involuntarily unemployed, have accumulated a one year tenure of EI prior to three years of unemployment, and register for a job search through Public Employment Service Institution (PESI). Employees of a fix-term contract can apply if they could not be reemployed after one month from the date of contract termination, when their contract period was more than six months prior to one year from the date of contract termination.

³¹ NT\$17,280 has been the minimum monthly wage effective from July 2007. Part-time or daily workers may be insured at a level lower than NT\$17,280.

³² Figures are available in Council of Labor Affairs (2010a).

To obtain evidence of being involuntarily unemployed from employers may become an issue of labor disputes because employers are reluctant to take responsibility stipulated in other laws. In particular, the Labor Standards Act empowers severance payment to involuntarily unemployed and the ESA penalizes significantly (from NT\$30,000 to NT\$150,000) the employer who does not notify the authority prior to ten days of severance. Due to the financial crisis, there were more layoffs and then more labor disputes. The number of labor disputes per month increased to over 2,000 cases in August 2008, reached its highest (3,066 cases) in March 2009, and declined to the relatively lowest (2,093 cases) in November 2009 (Council of Labor Affairs 2009, 2010a)³³. According to the experience of labor dispute conciliators, some unemployed workers simply demand evidence of being involuntarily unemployed issued by their employers in order to be qualified for unemployment benefits. The phenomenon of furlough³⁴ that has prevailed since October 2008 may be a result of employers' shying away from regulation requirements of involuntary unemployment.

Requiring involuntarily unemployed to register for a job search through PESI has revived the function of PESI since 2003 because PESI had been relatively vulnerable in competing for business with private employment service agencies. However, under the requirement of EI, two-thirds of PESI personnel have to be ascribed to handle unemployment verification. Due to the financial crisis, such pressure has become more severe.

(c) Unemployment Benefits of the EI

There are five kinds of benefits offered in EI, namely, UB, ERA, VTLA, NHIPS and PLA. Since being qualified for PLA is not related to unemployment, only the first four will be discussed here.

Concerning the acquisition of UB, there is a 14-day waiting period. Within this period, PESI will refer employment or vocational training to UB applicants. After an unsuccessful effort of PESI, involuntarily unemployed can get their UB. Moreover, the unemployment status has to be verified by PESI every month and the unemployed are required to search for a job twice per month. The payment of UB is 60% of average insured wage (which is calculated as average of insured wages prior to six months) per month up to six months. Older workers and disabled can get UB up to nine months³⁵. For those who have qualified dependents they can get an additional 10% of insured wage per person up to 20%. Once UB quota is used up, the insured has to accumulate one year tenure of EI again prior to being qualified for the next round of UB. Suppose UB was applied twice within two years and the first UB was claimed to its maximum months,

³³ Yearly labor disputes over the period of 2007-2009 were 19,729, 24,540 and 30,385 (Council of Labor Affairs 2010a: 48).

³⁴ At the beginning, the employer can pay workers any wage under furlough. Later, under the pressure of trade unions, the Council of Labor Affairs amended its position and required employers to pay at least the minimum wage under furlough in Oct. 2008.

³⁵ The extension of unemployment benefits to older workers and disabled workers revealed a concept of treating older workers as disabled. In a similar vein, a scholar has suggested to treat persons who do not possess digital techniques and English as disabled (Isenberg 2002: 306-319).

then the maximum months of the second UB is halved. Additionally, the emergency clause of UB extension allows the CLA to extend UB for all insured up to 12 months under conditions of huge unemployment or other emergent situation due to recession.

The VTLA is designed to encourage the involuntarily unemployed to participate in full-day³⁶ vocational training, which is free of charge to the involuntarily unemployed, in order to enhance their human capital. The amount of VTLA is 60% of average insured wage (prior to six months, the same as UB) and up to six months. Hence VTLA can perform as an extension of UB. The unemployed need to get a referral from PESI in due cause to be qualified for VTLA.

ERA is designed to encourage earlier reemployment and can be claimed after three months of reemployment if the involuntarily unemployed were reemployed prior to using up their maximum UB. Claiming ERA is equivalent to claiming UB but the amount of ERA is half of unclaimed UB. Those who are afraid of being unemployed again in a short period may not apply for ERA. The benefit of NHIPS will be provided automatically by the Bureau of Labor Insurance once the status of the involuntarily unemployed was verified for the insured. The involuntarily unemployed who are receiving UB or VTLA can also obtain full support of their own and their dependents' NHIPS. The NHIPS is important because some unemployed may try to save such premium and shy away from clinics and hospitals when they get sick.

Furthermore, an employment stabilization clause of wage subsidy for the furlough phenomenon can be adopted once specified conditions are met in the future. The wage subsidy is 50% or 70%³⁷ of the reduced wage which must be reduced for at least 20% and at most 80% of the insured wage up to twelve months. The activated specified conditions are UB proportion (UB applicants/Persons of Insured in the EI) which reaches 2.2% for three consecutive months and the unemployment rates of the whole society do not decline. These are strict because even in the worst months during the financial crisis, UB proportion had reached only 2.19% for two months, which might be the result of governmental intervention. Yet strict conditions avoid a lenient subsidy to preserve the fiscal sustainability of the EI.

Amendments of UB extension to older workers and the disabled, providing dependents' benefits, an employment stabilization clause, and an emergency clause of UB extension can be regarded as a redistribution of property rights (Cooter and Ulen 2000). The EI may alleviate problems of cyclical unemployment through its automatic benefit payment mechanism, but not so much for structural unemployment. Older workers' unemployment may have a high proportion in the structural unemployment. In practice, most of the unemployed prefer to get UB from the beginning without bothering to get an employment or vocational training referral. Since not much obligation has been imposed on the unemployed,³⁸ it has been observed that younger unemployed

³⁶ A full day training is defined as a training period for more than one month, four or more sessions per week, four or more hours per daily session (night sessions are excluded) and more than 100 training hours per month.

³⁷ Subsidy of 70% applies to a situation when work hours were reduced and 16 hours of vocational training per month was implemented.

³⁸ Some scholars claim that current obligation requirements have been too burdensome to encourage active job search efforts.

were more eager to search for a job than older unemployed. This may also be due to the unemployed’s expectation of employers’ preference. Perhaps extending UB longer to unemployed vulnerable groups had better be substituted by VTLA extension or be combined with other measures to guarantee a better reemployment effect.

Moreover, no prior tenure was required to be qualified for VTLA and that around one-eighth of VTLA recipients were “professional” vocational training participants who had no willingness to be employed. Such unwelcome behavior has been alleviated by limiting one chance within two years, strict screening for the training class, and employment record tracing conducted by the CLA.

The payment amount and proportion trends of UB are displayed in Figure 26, and the trends of ERA, VTLA, NHIPS and PLA are displayed in Figures 29 and 30. The payment proportions of UB, ERA, VTLA and NHIPS out of all payments in December 2009 were 66.58%, 11.16%, 3.70% and 4.68%, respectively,³⁹ which declined from the figures in 2008 due to the share of PLA. All four payments (UB, ERA, VTLA and NHIPS) showed a significant increment in 2009(Figure 29-31).⁴⁰

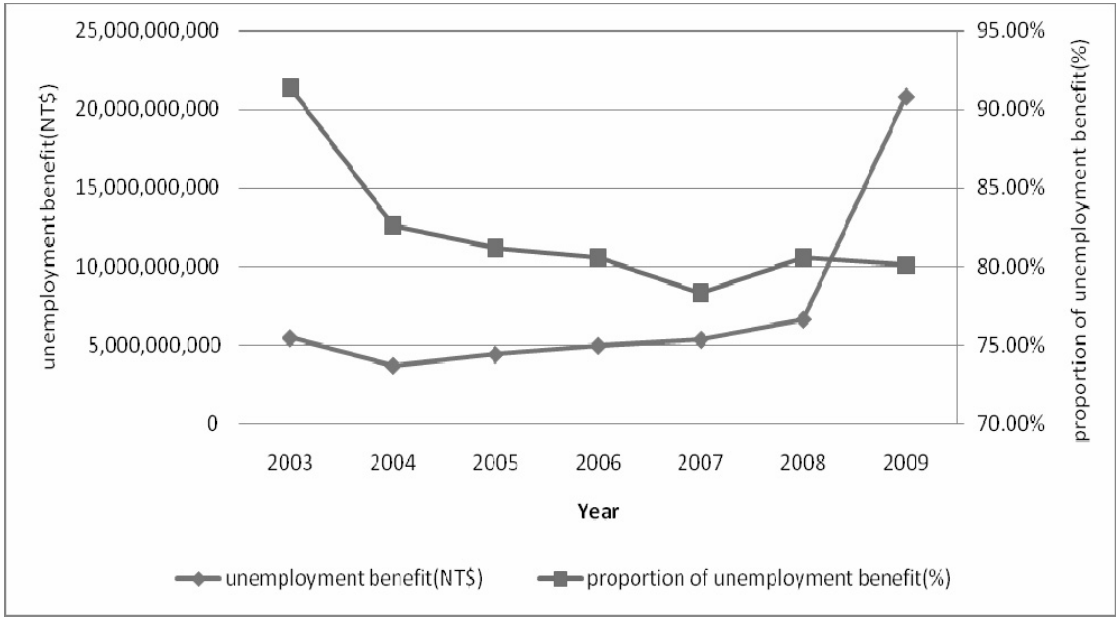


Figure 29. Payment Amount and Proportion Trend of UB under Employment Insurance

Source: Council of Labor Affairs website, labor statistics.

³⁹ The proportion of PLA was 13.90% in December 2009.

⁴⁰ The PLA started in May 2009.

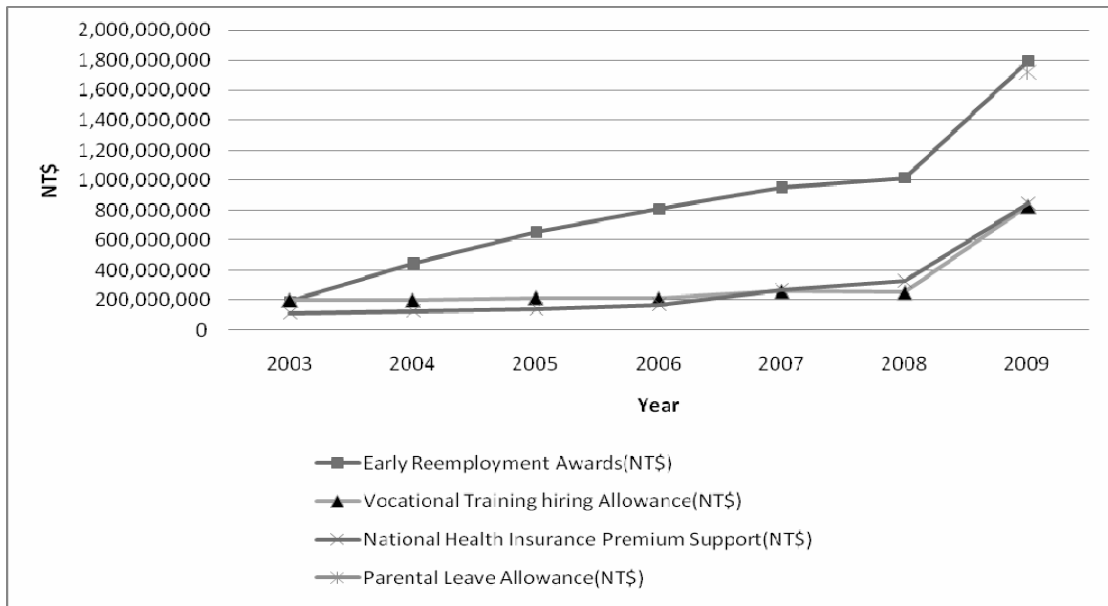


Figure 30. Four Payment Amounts Excluding UB under Employment Insurance

Source: Council of Labor Affairs website, labor statistics.

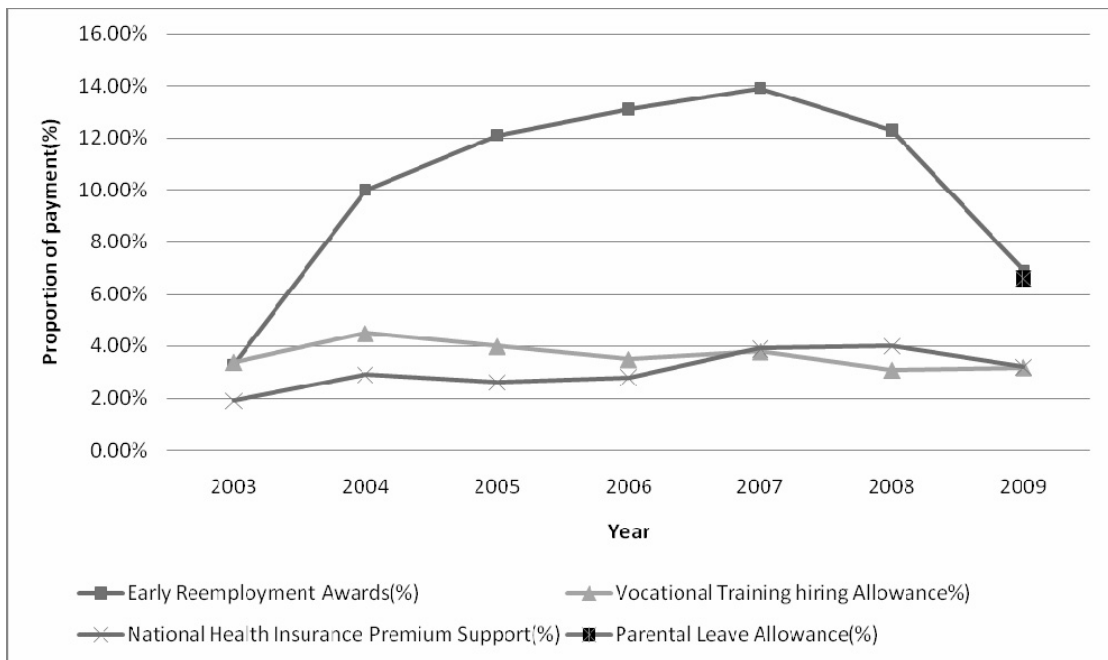


Figure 31. Proportions of Four Payments Excluding UB under Employment Insurance

Source: Council of Labor Affairs website, labor statistics.

(d) Wage Subsidy in Hiring Unemployed

A wage subsidy regulation (Employment Promotion Subsidy) to promote hiring unemployed has been specified according to the EI Act, in which employers who hire specified unemployed, including consecutively unemployed for more than three months, consecutively

unemployed for more than 30 days of vulnerable groups⁴¹, and female reentrants after more than two years out of the labor market due to family reasons, for at least three months may apply for a wage subsidy up to NT\$12,000 (NT\$8,000, NT\$10,000 or NT\$12,000) per head per month for 12 months. Suppose the work hours were less than the specified level, the subsidy would be up to NT\$65 (NT\$45, NT\$55 or NT\$65) per hour. The subsidy is welcomed by some local SMEs and dispatching companies.

(e) Fiscal Sustainability

To maintain a sound financial status of the EI is important⁴² because other social insurance (such as the Labor Insurance, the Farmers' Health Insurance and the National Health Insurance) is in severe deficit. At the beginning of the enactment of the EI Act in 2003, NT\$35.3 billion was appropriated from the Labor Insurance Fund. In 2008, right before the outburst of the financial crisis, the EI Fund had a surplus of NT\$100 billion that the CLA decided to return NT\$35.3 billion to the Labor Insurance Fund.

The premium receivable of the EI over the period of 2003-2008 had surpassed the real insurance benefit payments with a surplus of at least 10.3 billion each year. But the situation reversed to reveal a deficit of 6.54 billion in 2009 due to the high unemployment rate of UB payment after the financial crisis. Other payments increased significantly in 2009 as well. The big surplus over the period of 2003-2008 was the reason of PLA⁴³ being enacted through the EI Act and extension of UB and dependents' benefits being amended in May 2009. The PLA was estimated to cost 3.6 billion (13.9%) a year by the payment figure of Dec. 2009. Additionally, 10% of the yearly premium and accumulative surplus will be ascribed to employment stabilization measures. Hence the government has to be aware of the fiscal sustainability of the EI in the future, particularly if the unemployment rate remains high.

It is also interesting to discuss the management of the EI Fund. About one-third of the EI Fund can be used to invest in the stock market to accrue a better return and support the Chinese Taipei Stock Index. However, invested stocks are picked simply in consideration of rate of return. There are no clear ethics requirements (such as Corporate Social Responsibility) imposed on the objects of invested stocks. The CLA may ameliorate the management of the EI Fund by establishing such ethics standards.

⁴¹ The definition of vulnerable groups here is wider than the stipulation in the ESA.

⁴² Several EU economies have suffered from the threat of state insolvency in 2010. For example, government deficit in Greece was 12.7% of GDP in 2009, when Greece tried to reduce government expenditure substantially to alleviate such threat it encountered several strikes initiated by its people in 2010.

⁴³ Offering Parental Leave Allowance through the EI Act had been debated because it was estimated to cost 8 billion per year. Fortunately, estimating from the figures of payment over the period of May-December 2009, it might just cost 3.6 billion per year.

Table 2. Premium and Payments of Employment Insurance (2003-2009)

Year	(1) Premium Receivable (NT\$)	(2) Real Insurance Benefit Payments (NT\$)	(3)=(1)/(2) (%)	(4)=(1)-(2) (NT\$)
2003	16,260,940,000	5,972,625,000	272.26%	10,288,315,000
2004	17,082,766,000	4,457,978,000	383.20%	12,624,788,000
2005	17,814,770,000	5,423,489,000	328.47%	12,391,281,000
2006	18,658,809,000	6,151,731,000	303.31%	12,507,078,000
2007	19,281,118,000	6,837,552,000	281.99%	12,443,566,000
2008	19,679,573,000	8,243,843,000	238.72%	11,435,730,000
2009	19,466,889,161	26,005,177,404	74.86%	-6,538,288,243

Sources: Council of Labor Affairs (2010), www.dgbas.gov.tw.

3.4 Role of the Employment Services Act

The EI covers only the insured. The unemployed who are not covered by the EI may seek support from the ESA. The benefits provided by the ESA include Vocational Training Living Allowance (up to 6 months, the same name as in the EI Act), public works referral, etc. These benefits are rather discretionary and have been concentrated on specified vulnerable groups (details may refer to section 4.1) since 1992. The resource of these measures is the ES Fund, the collection of the Employment Stabilization Fee from the employers who hire low-skilled foreign workers specified by the ESA. Since the introduction of foreign workers has caused worry to threaten the job opportunities for local people of Chinese Taipei, the ESF is used to promote nationals' employment and foreign workers' management (including inspectors' wage subsidy, subsidy to foreign workers' leisure activities). The ESF is important to the CLA which has only 1.2 billion available for use per year⁴⁴.

Part of the EI premium collected and all the Employment Stabilization Fee collected from the employers of low-skilled foreign workers are put together in the ESF and used on workers' benefits. The ESF amounts to NT\$10 billion per year currently. In 2008, the EI premium appropriated to the ESF was 8.18 billion and the Employment Stabilization Fee collected was 2.03 billion, while the amount used for nationals' employment promotion was 10.12 billion (90.32% of total expenditure⁴⁵) and for management of low-skilled foreign workers was 813.6 million (7.26% of total expenditure).

IV. Active Labor Market Policies

This section discusses the scope of vulnerable groups, programs of ALMPs, foreign workers

⁴⁴ The CLA has a NT\$60 billion annual budget but most of it is ascribed to specific purposes (*Taiwan Labor Quarterly*, March 2009, p.43).

⁴⁵ There was a deficit of 240.5 million in 2008.

policy, and the fiscal conditions related to ALMPs.

4.1 Vulnerable Groups

Who are vulnerable groups? Starting from 1992, vulnerable groups were defined as female bread-winners, older workers, disabled, aboriginals and members who were in the labor force in a low-income family by the ESA, while ex-prisoners were assigned as a vulnerable group on March 2, 2005. In practice, ALMPs apply further to victims of domestic violence, youths (age 29 or under) and new immigrants (who have not received citizenship).

The definition of vulnerable groups in the ESA was extended in April 2009 due to the financial crisis in 2008. Firstly, “female bread-winners” was amended as “sole bread-winners” to cover “male” bread-winners. Secondly, long-term (more than one year) unemployed were amended as a new group. Other groups remained as before. In the ALMPs adopted by other departments in the central government in 2009 due to the financial crisis in 2008, college graduates within three years (youths) and unemployed PhDs⁴⁶ are treated as vulnerable groups as well.

4.2 Programs of ALMPs

Over the past two decades, various measures of ALMPs, including advantageous referral of jobs and training in Public Employment Services Institute, better VTLA, better wage subsidy, advantageous consideration in subsidized public works, and business establishment assistance, have been adopted by the CLA constantly to promote employment for vulnerable groups. Under the financial crisis, various measures of ALMPs still offer assistance priority to vulnerable groups.

After the outburst of the financial crisis, the CLA has provided the Getting to Work Immediately Program (GWIP), the Short-term Employment Skill Promotion Program (STESPP), and the Skill-Plus Program (SPP)⁴⁷ since October 2008 by using the ESF. Other departments provide ALMPs, too. The most expensive one is the College Graduates Practical Training Program (CGPTP). These four programs are evaluated in the following.

(a) Getting to Work Immediately Program

The GWIP was a wage subsidy program implemented from October 22, 2008 to December 2009. It intended to offer a wage subsidy to employers (private enterprises or nongovernment organizations) which hired native workers who were consecutively unemployed for at least three months or involuntarily unemployed (for those employees covered by EI). The target group was relaxed later (Nov.11, 2008) to cover unemployed workers (with evidence) who did not participate in EI yet had their Labor Insurance through trade unions, fishermen unions or farmers unions.

In order to be qualified for the subsidy, employees shall work at least 32 hours per week (20

⁴⁶ Due to some private colleges being on the brink of bankruptcy, PhDs find it relatively difficult to find a teaching or research position in school, so they are treated as a vulnerable group.

⁴⁷ Similar programs had been adopted around the world (Messenger 2009).

hours per week for disabled). The subsidy was NT\$10,000 per person per month up to 6 months. Each enterprise could apply for subsidized personnel up to 30% of its workers (up to 3 persons for units with 10 or less workers) who were insured under the Labor Insurance. The maximum number of persons being subsidized at the beginning of the program (Oct. 22, 2008) was set for 10,000, and amended to unlimited on Dec. 5, 2008. At the beginning, most employers applying for the GWIP were micro enterprises. At the time, the GWIP was originally scheduled to be ended in April 2009, but the CLA extended the program to the end of 2009. At the same time, the target groups were extended to cover new entrants and victims of natural disasters who were unemployed. And the subsidy rose for hiring vulnerable groups (wage subsidy increased to NT\$12,000 per head per month, and an additional employment training allowance of NT\$5,000 per head per month was offered). The final number subsidized through the GWIP was 70,000 persons by the end of 2009. The GWIP cost was estimated to be 3 billion and was financed by the Employment Stabilization Fund.

The GWIP requires employers to continuously hire the target groups after the subsidy is expired, so some employers may recruit them even without a subsidy. Such behavior may be natural and will make the GWIP look successful, but will result in a disadvantage to vulnerable groups. This is the so called “creaming off” effect (O’Higgins 1997). Nonetheless the GWIP has been welcomed by both employers and employees.

The Chinese Taipei government proposed a draft of Industrial Renovation Act empowering the government to decide at its discretion to offer a wage subsidy to SMEs in hiring workers in February 2009. The subsidy amount was NT\$10,000 up to six months and another six months for hiring older workers. Such effort tended to make the essence of GWIP into law and lower the unemployment rate. However, this Act is pending on the discussion in the Legislative Yuan and its effectiveness on reducing the unemployment rate requires empirical study in the future. Yet in order to identify accurate target groups, a well defined program and implementation is required to avoid possible defects (such as the displacement effect, deadweight loss, creaming off).

When the GWIP expired in December 2009, the CLA offered a wage subsidy program (Employment Sailing Program), especially applied to older workers, long-term unemployed, disabled, victims of domestic violence, and aborigines. In it, employers hiring the mentioned unemployed could receive a subsidy of NT\$17,280 (the minimum wage level) for the first three months and a subsidy of NT\$10,000 for the nine months thereafter. But the employers had to continuously hire these workers after the subsidy expired. The subsidy quota of each employer was 30% of employees or 100 persons.

Disabled labor force showed a significantly high unemployment rate of 17.30% in 2009 (Figure 17, Bureau of Employment and Vocational Training 2009: IX). Hence in December 18, 2009, the CLA announced a wage subsidy program (Hiring Disabled’s Plus Counselling Subsidy Program) particularly to assist enterprises which hire the disabled. In it, enterprises which hired the disabled might apply for a wage subsidy up to NT\$12,000 for 12 months (regular program is

NT\$10,000 up to 12 months). For enterprises which hired more than three disabled they might apply additionally for a coach counseling subsidy up to NT\$6,000 per head per month.

(b) Short-term Employment Skill Promotion Program

The Short-term Employment Skill Promotion Program (STESPP) was initiated in December 22, 2008 and ended in December 2009 to subsidize the enterprise training expenditure up to 70% in order to promote inside-enterprise training during a slack time and to enhance their competitiveness afterwards. The budget was 299.4 million and expected to involve 30,000 workers. The STESPP also intended to improve the quality of training, so it incorporated the adoption of the Chinese Taipei TrainQuali System (TTQS) in a multi-stage subsidy. Any enterprise applying for the subsidy must follow the TTQS Scoreboard to conduct training evaluation⁴⁸ to qualify for 50% of the subsidy. After an on-site visit, qualified enterprises could receive another 10% of the subsidy. Enterprises possessing other specified merits (such as more than 17% of trainees were older workers, Excellent Friendly Worksite Award winners, Manpower Renovation Award winners) could get an additional 10% of the subsidy.

Such requirements are relatively strict. For example, by March 2009, there were 2,095 applications, but only 59.2% were qualified for the subsidy. Possible reasons included that SMEs did not have experience of inside-enterprise training, that many enterprises were not familiar with the TTQS, and no upper limit of the subsidy amount was set such that further applications had to be denied due to running out of budget.

In reviewing the implementation of the STESPP, the Tainan Vocational Training Center (which is one of seven units handling the STESPP) pointed out that most employers and workers were satisfied with the program and agreed that such program could enhance workers' employability, but employers needed to upgrade their concept of human capital investment and improve their knowledge of the TTQS while workers' participation willingness could be enhanced if the training was linked to wage or promotion. For the program *per se*, the information system shall be ameliorated, requirement of paper documents could be substituted by e-file, and employability of different industries shall be analyzed in advance to have a better design of training contents.

(c) Skill-Plus Program

The Skill-Plus Program (SPP) was initiated on February 2, 2009 and ended in October 2009 to subsidize training expenditure fully (up to NT\$950,000 for SMEs and NT\$1.9 million for LEs) to enterprises that were under a furlough (defined as having a bilateral agreement between employer and employee to reduce work hours more than 16 hours per month⁴⁹) and Vocational

⁴⁸ The TTQS Scoreboard is specified by the Bureau of Employment and Vocational Training and the training evaluation includes steps of Plan, Design, Do, Recheck and Outcome.

⁴⁹ This was amended on March 4, 2009. In the first month, furlough qualification was defined as reducing work hours more than 16 hours biweekly.

Training Living Allowance (by the ESA, whose offer has the same name as in the EI Act) to workers (NT\$100 per hour, up to 100 hours per month for six months) who joined the training at least 24 hours per month in order to promote inside-enterprise training during a slack time and enhance workers' employability and their earnings. The budget was 15.97 billion and was expected to involve 168,000 workers. To be qualified for the subsidy, the enterprises shall conduct on-the-job training (in work days, from 8am to 8pm and 2-8 hours each day) and maintain employment of 99% of workers. Each training class shall have at least 8 workers. Enterprises (limited to 5) might jointly conduct the training. In the end, enterprises in manufacturing were more willing to join the SPP than the tertiary industry.

According to a survey of 260 employers and 1,097 employees, both employers and employees welcomed the SPP. Employers agreed that the SPP could encourage workers to join training, assist workers' living expenses, and promote more stable industrial relations; while employees agreed on the effect of promoting more stable industrial relations but not in assisting workers' living expenses. Region, size and the proportion of VTLA/ amount of reduced wage showed a significant differential in perception of effects. For example, workers in the central and southern Chinese Taipei, enterprises of smaller sizes and workers with a higher proportion of VTLA/ amount of reduced wage confirmed more on the positive effect of the SPP. (Sin 2010)

(d) College Graduates Practical Training Program

As shown in Figure 17, the unemployment rate for the college educated and above is increasing after 2008. By simply looking at the 15-24 age group, the unemployment rate of university educated and above degree is the highest (Chou 2010a). The CGPTP was initiated by the Department of Education in April 2009 to assist youth's employment⁵⁰ for one year (originally to be ended in September 2010) with a budget of NT\$12.1 billion (NT\$11.5 billion was used up by February 2010). In the CGPTP, the Department of Education provided a monthly subsidy of NT\$22,000 for wages (employers were free to provide a higher wage, but most provided the same wage such that the subsidy becomes a 100% subsidy) and up to NT\$4,190 for social insurance to enterprises which hired unemployed college graduates who graduated within the period of 2006-2008. The maximum length of the subsidy was one year and the quota was set for 33,500 persons with a NT\$12.1 billion budget. To prevent concentration of hiring, each enterprise was limited to hire 30% of its workers and up to 350 persons. For enterprises with workers less than 10, a maximum 2 workers might be hired. The placement services were conducted by the Department of Education at the beginning. But the result was inefficient due to inexperience and frequently amending the contents of the program. So the CLA

⁵⁰ The unemployment rates in Chinese Taipei over the period of 2003-2008 were 4.99%, 4.44%, 4.13%, 3.91%, 3.91% and 4.14%, respectively. But the corresponding unemployment rates of college or above graduates over the age of 15-24 were 9.49%, 10.67%, 10.68%, 10.47%, 10.96% and 12.54% while that of college or above graduates over the age of 25-29 were 5.66%, 5.47%, 5.57%, 5.95%, 5.98% and 6.42% (www.dgbas.gov) and both were higher than the figure of the whole society.

stepped in in July 2009 to smooth such implementation and quickly complete the task.

The huge quota was provided ample employment opportunities to vulnerable college graduates under the financial crisis and was welcomed by the society. However, some criticisms have been raised. For example, the wage subsidy lowered the market wage because the monthly wage of NT\$22,000 prevailed (May 11, 2009 *United News*), such program displaced labor demand for other kinds of workers (particularly older workers and part-time workers, April 9, 2009 *Free Times*) and laid off originally employed college graduates (July 9, 2009 *United News*). Private colleges displayed a higher willingness than public colleges to assist their graduates participating in the program that resulted in a differential effect among different colleges. Workers' attitudes would vary. The result might be more effective if there were multi-levels of wage subsidy for graduates of different majors.

Suppose there were no displacement effects, the CGPTP would have decreased the number of unemployed workers by 33,500 persons and lowered the unemployment rate by 0.31% (33,500/10,917,000). The expected goal might be achieved to some extent because the unemployment rate had declined from the highest level in August 2009 (Figure 14). Additionally, the average wage of the industrial and tertiary sectors declined from 2008 to 2009 (Figure 19). These may not be ascribed completely to the CGPTP, but the program may have contributed partly to these phenomena.

The Department of Education decided to extend the CGPTP because 80% of employers claimed that they would continue to hire these subsidized workers and the unemployment rate was still higher than 5%. In the extended CGPTP, the subsidy will be reduced to NT\$10,000 per head for six months in maximum and a total budget of NT\$1.8 billion will be appropriated.

To sum up, Chinese Taipei spent NT\$36.25 billion (including the GWIP of NT\$4.16 billion and the CGPTP of NT\$12.1 billion) on employment promotion in 2008-2009 after the financial crisis (*Laborer*, No.155, April 30, 2010, p.7). In 2010, the CLA planned to spend NT\$16.63 billion on employment promotion in 2010 (April 16, 2010 News) and the extended CGPTP would cost NT\$1.8 billion. Unfortunately, there was no grand total figure gathered for the whole nation systematically and it was disciplined by the Control Yuan on May 5, 2010.

There are plenty of programs available at the same period which may fit for different employers flexibly and cause a preferential choice among various programs by potential employers. Hence some redundancy may be observed. Furthermore, consecutive short-term employment promotion programs usually are detected and revealed as a long-term program and violate the principle of a short-term program and cause some dependency phenomena (dependency of unemployed and employers on a government subsidy).

4.3 Foreign Workers Policy⁵¹

Treating foreign workers policy as part of ALMPs may be arguable, but they are usually blamed in a recession for stealing nationals' jobs (Simon 1989) and may be utilized as a reserved labor force to counteract business cycles (Calavita 1994). Particularly, the huge number of (low-skilled) foreign workers in Chinese Taipei makes such policy important in fighting against nationals' high unemployment rate.

The number of foreign workers in Chinese Taipei decreased from 365,060 persons in the end of 2008 to 351,060 persons in the end of 2009, but the majority appeared in the manufacturing industry (from 185,624 persons in the end of 2008 to 165,790 persons in the end of 2009) (Council of Labor Affairs 2010). This was due to the market mechanism and intended government policy. Regarding to the market mechanism, some employers would layoff foreign workers before they layoff nationals while some would partly layoff foreign workers when they layoff nationals. And some foreign workers would ask to go back to their mother economies voluntarily due to fewer chances of overtime earnings⁵².

As for related government policy, before the financial crisis, enterprises in the manufacturing industry might hire foreign workers for jobs of specific production procedures⁵³ and a specific timeframe⁵⁴. There were three quotas (20%, 18% and 15% of nationals) set for different categories (A, B and C) of enterprises, respectively, while re-recruitments were not included, so the maximum limit was 35% of nationals hired. During the financial crisis, some legislators suggested to hire nationals by priority and reconsider the foreign workers policy (Legislative Yuan 2009: 91-94).

Under such pressure, the CLA has adopted several adjustments to reduce foreign workers. In January 2009, the CLA extended the grace period to hire foreign workers once employers had obtained a permit of hiring from six months to one year. In February 2009, the requirement to recruit nationals in advance of hiring foreign workers was extended from 21 days to 30 days. Starting from March 2009 (to the end of 2009), the CLA prohibited hiring foreign workers for specific timeframe jobs and integrated the number of re-recruitment into the calculation of a quota and lowered the maximum limit to be 20% of nationals hired.

Observing the monthly figures of foreign workers hired in the manufacturing industry, the highest number (195,268 persons) appeared in October 2008 while the lowest number (158,728 persons) appeared in June 2009. It is inferred that, though both the market mechanism and the government policy led to a lowered number of foreign workers, the government policy did not

⁵¹ We concentrate on discussing low-skilled foreign workers policy because their number surpasses significantly the number of skilled foreign workers (foreign professionals), which was 27,319 persons in the end of 2008 and declined to 25,909 persons in the end of 2009.

⁵² Foreign workers depend on overtime earnings to save money because they usually have to pay lump intermediary fees.

⁵³ Specific production procedures have been categorized as an abnormal temperature operation, dust operation, poisoned gas operation, organic solvent operation, chemical processing, nonautomatic operation and other specific production procedures. They are so called 3D (demanding, dirty or dangerous) or 3K (*kitsui, kitanai or kikem*) jobs.

⁵⁴ Specific timeframe has been categorized as within the timeframe from ten o'clock in the evening till six o'clock in the morning, production operation work hours last at least one hour. It usually refers to jobs with three shifts per day.

react in time. In fact, the government encounters a dilemma in adjusting its foreign workers policy because the CLA can collect the Employment Stabilization Fee (ESF) from employers who hire foreign workers. The ESF is used mostly to finance ALMPs for the unemployed according to the ESA.

4.4 Fiscal Sustainability

Fiscal conditions were important in offering unemployed benefits and financing particular programs. For example, the central government controlled most budgets such that few local governments could offer extra benefits to unemployed workers. Those local governments that offer extra benefits may be relatively minor because of insufficient budget. For example, Taipei City government provides children an educational subsidy to involuntarily unemployed workers. Kaohsiung City government provides Caring Allowance to unemployed workers. Taipei County government provides a job-search transportation subsidy to unemployed job searchers.

To have a stable source, to finance programs of ALMPs (and the EI) is quite important as a huge deficit over the long-term may cause a setback to economic growth and require the necessity of a budget shrink eventually. In Chinese Taipei, one of the primary sources of ALMPs is the ESF, the collection of the Employment Stabilization Fee paid by employers in hiring (low-skilled) foreign workers. The ESF accounts for more than 10 billion per year and such mechanism may lead to a dilemma in reducing excessive (low-skilled) foreign workers and create an atmosphere of depending on foreign workers for the society. To reduce the dependency on hiring (low-skilled) foreign workers, a more balanced budget will be a better substitute of fiscal source. Nevertheless, the budget deficit in Chinese Taipei was 125 billion in 2009 and is expected to increase to 189 billion in 2010, which was 8.1% and 10.9% of the total budget respectively and was 0.97% (1,250/129,105) of GDP in 2009.

VI. Conclusion and Suggestions

This section summarizes features of policy resilience in Chinese Taipei as a conclusion and provides some suggestions to enhance social resilience.

5.1 Features of Labor Policy in Chinese Taipei

Policy implications derived from features of the labor market in Chinese Taipei include the following. Low female LFPR induces measures to promote female employment in the long-run, but declining male LFPR has not attracted equivalent attention and effort. Low-skilled foreign workers have performed as a reserved labor force to some extent that they have been hired to alleviate labor shortage, but some of them were laid off during the financial crisis. Higher unemployment rates encouraged the offer of UB in 1999 and the enactment of the EI in 2003. Constantly high level of unemployment rates for vulnerable groups nourishes specific ALMPs on targeted groups. Declining employment and a higher unemployment rate during the financial

crisis raised initiatives of various ALMPs.

In terms of variety, Chinese Taipei is no less than other economies because the Chinese Taipei government learns from advanced economies. For example, the EI Act provides unemployment benefits, and various ALMPs are adopted by discretionary decision. Discretionary programs are short-term (up to one year) but new programs will be offered if the unemployment rate is still severe. However, the effectiveness of EI and the individual program of ALMPs may be different with respect to features of labor demand, labor supply and institutional factors. The coverage of the EI is related to the features of the Labor Insurance and is around four-fifth of employees. Status of non-labor force and unemployed may not be discerned clearly in practical operation because both do not join the Labor Insurance.

5.2 Features of Social Resilience in Chinese Taipei

Under the impacts of the financial crisis, declining labor demand, increasing unemployment rate, and declining work compensation have become big challenges to the Chinese Taipei government in promoting employment. In the process of employment promotion, four features of resilience have been observed.

(a) High Proportion of SMEs

Chinese Taipei has a quite high proportion (more than 96%) of SMEs which hire a significant portion of workers (more than 67%). For example, the number of SMEs was 1,234,749 (97.70% of all enterprises) and hired 7,903,000 workers (69.20% of all enterprises) in 2008 (Table 3). In the financial crisis, large enterprises suffered more than SMEs did. Yet the high proportion of SMEs in Chinese Taipei could absorb a significant amount of unemployed to alleviate the happening of labor market disaster.

Table 3. Number of and Workers Hired by Small and Medium Enterprises

	Number of Enterprises			Workers Hired (Thousand)		
	SMEs	All Enterprises	SMEs/ All Enterprises	SMEs	All Enterprises	SMEs/ All Enterprises
1980	-	-	-	-	4,215	-
1981	-	-	-	-	4,289	-
1982	701,839	711,326	98.67%	-	4,366	-
1983	696,438	706,526	98.57%	-	4,511	-
1984	719,440	731,610	98.34%	-	4,709	-
1985	716,224	727,230	98.49%	-	4,761	-
1986	737,350	751,273	98.15%	-	5,000	-
1987	743,274	761,553	97.60%	3,603	5,350	67.35%
1988	773,511	791,592	97.72%	3,671	5,436	67.53%
1989	778,042	798,865	97.39%	3,752	5,567	67.40%
1990	794,834	818,061	97.16%	3,787	5,597	67.66%
1991	825,556	850,679	97.05%	3,869	5,666	68.28%
1992	871,726	900,801	96.77%	4,019	5,856	68.63%
1993	901,768	934,588	96.49%	4,145	6,009	68.98%
1994	932,852	969,094	96.26%	4,305	6,160	69.89%
1995	991,615	1,012,212	97.97%	4,434	6,260	70.83%
1996	1,003,325	1,024,360	97.95%	4,353	6,286	69.25%
1997	1,020,435	1,043,286	97.81%	4,449	6,423	69.27%
1998	1,045,117	1,069,116	97.76%	4,536	6,555	69.20%
1999	1,060,738	1,085,430	97.73%	4,587	6,624	69.25%
2000	1,070,310	1,091,245	98.08%	4,664	6,745	69.15%
2001	1,078,162	1,098,185	98.18%	4,636	6,727	68.92%
2002	1,104,706	1,130,525	97.72%	4,682	6,771	69.15%
2003	1,146,352	1,171,780	97.83%	4,754	6,898	68.92%
2004	1,164,009	1,190,176	97.80%	4,903	7,131	68.76%
2005	1,226,095	1,253,694	97.80%	5,047	7,335	68.81%
2006	1,244,099	1,272,508	97.77%	5,186	7,542	68.76%
2007	1,236,586	1,266,050	97.63%	5,383	7,735	69.59%
2008	1,234,749	1,263,846	97.70%	5,469	7,903	69.20%

Source: Ministry of Economic Affairs, Small and Medium Enterprises Department, *Small and Medium Enterprises White Paper*, various issues.

(b) Role of the Employment Insurance

Unemployment benefits of the EI were extended in May 2009 due to the financial crisis and provide UB for at least six months (up to six months for general insured and up to nine months for older and disabled unemployed), plus 6 months of VTLA (so UB plus VTLA are up to 15 months), NHIPS and ERA. In the future, an employment stabilization clause and emergency clause may extend UB to 12 months under strict conditions. The EI coverage rate has been 82% while self-employed and many workers in micro enterprises are not covered.

(c) Complementary Role of the Employment Services Act

The ESA plays a complementary role to the EI whose coverage is not comprehensive to all workers. So the EI offers unemployment benefits to the insured while the ESA offers various ALMPs to those whose EI benefits have expired and those who are not covered by the EI. In particular, six months of VTLA under the ESA (so unemployment benefits of the EI plus the ESA are up to 21 months) and various employment promotion measures can be offered to unemployed vulnerable groups. Such complementary role lets the CLA provide more variety of programs to fight against unemployment in the financial crisis.

(d) Huge Number of Low-skilled Foreign Workers

Huge number of low-skilled foreign workers in Chinese Taipei contributes a significant amount of the Employment Stabilization Fee to the ESF and finance to various ALMPs to promote nationals' employment. Additionally, foreign workers play as an absorber counteracting to the business cycle such that national's unemployment rate does not vary too much.

5.3 Suggestions

Potential obstacles of the EI or ALMPs in Chinese Taipei include availability of labor demand, preference of employers, workers' attitudes, fiscal sustainability, and the framework of regulations. Some amelioration may be considered as follows.

(a) With respect to the Employment Insurance

The EI Act shall be preserved as social insurance rather than as welfare to maintain its fiscal sustainability. The premium may be amended to be experienced-rated in order to offer fair benefits. Supposing that the extension of UB for unemployed older workers and the disabled by the EI Act can be substituted by the extension of VTLA may be better because VTLA is more active than UB. Also, for the first entry young unemployed workers without insurance records, how to provide better help is also a concern. In the future, the EI Act and the ESA may be integrated into the Employment Security Act and pave the way for a social security system (further integrating social assistance). Anyhow, social assistance benefits provided through the EI

Act had better be financed by the government (the U.S. does so in its Social Security Benefits) to preserve a sound fiscal condition.

Including employment stabilization and emergency UB extension clauses are good for discretionary actions because resilience is required for the emergent environment with sufficient fiscal capability. However, according to past democratic experience in Chinese Taipei, any benefit may be too lenient when fiscal capability allows. As for the stabilization clause, its qualification of action promulgated in May 2010 may be too strict. Anyway, a new subsidy may be provided to nationals for migration (relocation) employment either domestically or overseas in order to enhance mobility and react better to globalization. Current regulation that accommodates localization for reemployment shall be amended as well. Furthermore, more efforts shall be made on promoting all workers in micro-enterprises to join the EI in order to enjoy the benefits offered.

(b) With respect to ALMPs

A variety of ALMPs may provide more choices to stakeholders, but it may cause confusion as well. In the future, easily discernable names and contents shall be offered to promote communication. Additionally, the government shall prepare for the worst situation and design reaction programs in advance to avoid frequent amendments after programs have been pronounced. Any department which intends to adopt programs of ALMPs shall consult with the CLA in order to avoid serious defects. Furthermore, assisting the unemployed to go back to school for advanced study can be included as an option of ALMPs in order to upgrade workers with a low educational level. Finally, budget distribution among governments can be reviewed to let local governments play a more important role in implementing ALMPs in order to possess flexibility.

(c) With respect to Immigration Policy

As for the ESA, the Employment Stabilization Fee shall be increased to some extent to reduce the incentive of hiring foreign workers and collect more fees for financing reemployment programs if foreign workers were hired.

The number of foreign spouses migrating into Chinese Taipei may affect the unemployment rate because foreign spouses perform as if quasi-(low-skilled) foreign workers. Hence the government shall design a clearer immigration policy, which may better be implemented directly by the Executive Yuan or the Bureau of Immigration rather than the CLA (or the Department of Labor in the future) because it requires multi-faceted consideration.

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Employment insurance system in Korea and recent revision¹

Myoung Jung Kim*

1. Introduction

The Employment Insurance System of Korea has been enforced since 1995. It prevents unemployment, encourages the vulnerable and the jobless to stay in the labor market and supports human resources development of companies. Korea could recover from massive unemployment following the financial crisis of 1997 quite quickly thanks to the Employment Insurance System, and the country is overcoming the global recession of recent years with the plan. The financial crisis that has started in the U.S.A. in 2008 affected Korean economy again. The unemployment rate at the second quarter of 2009 reached 3.8% and the GDP growth rate on the first quarter of 2009 fell to -4.3%. However the recent trends of the unemployment rate (3.5%, the second quarter of 2010) and the GDP growth rate (7.2%, the second quarter of 2010) seem to recuperate from the bottom. It may be said that labor market policy of the Korean government mainly on the employment insurance gave an effect to some extent. However, the Korean labor market still has a lot of problems, increasing of non-regular worker, aging of the labor force, lack of the work life balance policy and difficulty of the labor market participation of the woman, increase of the unemployment rate of the youth and so on. Therefore, it is necessary for the Korea government to carry out more active labor market policy including the Employment insurance system.

This paper is aimed at introducing the contents of the employment insurance system in Korea and recent revision.

(1) History of EIS in Korea

It was in the early 1970s that the Korean Government began to discuss the need for an unemployment insurance system to provide temporary financial assistance for the unemployed.

When the second oil shock and political turmoil hit the Korean economy in 1979, the economy recorded a negative economic growth rate, and the unemployment rate reached 7.5 percent in 1980. The high unemployment in the early 1980s forced the Korean government to consider introducing the unemployment insurance system. But most Koreans were opposed to introducing the unemployment insurance system because they believed it would weaken the job search efforts of the unemployed, thereby resulting in a higher unemployment rate. Moreover, many people thought the time was not yet right mature for Korea to introduce the unemployment

¹ The contents of this paper quoted and revised *Employment Insurance White Paper 2009* and other references.

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insurance system because the Korean economy was not strong enough to implement it. Hence, the Korean government decided not to introduce the unemployment insurance system during the 1980s.

In the process of discussing the unemployment insurance system in 1981, however, Korea achieved a very important social consensus on the direction of the Korean system. This was that the Korean government should not seek to address unemployment with cash benefits. Rather, the important thing was to prevent unemployment itself through stable economic growth and an efficient labor market system. In this respect, they agreed to name the future Korean system the Employment Insurance System rather than the Unemployment Insurance System.

In 1990, the Korean government assigned several public research institutes to design a specific area of the Seventh Five-Year (1992- 1996) Economic and Social Development Plan. The Korea Labor Institute was in charge of designing labor policies for the year 1992-1996. It recommended the government to introduce the Employment Insurance System and provided an outline of the Korean system. The Government reviewed the proposal from the Korea Labor Institute and held several public hearings. It later confirmed that most people supported the proposal. On August 23, 1991, Korean government finally decided to introduce the Employment Insurance System during the mid-1990s.

On March 9, 1992, the government decided to ask the Korea Labor Institute to design a detailed Korean Employment Insurance System. At the government's request, the Korea Labor Institute launched the Employment Insurance Research Commission on May 18, 1992. The Commission was composed of 28 scholars, and observers from the government, management and labor were invited to participate in the discussion process of the Commission. The role of the Commission was to design the Korean Employment Insurance System in detail and carry out the necessary research. The Commission studied the unemployment insurance systems and experiences of many developed economies, as well as Korea's labor market conditions. After one year of research and a series of workshops and seminars with representatives from the government, labor, management and academia, the Commission presented its research findings and policy recommendations to the government on May 18, 1993, under the name, Proposed Employment Insurance System for Korea.

Table 1 Background

	Revised contents
May.1992	The unemployment insurance research project group is set up in Korea Labor Institute
Dec.1993	Employment Insurance Act established
Jul.1995	Employment insurance system introduced
Oct.1998	Application enlarged to all business office employing employees more than one
Nov.2001	Child support and Maternity allowance included
Dec.2002	Application enlarged to daily workers

Source: Employment Insurance System Internet Service, <http://www.ei.go.kr/index.jsp>

The government then collected opinions of various strata of society through public hearings, created the Employment Insurance Bill based on the Commission's recommendations and submitted it to the National Assembly in September 1993. The National Assembly passed the bill unanimously on December 1, 1993, promulgating it on December 27, 1993. The Employment Insurance Law was put into effect on July 1, 1995, and the unemployment benefits, which require at least a year's contribution by the insured, became operational from July 1, 1996.

Table 2 Enforcement fiscal year and contribution rate of social insurance
in Japan and Korea

	Medical Insurance		Industrial Accident Compensation Insurance		Employment Insurance	
	Japan	Korea	Japan	Korea	Japan	Korea
Introduce	1927	1977	1947	1963	1974	1995
Contribution Rate	Union: 7.317% Government: 8.2%	5.08%	0.54%	0.70%	1.1%	1.15%
	Public Pension		Nursing Care Insurance			
	Japan	Korea	Japan	Korea		
Introduce	1941	1988	2000	2008		
Contribution Rate	Employees' Pension Insurance: 15.35%	9%	1.13%	Amount of Medical Insurance × 4.7%		

Notes: 1) Industrial Accident Compensation Insurance: weighted average,
2) It is different depending on the type of business.

Source: Machiko Osawa, Myoung-Jung Kim (2010) *Globalization and Increasing Non-regular Employment : A Comparison of Japan and Korea: The Japanese Journal of Labour Studies*. No.595.

It is considerably late at the introduction time of a social insurance system in South Korea compared with Japan. The Korean government decided to set the contribution rates low to spread the system. As a result, the social system of low cost and low benefit is still maintained in Korea (Table 2).

(2) Structure of the Employment Insurance System

It can be said that the Korean Employment Insurance System is a compulsory social insurance system. Therefore, all employers and employees in the covered enterprises should pay an insurance premium regardless of their willingness, and they are entitled to receive grants or unemployment benefits from the Employment Insurance Fund.

Korean Employment Insurance System is composed of four sub-programs: Unemployment Benefit, Job Stabilization Program, Job Capability Development Programs, and Mother Protection Program.

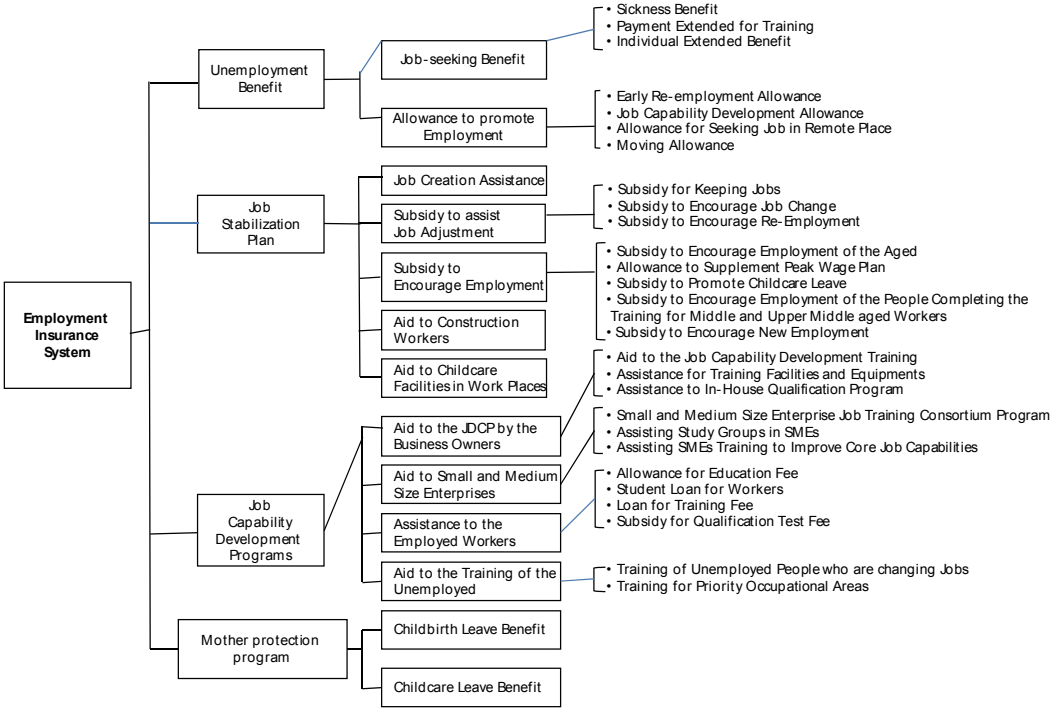
Unemployment Benefit aims to stabilize living conditions and promote early reemployment of displaced workers by providing unemployment compensation. For those who are taking vocational training for reemployment, who have found new employment in a relatively short period of time, or who are actively seeking work, there are financial benefits in

EIS. This financial incentive system is to induce recipients of unemployment benefits to participate in retraining programs and actively seek new employment.

Job Stabilization Program seeks to prevent massive layoffs and expedite transfers, reorientation and adjustment when sudden changes in the industrial structure or technology result in extensive corporate restructuring, and to promote utilization of job seekers' skills and interests by providing accurate information on the labor market.

Job Capability Development Programs seek to foster and stimulate lifelong vocational training and job skill development. JCDP provides financial incentives to encourage individual firms to invest in employee training, thereby improving labor productivity, employment stability, marketability of workers and firm competitiveness.

Figure 1 Structure of the Employment Insurance System



Maternity Protection Program was adopted in November 2001. Childbirth leave benefit is intended to ensure a minimum level of protection for pregnant workers before and after child delivery (including miscarriage and stillbirth) and to support employment stability of women workers by funding employee wages during the leave and thereby relieving their employers of a financial burden. Childcare leave benefit is to fund employee wages while a working father or mother is on leave to take care of his/her child, in order to ensure that the employee sustains employment while being absent from work for a parenting purpose. The structure of Korea's EIS is shown in Figure 1.

2. Coverage and Contribution rate

(1) Coverage

Employment Insurance System of Korea is a compulsory social insurance system. In principle, all workers are to be covered by Employment Insurance System of Korea. All employers and employees in the covered enterprises should pay an insurance premium regardless of their willingness, and they are entitled to receive grants or unemployment benefits from the Employment Insurance Fund.

When the Employment Insurance Act (“EIA”) was first promulgated, the UB applied to businesses or work places with 30 employees or more , and Employment Stabilization Plan (ESP) and Job Capability and Development Programs (JCDP) applied to those with 70 employees or more, considering the various types of employment and administrative difficulties,

JSP and JCDP were extended to businesses and work places with five employees or more from 1 July in 1998, then all workplaces with 1 employee or more were be covered by EIS from 1 October in the same year. Further, the EIS had been extended to incorporated businesses in the agriculture, forestry, fishery, and hunting sectors with five or less employees, and to construction works of any size from previous coverage which included only those works with total construction costs of 340 million won or more (however, construction works undertaken by an individual with total construction costs of 20 million won or less are not included). From 1 January 2006 some self-employed people employing 5 people or less (including those who are not employing anyone), selected on the basis of his/her income and other considerations, may take advantage of the Act in regard to the JSP and JCDP with himself/herself as the beneficiary. From 18 September 2008 the Act has been extended to construction works for buildings with total floor area of 100 m² or less, and to renovation works for buildings with total floor area of 200 m² or less. The process of expanding EIS is summarized in Table 3. However, certain workers are excluded from Employment Insurance System.

Those are: ①Workers employed in companies with four or less employees in agriculture, forestry, fishery, an hunting industries, ②Workers employed on construction with extremely small scale, ③Illegal foreign workers, ④Government and private school employees, ⑤Part-time temporary workers, ⑥Workers employed in household services, ⑦Other persons determined by presidential decree.

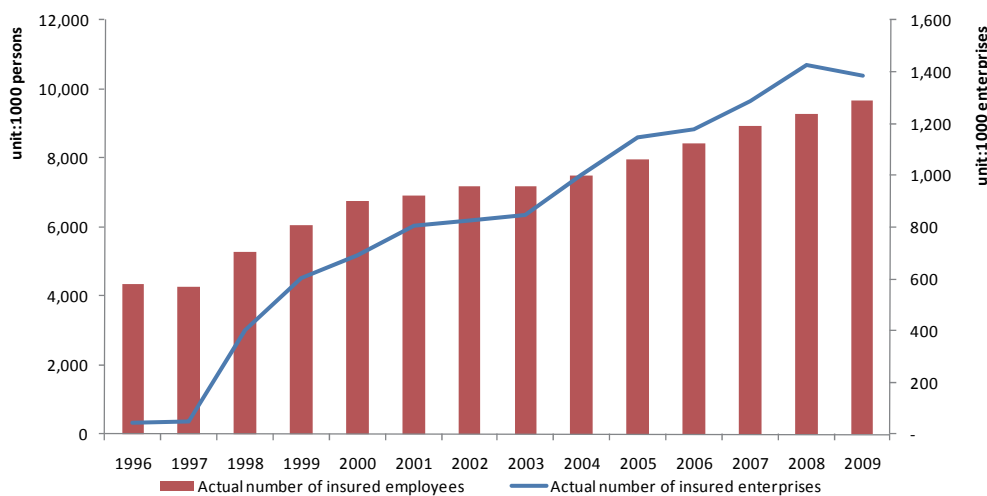
Table 3 Extended Coverage of Employment Insurance in Korea

Type	Coverage						
	95.7.1	97.7.1	98.1.1	98.3.1	98.7.1	98.10.1	04.1.1
Unemployment Benefits (Number of Regular Employees)	30 or more	30 or more	10 or more	5 or more	5 or more	1 or more	1 or more
Employment Stabilization Program and Skills Development Program (Number of Regular Employees)	70 or more	70 or more	50 or more	50 or more	5 or more	1 or more	1 or more
Construction Business (Total Construction Price in Million Won)	40,000 or more	44,000 or more	34,000 or more	34,000 or more	3,400 or more	340 or more	20 or more

(2) Insured enterprises and employees

With the expansion of EIS coverage, the number of employees and enterprises actually covered is increasing. The actual number of covered employees that paid their EIS premiums and registered at the public employment offices as insured employees was 4.2 million in 1995, 5.3 million in 1998, 8.1 million in 2005, and 9.4 million in 2008 (see Figure 2).

Figure 2 Trends of Insured Employees and Enterprises



When we look at the weight by size of business, we see enterprises with less than five employees was high at 73.3%, while the more the scale of the enterprise becomes big, the more a ratio to occupy in all enterprises lowers (see Table 4).

Table 5 shows the coverage rate of the Employment Insurance by Sex and Age, and Table 6 the details of the trend in the insured in difference industries.

Table 4 Trend of the insured and insured enterprises by size of business

Distinction		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total	Insured Enterprises	693,414	806,962	825,531	845,910	1,002,638	1,148,474	1,176,462	1,288,138	1,424,330	1,385,298
	Insured Employees	6,747,263	6,908,888	7,171,277	7,203,347	7,481,618	7,965,597	8,436,408	8,941,639	9,271,701	9,653,678
less than 30	Insured Enterprises	646,671	758,105	775,398	790,735	950,830	1,093,023	1,123,939	1,231,373	1,363,722	1,321,033
	Insured Employees	2,698,595	2,908,387	3,065,153	2,960,023	3,224,133	3,419,124	3,583,529	3,845,206	3,981,777	4,175,814
30 ~ 99	Insured Enterprises	32,605	34,814	36,195	39,469	37,199	39,215	37,217	40,741	43,495	46,410
	Insured Employees	1,096,996	1,105,230	1,177,615	1,198,683	1,202,713	1,302,212	1,360,679	1,451,734	1,507,162	1,569,506
100 ~ 499	Insured Enterprises	11,927	12,101	12,311	13,968	12,990	14,104	13,343	13,951	14,876	15,481
	Insured Employees	1,347,329	1,346,776	1,393,392	1,433,684	1,442,824	1,533,872	1,591,233	1,650,132	1,724,782	1,755,488
500 ~ 999	Insured Enterprises	1,288	1,161	1,041	1,114	1,055	1,362	1,270	1,304	1,427	1,497
	Insured Employees	415,260	424,456	451,622	404,937	423,815	498,543	501,021	504,062	541,444	550,503
more than 1000	Insured Enterprises	923	781	586	624	564	770	693	769	810	877
	Insured Employees	1,189,083	1,124,039	1,083,495	1,206,020	1,188,133	1,211,846	1,399,946	1,490,505	1,516,536	1,602,367

Table 5 Trend of the coverage rate of the Employment Insurance by sex and age

		unit:%、person				
		2004	2005	2006	2007	2008
Total		100 (467,730)	100 (562,524)	100 (609,691)	100 (685,024)	100 (835,140)
sex	male	54.7	55.0	54.9	54.5	55.0
	female	45.3	45.0	45.1	45.5	45.0
age	below 19	0.2	0.2	0.1	0.1	0.1
	20~29	29.1	26.9	25.5	24.3	22.8
	30~39	30.3	29.1	29.1	28.6	28.5
	40~49	21.0	21.3	21.6	22.0	22.7
	50~59	15.8	16.8	17.7	18.4	18.9
	60~64	3.7	5.7	5.9	6.5	6.9

parenthesized figures represent number of persons with qualification to a recipient

Table 6 Trend in the insured in different industries

Mining	15,990	17,670	17,856	17,985	16,703	16,148	16,364	16,250	16,147	16,391	16,023	15,067
Manufacturing	2,062,832	2,234,072	2,483,266	2,665,078	2,633,976	2,666,714	2,664,762	2,733,536	2,832,781	2,884,464	2,972,191	2,993,314
Electricity, Gas, and running water	53,493	53,625	55,170	55,440	56,545	57,148	58,697	60,975	62,459	63,246	64,485	64,474
Construction	232,823	364,157	465,937	508,811	529,516	574,021	562,957	576,152	585,551	609,522	637,769	644,483
Sales	256,211	457,208	582,920	664,576	711,644	764,395	755,805	786,078	854,793	898,381	950,015	988,681
Food & accommodation	67,597	106,943	150,405	167,599	177,940	175,525	159,956	162,020	180,234	196,454	219,542	228,562
Transportation	405,786	445,532	471,166	492,611	492,519	494,807	477,619	487,922	508,491	534,065	558,107	568,416
Communication	82,711	83,500	80,902	93,485	86,140	86,937	82,127	81,354	83,506	83,443	84,245	84,003
Finance & insurance	394,093	378,562	385,358	389,633	377,860	386,099	386,536	383,511	387,079	399,551	416,996	428,829
Real estate & lease	91,581	151,376	171,755	181,982	186,850	188,737	196,160	217,674	234,145	265,084	279,428	285,767
Business facility management service	335,283	456,025	567,724	708,512	772,955	823,207	855,643	976,900	1,072,161	1,230,486	1,367,426	1,466,327
Education service	13,287	62,335	96,408	146,150	161,251	182,011	192,562	207,095	232,652	243,278	259,934	275,640
Health and & Social welfare	127,417	217,664	247,583	270,198	299,441	325,216	348,184	387,172	438,110	509,886	592,394	674,813
Entertainment, culture, sports	53,023	59,444	66,300	75,930	82,545	88,831	90,882	95,961	103,837	110,951	117,316	122,385
Other public individual service	64,848	142,070	172,054	194,140	205,562	218,682	226,067	243,551	264,165	286,535	307,763	304,278
Other industry	12,032	20,826	21,588	95,342	96,777	103,042	108,543	133,756	175,640	170,579	181,448	200,033
not classifiable												1,948
Total	4,280,430	5,267,658	6,054,479	6,747,263	6,908,888	7,171,277	7,203,347	7,576,856	8,063,797	8,536,966	9,063,301	9,385,239

(3) Contribution rate

When Korea introduced EIS on July 1, 1995, the contribution rate for the Unemployment Benefits was 0.6 percent (0.3 percent from employees and 0.3 percent from employers) of the total payroll, that for the Employment Stabilization Program was 0.2 percent, and the Skills Development Program has a differentiated rate based on the size of the firm between 0.1 percent and 0.5 percent.

However, the financial crisis of Korea in November 1997 resulted in a high unemployment rate and a sharp increase in expenditures for unemployment benefits and active labor market programs. So Korea increased the contribution rate of each program from January 1, 1999. As of 1999, the contribution rate for the Unemployment Benefits is 1.0 percent (0.5 percent from employees and 0.5 percent from employers), and that for the Employment Stabilization Program is 0.3 percent. The contribution rate for the Skills Development Program is between 0.1 percent and 0.7 percent of the total payroll depending on the size of the firm.

The ESI contributions were lowered on Jan. 1, 2003 so as to make both employers and employees feel less burdened. The contribution rate for the Unemployment Benefits went down from the previous 1.0 to 0.9 percent (0.45 percent from employees and 0.45 percent from employers); and the rate for the Employment Stabilization Program decreased from the previous 0.3 to 0.15 percent. On Jan. 1, 2006, the contribution rates for the Employment Stabilization Program and the Skills Development Program were integrated into a single rate. Consequently, as of 2006, the integrated contribution rate is between 0.25 percent and 0.85 percent of the total payroll depending on the size of the firm. Each program in Korea's EIS has its own rate of contribution. The sum of contribution rates in each program cannot exceed 3.0 percent of the total payroll. The contribution rate of each program is determined within the limit of contributions considering the financial situation of the Employment Insurance Fund and the prospects of economic and labor market situations.

Table 7 Contribution rate of Each Program

		Contribution Rate (in percent out of total payroll)	
		Employees	Employers
Unemployment Benefits		0.45	0.45
Employment Stabilization Program Skills Development Program	Less than 150 employees	–	0.25
	150 or more employees(priority enterprises)	–	0.45
	150~999 employees (exclusion of priority enterprises)	–	0.65
	1000 or more employees	–	0.85

3. Employment Insurance Plan

(1) Unemployment Benefits

Unemployment Benefit (UB) supports workers who lost their job by paying him a benefit so that he/she can support himself/herself and their family. It helps the worker to find a new job which is appropriate considering his/her ability and aptitude. UB also helps setting up the employment policy by supplying the relevant government office with the information on movements of the work force.

Unemployment Benefits are comprised of the Job-seeking Benefit (JSB) and Allowance to Promote Employment (APE). The former is the core of the unemployment safety net, designed to stabilize the livelihood of the unemployed and their families during unemployment, thereby facilitating active and unobstructed job-seeking activities. The latter supports to foster and stimulate reemployment of the insured individuals receiving JSB by providing constructive and effective job research assistance.

1) Job Seeking Benefit (“JSB”)²

JSB is the most basic and important payment among UB. It is paid to stabilize the livelihood of the unemployed while he/she seeks a job. In order to receive JSA, the claimant must satisfy the prescribed qualifying and eligibility requirements. The outline of the qualifying requirements and eligibility conditions for JSB are as follows.

- The claimant's insured employment period should be at least 180 days out of the 18-month base period preceding the day of job separation.
- The claimant must register at the public employment office as a job seeker right after his/her job separation, and request JSA within the 1-year feasible period.

² JSB includes Sick Benefits(SB) and Extended Benefit(EB).

— The claimant is out of work but remains willing to and able to work, and is actively seeking new employment to the best of his/her ability.

— The reasons for job termination should not be of a nature that would disqualify the claimant from receiving unemployment benefits, such as voluntary unemployment without good cause, discharge for misconduct, etc.

JSB is paid in principle from the day after the date of leaving the job when the applicant is recognized as having satisfied the requirements. The payment is made for the days when unemployment is admitted up to the Prescribed Payment Period (as set down in section 48 in the EI Act) during the Receiving Period of 12 months. The Prescribed Payment Period means the days when a person can receive JSB for one Receipt Qualification. It is currently set between the minimum of 90 days and the maximum of 240 days. It is determined according to the age and insured period of the person who is qualified to receive the JSB.

UB payment amount in year 2009 was 3,582.2 billion Won, showing an increase by 45.3% from the previous year's payment sum of 2,466.1 billion Won. The number of beneficiaries was 1,273,432 showing a 32.4% increase from the previous year's 311,704.

Table 8 The insured period of JSB

		before 2000.1.1					after 2000.1.1				
		insured period					insured period				
		less than 1year	less than 3years	less than 5years	less than 10years	more than 10years	less than 1year	less than 3years	less than 5years	less than 10years	more than 10years
age	below 25		30	60	90	120					
	below 30	60	60	90	120	150	90	90	120	150	180
	below 50	60	90	120	150	180	90	120	150	180	210
	over 50	60	120	150	180	210	90	150	180	210	240

Table 9 Record of job seeking benefit ("JSB") payment

Distinction	unit:person,million won									
	2005		2006		2007		2008		2009	
	Beneficiaries	Sum paid	Beneficiaries	Sum paid	Beneficiaries	Sum paid	Beneficiaries	Sum paid	Beneficiaries	Sum paid
JSB	684,863	1,602,614	753,713	1,833,320	838,487	2,116,268	961,718	2,466,164	1,273,432	3,582,156

The Benefit Qualified Person may receive the Sick Benefit (SB) in substitute for JSB while he/she is not able to get employed for more than seven days because of sickness, injury, or childbirth during the benefit payment period. As SB is paid instead of JSB, its amount is the same as that of JSB, and may be paid up to the number of unpaid days during JSB payment period. When SB is paid, it is regarded that JSB payment is made.

① Sick Benefits

The Benefit Qualified Person may receive the Sick Benefit (SB) in substitute for JSB while he/she is not able to get employed for more than seven days because of sickness, injury, or childbirth during the benefit payment period.

As SB is paid instead of JSB, its amount is the same as that of JSB, and may be paid up to the number of unpaid days during JSB payment period. When SB is paid, it is regarded that JSB payment is made.

SB payment in 2009 was 9.0 billion Won, increased by 2.1 billion Won from the 63 billion Won paid in the previous year, and the number of beneficiaries was 248 people, reduced by 91 people (58.0%) from 157 people in the previous year.

Table 10 Sickness benefit payment record

(unit:people,million won)

Distinction	2005	2006	2007	2008	2009
Beneficiaries	502	225	217	157	248
Amount paid	5,839	5,785	6,326	6,896	8,966

② Extended Benefits

a. Payment Extended for Training (“PET”)

PET was designed to assist re-employment of the benefit recipients. Under this program, the head of the Job Center makes a direction to a benefit qualified person to receive job training and, at the same time, the benefit qualified person is paid with an extended payment of JSB. PET is paid during the training period not exceeding two years 100% of JSB.

The applicant, in order to receive PET, must satisfy the following requirements:

- It is regarded that receiving JCDDT will help him/her get another job
- He/she does not have a national skill qualification certificate recognized in the National Skills Qualification Act and his/her current skill has is not demanded by businesses
- He/she did not receive any JCDDT during the last one-year period
- He/she could not get a job though he/she had applied more than three times for the jobs recommended by the head of the Job Center (this requirement was introduced on 30 April 2008).

Payment amount for the PET in year 2009 was 166 million Won, showing an increase of 40 million Won (31.7%) compared to 126 million in the previous year.

b. Individual Extended Benefit (“IEB”)

Individual Extended Benefit is designed to assist the livelihood of the BQP who do not find a job until JSB payment ends and has family to support. It is paid to the BQP up to 70% of the JSB for the period extended up to 60 days.

The payment made as IEB in year 2009 was in the sum of 7,685 million Won, increased by 7,321 million Won (2,205.1%) compared to payment of 332 million Won in the previous year.

Table 11 Record of payment extended for training and Individual extended benefit

Distinction	2005		2006		2007		2008		2009	
	Beneficiaries	Sum paid	Beneficiaries	Sum paid	Beneficiaries	Sum paid	Beneficiaries	Sum paid	Beneficiaries	Sum paid
Payment extend for training	19	22	30	61	39	88	52	126	59	166
Individual Extended Benefit	266	239	603	658	673	812	260	332	5,162	7,685

2) Allowance to Promote Employment (“APE”)

① Early Re-Employment Allowance (“ERA”)

Early re-employment allowance (ERA) is designed to encourage the benefit recipients to look for a job diligently. ERA is paid to a benefit qualified person who gets employed before exhausting the prescribed payment period for JSB.

ERA is paid when the following requirements are all satisfied:

- It is certain that the employment would last more than six months
- The employment is not by his/her last employer or a person related to the last employer nor the one that was promised before reporting the unemployment.
- The applicant has not received ERA within two years before the employment date.

The amount of ERA paid in year 2009 was 517.1 billion Won, showing an increase of 125.5 billion Won (32.0%) from 391.6 billion Won paid in the previous year.

Table 12 Payment record of early re-employment allowance

(unit:people,million won)

Distinction	2005	2006	2007	2008	2009
Beneficiaries	99, 925	121, 238	147, 694	174, 408	221, 399
Amount paid	143, 209	234, 116	310, 475	391, 613	517, 083

② Job Capability Development Allowance (“JCDA”)

Job Capability Development Allowance (JCDA) may be paid to a benefit qualified person on top of JSB when he/she receives job training as directed by the head of a Job Center.

JCDA is paid to a benefit qualified person when he/she receives job training as directed by the head of the Job Center on the days he/she received the job training, etc., during the days when JSB is to be paid (Rule 88 of the Rules). JSB is determined and noticed by the Minister of Labor taking into account of the costs necessary to attend job training such as expenses for food and travel. JCDA was paid to 166 people in the sum of 14.8 million Won.

Table 13 Payment record of job capability development allowance

(unit:people,million won)					
Distinction	2005	2006	2007	2008	2009
Beneficiaries	87	139	176	176	166
Amount paid	7	13	16	23	14.8

③ Allowance for Seeking Job in Remote Place (“ASJRP”)

The head of the Job Center may pay Allowance for Seeking Job in Remote Place (ASJRP) when a benefit qualified person seeks a job in a remote place as advised by the Job Center, and the amount to cover the expenses for the travel and accommodation relating to the job seeking activities in the remote place.

ASJRP is paid when a benefit qualified person satisfies all of the following requirements

- The job seeking activity must start after expiring of the waiting period as set in Rule 49 of the Employment Insurance Rules
- The expenses related to job seeking activities are not paid by the business owner the benefit qualified person is visiting or, if paid, the amount paid by the business owner is less than the amount of ASJRP
- The distance between the benefit qualified person and the work place he/she is visiting for the job seeking activity is more than 50 km.

Table 14 Payment record of the allowance for seeking job in remote place

(unit:people,million won)					
Distinction	2005	2006	2007	2008	2009
Beneficiaries	69	46	29	68	55
Amount paid	2.53	1.62	1	2	2

④ Moving allowance

A benefit qualified person may receive moving allowance (MA) when he/she moves home upon employment or to receive job training, etc., as directed by the head of the Job Center.

Moving Allowance shall be paid when the benefit qualified person gets employed or gets training after expiration of the waiting period and the head of the Job Center covering the benefit qualified person's resident area acknowledges that moving of residence is necessary. However, Moving Allowance shall not be paid if the benefit qualified person's employment is for a period less than one year.

Table 15 Payment record of moving allowance

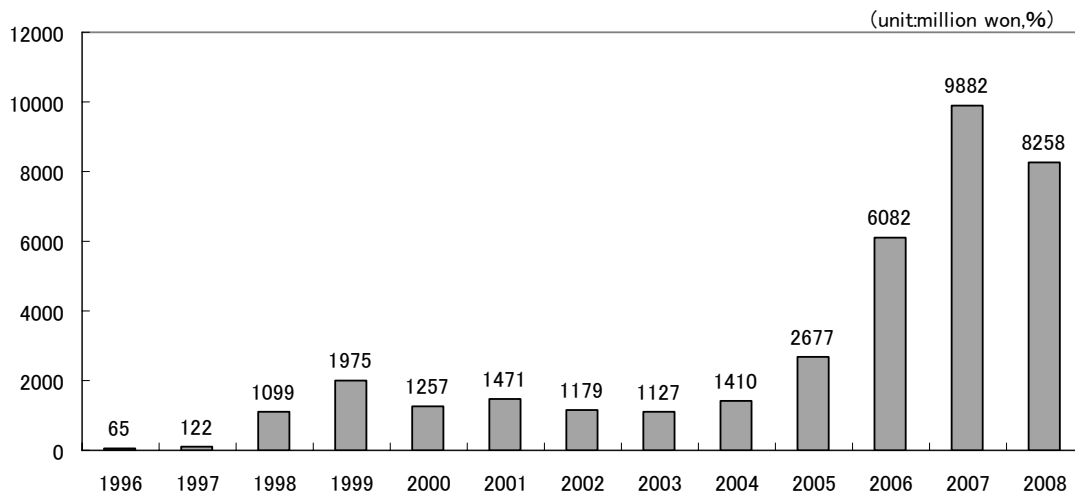
(unit:people,million won)					
Distinction	2005	2006	2007	2008	2009
Beneficiaries	296	347	347	376	468
Amount paid	42	50	47	100	330

(2) Job Stabilization Program

The Job stabilization program (‘JSP’) is designed to secure employment stability of employees and to assist the businesses with their employment adjustments. The JSP is composed of four sub-programs: Job creation assistance program, Job adjustment assistance program, Promotion of employment of the vulnerable, and employment promotion facilities assistance program.

The JSP has expended: 267.7 billion Won in year 2005 in construction of the Job Centers’ own buildings and in activation of the Job Creation Assistance Plan; 608.2 billion Won in year 2006 upon promulgation of new plans, securing the infrastructure for job security such as construction of Job Experience Complex, activation of the Subsidy for Promotion of New Employment and the Assistance to Job Creation Program, making a 127.2% increase compared to the previous year; 845.6 billion Won in year 2007 upon activation of the Subsidy for Job Stabilization, increasing by 62.5% compared to the previous year; and 825.8 billion Won recording a 23.4% reduction compared to the previous year as a consequence of expanding the requirements for the Subsidy for Promotion of New Employment application.

Figure 3 Amount of payments under the JSP over the years



1) Support for Employment Creation

The support for employment creation was created by an agreement signed by the government, the businesses, and labor on 10 February 2004, namely, ‘‘Social Pledge to Create Jobs.’’ The purpose of the support for employment creation is to provide assistance to the

businesses that have created jobs through reduction of working hours and/or transition into the shift work system.

— Subsidy to assist the SMEs reducing working hours: 4 billion 959 million Won to 681 work places in 2008.

— Subsidy for changing into shift work plan: 12 billion 106 million Won to 52 work places in year 2008.

— Subsidy to SMEs for improving the work environment: 27 billion 762 million Won to 1,470 work places in year 2008.

— Subsidy to SMEs for employing workers with special knowledge and/or skills: 41 billion 938 million Won to 4,221 work places in year 2008.

2) Support for Employment Adjustment

The purpose of the support for employment adjustment program is to prevent unemployment, and reduce the burden of management for the businesses by supporting job adjustment of the struggling businesses.

① Subsidy for employment retention:

Subsidy for employment retention encourages employers to maintain employment and avoid laying off employees in the process of employment adjustment. An employer is qualified for the Subsidy for Employment Retention when he/she satisfies all of the following conditions:

- In the process of employment adjustment, layoffs are inevitable.
- An employer has guaranteed continued employment by taking proper measures for employment retention.
- An employer has reported the employment retention plan to the public employment office, and the measures for employment retention have been carried out according to the plan.
- Before and during the measures for employment retention are implemented, there should be no reduction of employees.

The subsidy for employment retention paid 32 billion Won in year 2004, and 30 billion Won in year 2008. However, it paid 310 billion Won in year 2009 because of the financial crisis.

Table 16 Annual payments of the subsidies for employment retention

(unit : million won)

Distinction	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09
Number of Payment	3,466	8,027	4,176	4,590	4,629	4,519	4,434	4,425	4,274	44,190
Number of recipients	148,499	257,431	152,384	119,127	104,124	97,962	92,545	84,856	88,012	941,674
Amount paid	29,399	55,977	32,729	27,388	32,047	30,919	33,565	32,533	30,642	310,224

②Subsidy to encourage Job Change

The subsidy to encourage job change is paid to the business owner who; submits a plan to assist his/her employees with their change of jobs, has obtained approval of the plan, and provides job change services in accordance with the plan.

The subsidy for the service to assist job change paid 1.4 billion Won in year 2004, 1.5 billion Won in year 2005, 1.5 billion Won in year 2006, 2.4 billion Won in year 2007, and 2.8 billion Won in year 2009.

Table 17 Annual subsidy payments under the job change assistance program

(unit : million won)

Distinction	'01	'02	'03	'04	'05	'06	'07	'08	'09
Number of Payment	5	21	16	31	28	38	21	29	49
Number of participants	679	7,408	583	2,696	1,440	1,845	1,875	1,482	1,537
Amount paid	43	432	641	1,428	1,514	1,522	2,441	1,531	2,792

③Subsidy to encourage re-employment

The subsidy to encourage re-employment program was designed to encourage re-employment of the workers who were laid off when the businesses they had worked for were experiencing hardship but have become necessary again after economic recovery. This program pays subsidies to the business owners who re-employ the workers who used to work for them. The subsidy amount under this program is 400,000 Won (300,000 Won for big corporations) per each re-employed worker for six months.

The subsidy to encourage re-employment paid 300 million Won in 2004, 800 million Won in 2005, 900 million Won in 2006, 800 million Won in 2007, and 700million Won in 2008.

3) Support for Employment Promotion

The purpose of the support for employment promotion is to promote the employment of the vulnerable such as the aged, long time job seekers, the disabled, and female household heads

who are particularly in a difficult position to find a job under the ordinary conditions of the labor market.

① Subsidy to encourage employment of the Aged

The plan pays the subsidy to encourage employment of the aged. It is for the business owners who employ the aged over a certain ratio, continue employing old people, or re-employ the aged.

Table 18 Annual payments of the subsidy to encourage employment of the aged

(unit : million won)									
Distinction	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of business	50466	61790	66565	70793	63972	48760	48424	53691	54023
Number of recipients	225,711	251870	270,902	308,874	266,119	218,072	229,092	259,357	273,945
Amount paid	36758	41,620	39,980	46,236	41,299	33,988	36,025	40,880	48,062

The subsidy was paid to 273,945 people in 50,023 businesses. A total of 48,062million Won was paid. The amount paid as the subsidy to encourage continuous employment of retirees shows a steady increase from its introduction in February 2004:1,223 million Won in 2005, 1,764 million Won in 2006, 2,492 million Won in 2007, and 2,626 million Won in 2008.

② Allowance to supplement the peak wage plan

The peak wage plan was introduced to turn around such trend and provide the aged with secure employment as well as reducing the wage pressure on the businesses. This program pays 50% of the reduced amount of the wage of the workers taking part in the peak wage plan. It is provided to a worker whose employer guarantees his/her employment to a certain age of over 56 and the reduction amount is more than 10% of his/her peak wage.

The payment amount is increasing. Only 9.8% of the budget was executed in 2006. The allowance payment made in 2007 was 1 billion 538 million Won, being 19.5% of the budget of 7.9 billion Won. The allowances were paid to 584 workers in 214 work places in 2008, and the amount paid was 3 billion 32 million Won, taking up 90.2% of the budget. However, the number of businesses with 100 or more workers that have adopted the peak wage plan has not increased over the years. They were only 2.3% in July 2005, 4.4% in July 2006, and 5.8% of total work places employing more than 100 workers.

Table 19 Annual payment of the allowance to supplement the peak wage plan

(unit : million won)

Distinction	2006	2007	2008	2009
Work places	84	160	214	224
Workers	226	584	997	1,497
Amount paid	579	1,538	3,032	6,489

③Subsidy to promote childcare Leave

The subsidy is designed to assist the employers with the costs to maintain employment while the female employees take childcare leave or work reduced hours to take care of their babies. The cost required to maintain employment includes premiums of social insurances and the expenses related to employment of the replacement worker.

The subsidy is paid to the business owners; who give childcare leave to the employee or reduce working hours of woman workers with a baby for the period exceeding 30 days, and employ continuously a female worker for more than 30 days.

The subsidy for substitute workers has been paying the sum of 100~150,000 Won per month per person since its promulgation on 25 February 2004. The payment amount has increased to 200~300,000 Won per person per month on 1 January 2006 upon amendment to the Employment Insurance Regulations.

Table 20 Annual payment amount of the subsidy to promote childcare leave

Distinction	2001	2002	2003	2004	2005	2006	2007	2008	2009
Work places	542	461	802	1,330	1,551	2,011	2,424	3,754	4,771
					(55)	(194)	(435)	(810)	(1,109)
Workers	3,136	2,227	3,877	4,561	4,594	6,436	7,761	11,780	14,439
					(58)	(466)	(796)	(1658)	(1957)
Amount paid	2,804	2,836	5,255	6,733	7,217	9,815	12,373	18,378	23,896
					(64)	(392)	(1154)	(2488)	(3444)

④Subsidy to encourage new employment

An employer should meet the following requirements, in order to be a qualified recipient of the subsidy to encourage new employment:

- The employer has hired an insured worker who was registered at a public employment service office, such as the Employment Stabilization Center, for a job-seeking purpose, while being unemployed for a certain period of time. The qualifying period of unemployment depends on the nature of the unemployed worker, as shown in the table below; and
- The employer did not displace any of his/her employees for the purpose of employment adjustment, during the period from three months before newly hiring an insured worker to six months after such new employment.

The subsidy amount is 150~600,000 Won per employed worker per month. The subsidy is paid for one year for each employment. The amount paid as the subsidy to encourage new employment, which was promulgated in October 2004, was: 800 million Won between October~December2004, 84 billion won in year 2005, 172.1 billion won in year 2006, 218.7 billion won in year 2007, and 143.4 billion won in year 2008.

4) Aid to construction workers

The subsidy to stabilize employment of the construction workers was introduced in February 2004 which promotes the construction workers' joining the Employment Insurance. This subsidy is paid to the construction work owner who employs a manager for employment works who takes care of the jobs relating to the Employment Insurance such as the acquisition and loss of the qualification to insure the Employment Insurance by the construction workers. The subsidy amount ranges from 300,000 to 900,000 won per month depending on the volume of the management work.

5) Aid to childcare facilities in work places

The aid to childcare facilities in work places is prepared to provide easy access of female workers to childcare facilities. It provides support to the business owners who establish and operate childcare facilities in the work places owned by his/her business. It was expected that this program would reduce the burden of childcare from female workers and, as a result, contribute towards the employment and job security of the female workers.

① Subsidy to wages of the childcare teachers and others

The subsidy is paid to the business owner who sets up and operates, alone or together with other business owner(s), a childcare facility for his/her employees. The facility must be able to accommodate more than five children.

The subsidy for wages of the childcare teachers and others was paid to 636 facilities in the sum of 12,610 million won.

Table 21 Annual payments of the Subsidy to wages of the childcare teachers and others

(unit : million won)

Distinction	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Work places	357	340	322	345	401	449	537	607	636	751
Total number of beneficiaries	3,496	1,528	1,511	1,700	2,262	2,863	3,854	4,918	5,976	6,894
Amount paid	2,483	2,403	2,483	2,918	4,128	5,952	8,106	10,429	12,610	14,968

② Loan or subsidy of the costs to establish childcare facilities in workplaces

This program gives a loan or subsidy to the business owners for the costs to establish childcare facilities at their work places. The loan is up to 500 million won with an interest rate of

1% (2% for big corporations) per annum and may be used to pay the costs of construction, purchase, lease, upgrade, and repairing of the childcare facility. The loan may be repaid by equal installments over a five-year period starting after five years of a grace period. Further, free aid is given to cover the expenses relating to conversion of the facility and to consumables such as tools and furniture. The aid amount is up to 100 million (200 million for organizations) won for conversion of the facility and 50 million won for tools and equipment.

The loan was given to six work places that had established new childcare facilities in the sum of 1,777 million won. The aid for conversion of facilities and purchase of tools and furniture was paid to 31 work places in the sum of 2,351 million Won. It is expected that more endeavors will be made to expand the childcare facilities.

Table 22 Yearly record of the loan for establishing the childcare facilities in the work places

(unit : million won)

Distinction		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Loan	Number of work places	2	2	2	3	1	9	4	9	2	6
	Amount paid	98	125	450	811	150	2,657	511	2,700	300	1,777

Table 23 Yearly payments of the free aid to establish the childcare facilities in the work place

(unit : million won)

Distinction		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Loan	Number of work places	2	1	-	16	22	20	33	21	27	31
	Amount paid	136	94	-	1,120	1,221	1,393	3,245	2,675	3,229	2,351

(3) Job Capability Development Programs

The job capability development programs (the JCDP) are designed to assist the businesses and the workers to meet such challenge and endeavor to develop the workers' job capabilities. The programs also include assisting re-employment of job changers or unemployed people following restructuring, and enhancing the move of labor.

1) Aid to the Job Capability Development Training by the business owners

① Aid to the Job Capability Development Training

a. Subsidy for training costs

Subsidy is paid to the business owners who provide job training to the employees for the purpose of improving the employees' job capabilities. The training may be carried out by the

business owner or delegated to such institutions as the Corporate Training Center and other delegated training centers.

The subsidy for the Job Capability Development Training was paid to 3,654,216 people in the sum of 382.581 million won in 2008, showing an increase of 354,019 people and 41,657 million won from the previous year.

b. Subsidy for paid training leave

The subsidy is paid to the business owner who gives his/her employee of more than one year of (any employee working for businesses with less than 150 regular employees or the corporations to receive prior assistance) paid leave so that the employee could attend job training, and pays the wage, which is the same as or more than the ordinary wage, and the cost the employee needs to attend the training.

The number of recipients at work places with less than 300 employees in 2008 was 3,330, showing a 116.1% increase from the previous year. The ratio of SMEs among the total recipients had also increased by 21.6% from the previous year, making 35.7%.

c. Ceiling of the subsidy for JCDT and other training

The business owner can receive up to 100% of the individually calculated insurance premium for Job Security Plan and JCDP he/she has to pay in the relevant year (240% for the priority corporations).

When the business owner provides training to the workers employed by other than his/her own business, an additional subsidy of up to 80% can be paid. When the subsidy amount is less than the minimum subsidy amount set by the Minister of Labor, taking into account the size of the business and the nature of the industry, the subsidy amount is the minimum subsidy amount (currently 5 million Won).

② Loan for Training Facilities and Equipment

This loan is for business owners, business owners' organizations, workers' organizations, training corporations and institutions when they set up job training centers or purchase training equipment. The loan amount is up to either 6 billion won or 90% of the cost required, whichever is smaller. The details are as shown below.

— Interest rate

1% per annum for priority corporations, business owners' organizations, big corporations, participating SME training consortium

2% per annum for big corporations

4% per annum for workers' organizations, training corporations and institutions Term-Up to 10 years (repayment by installment in five years after five years of a grace period)

③ Assistance to In-House Qualification Program

The purpose of the assistance to an in-house qualification program is to develop the workers' job capabilities and to promote the business's technologies by subsidizing the cost required to operate an in-house qualification program.

The payments under this program were 323 million won in 2008, showing an increase of 270 million won from the previous year.

Table 24 Payment records for Assistance to In-House Qualification Program

(unit : million won)

Year	2002	2003	2004	2005	2006	2007	2008
Subjects	35	38	29	27	19	28	29
Amount paid	172	254	251	248	115	270	323

2) Aid to small and medium enterprises

① Small and Medium Size Enterprise (“SME”) Job Training Consortium Program

SME Job training program provides a subsidy for the cost of building infrastructure and the cost of trainings by the consortium comprised of SMEs and those institutions that are equipped with good quality infrastructures such as facilities, equipment, and programs required to carry out high quality job training.

The program was expanded by appointing 14 new organizations as the operators of the SME consortium, and 281,000 workers belonging to 112,000 SMEs took part in trainings provided under the JCDP in year 2008.

② Assisting Study Groups in SMEs

This program assists SMEs and Priority Corporations organizing study groups in order to increase their workers' job capabilities. The technique, consulting, and costs required for the study group are assisted.

③ Assisting SMEs Trainings to Improve Core Job Capabilities

This program provides the opportunities to the owners and employees of SMEs and Priority Corporations to receive the best quality trainings provided by prominent training institutions free of charge, which they could not attend before because of high costs of the programs.

3) Assistance to the employed workers

① Allowance for Education Fee

The purpose of this program is to promote job capability development for workers in SMEs and the non-regular worker.

The following people may apply for and receive allowances under this program:

- Who belong to one of the following categories: Insured people of the Employment Insurance who are about to leave jobs involuntarily during training or within one month from completion of training, insured people of the Employment Insurance of 40 years of age or older, workers currently employed to businesses having less than 300 regular employees, fixed term employees, short term workers, daily workers, deployed workers, and self- employed people who have joined the Employment Insurance.
- Who has completed a course recognized as a JCDT course
- Who has attended more than 80/100 of class hours of the course.
- Who has paid the education fee out of his/her pocket.

The allowance has a ceiling of 1 million won per annum.

② Student Loan for Workers

Workers, who are insured to the EI, enter or are attending educational institutions higher than the Technical College as defined by the Technical College Act or Polytechnics established under the High Education Act or the Education for Life Act. However, workers who receive a full amount of the school fee as a scholarship, subsidy, or loan are not eligible for the loan.

Total amount of the loan in year 2009 was 99,075 million Won, increasing by 11.3 billion Won from the previous year.

Table 25 Amount of student loan given to workers

unit: won,1000 people

Year	Loan amount	Confirmed recipients	Average loan amount per person	Types of confirmed recipients								
				Study area		Corporation		Sex		School type		
				Science and technology	Other	Priority Corp.	Big Corp.	Male	Female	2 year course	4 year course	Other
2002	52,186,786	24,443	2,135	12,182	12,261	14,878	9,565	14,234	10,209	15,321	9,122	-
				-49.8	-50.2	-60.8	-39.1	-58.2	-41.8	-62.6	-37.4	-
2003	63,475,661	27,772	2,286	11,970	15,802	16,234	11,538	15,503	12,269	11,791	15,981	-
				-43.1	-56.9	-58.5	-41.5	-55.8	-44.2	-55.2	-44.8	-
2004	74,798,812	30,978	2,415	11,798	19,180	18,242	12,736	17,059	13,919	12,070	18,908	-
				-38.1	-61.9	-58.9	-41.1	-55.1	-44.9	-39	-61	-
2005	76,504,816	29,149	2,675	10,622	18,527	11,620	17,529	16,158	12,991	10,366	8,419	10,364
				-36.4	-63.6	-39.9	-60.1	-55.4	-44.6	-35.6	-28.9	-35.5
2006	81,641,937	28,342	2,881	10,372	17,970	16,845	11,497	15,668	12,674	8,971	19,371	-
				-36.6	-63.4	-59.4	-40.6	-55.3	-44.7	-31.7	-68.3	-
2007	79,850,780	25,225	3,166	9,013	16,212	14,686	10,539	13,924	11,301	19,276	5,946	3
				-35.7	-64.3	-58.2	-41.8	-55.2	-44.8	-76.4	-23.6	0
2008	87,754,940	25,507	3,440	9,500	16,007(62.8)	14,557	10,950	14,377	11,130	19,274	6,232	1
				-37.2		-57.1	-42.9	-56.4	-43.6	-75.6	-24.4	0
2009	99,075,900	29,424	3,367	11,198	18,225	18,797	10,626	16,713	12,710	22,118	7,305	-
				-38.1	-61.9	-63.9	-36.1	-56.8	-43.2	-75.2	-24.8	-

③ Loan for Training Fee

This program provides loans to workers. The fee for trainings necessary for Job Capability Development is being offered.

— Recipients: Employed workers who are insured to the EI.

- Terms of Loan- Loan amount: All of the course fee of the JCDT (up to 3 million Won per annum)
- Interest: 1.5% per annum
- Repayment: by quarterly repayment one year after the one-year grace period.

④Subsidy for Qualification Test Fee

When a worker, who is insured to the EI, obtains two or more national qualifications, the costs of the tests for the qualifications are subsidized.

The following are the contents of the subsidy.

- Test fees, text book purchases and training course fees (100,000 Won).
- Assistance may be given up to a couple of times if the worker acquires two or more national skill qualifications.

4) Aid to the training of the unemployed

①Training of Unemployed People who are Changing Jobs

This program provides the people who were dismissed from work where the EI applies with the opportunities to take part in the training to acquire skills and knowledge useful to get another job.

The subsidy for training for the job changing of the unemployed in 2009 was paid to 148,963 people in the sum of 249,726 million Won, showing an increase of 88.8 billion Won (55.2%) from the previous year.

Table 26 Subsidy for training for the job changing of the unemployed

(unit: million won)				
Distinction	2006	2007	2008	2009
Recipients	53,622	65,242	70,565	148,963
Amount paid	128,486	152,604	160,899	249,726

②Training for Priority Occupational Areas

It is expected that this program will:

- improve national competitiveness by raising skilled workers required for key industries and strategic industries of the country
 - improve employment opportunities and job security of teenagers who do not proceed to higher education and the unemployed by providing them with the opportunities to receive JCDT.
- The people who can participate in this training assistance program are:
- Unemployed persons 15 years or older who have registered at the Job Center to find a job.
 - Students in the third grade in the junior high school who are not planning to proceed to higher education.

Participants of the training for priority occupational areas are increasing every year. The allowance was paid to 20,530 people in the sum of 110,332 million won in 2009.

Table 27 Assistance to the training for priority occupational areas

(unit: million won)					
Distinction	2005	2006	2007	2008	2009
Recipients	14, 743	21, 557	27, 072	22, 126	20, 530
Amount paid	83, 081	134, 614	149, 310	125, 487	110, 332

(4) Maternity Protection Program

The Maternity Protection Policies contain comprehensive policies answering to such social needs. They include prior and post childbirth leave, prohibition of overtime working and restriction on the night and/or weekend shift of pregnant women, prohibition of hiring female workers in hazardous and/or dangerous businesses, menstruation leave, and nursing hours.

1) Childbirth Leave Benefit

Benefit of leave before and after giving childbirth and benefit of leave on miscarriage or stillbirth (together shall be called Childbirth Leave Benefit (CLB)) are paid to the insured who satisfies certain requirements. It is an additional remuneration to an employed person.

CLB is paid when the following conditions are all satisfied:

- The insured must have been given a childbirth leave as prescribed in section 74 of the Labor Standard Act
- The insured period of the worker must be 180 days or over on the date when the childbirth leave ends
- The insured person must apply for the benefit within 12 months from the date when the childbirth leave ends.

Childbirth Leave Benefit was paid to 70,560 people in the sum of 178,477 million Won in year 2009, showing an increase in the number of beneficiaries by 3.0% and the payment amount by 7.1% from year 2008.

Table 28 Annual payment record of Childbirth Leave Benefit

(unit:people,million won)

	Payees	Amount paid
2002	22,711	22,602
2003	32,133	33,522
2004	38,541	41,610
2005	41,104	46,041
2006	48,972	90,886
2007	58,368	132,412
2008	68,526	166,631
2009	70,560	178,477

2) Childcare Leave Benefit

Childcare Leave Benefit was introduced in November 2001. A worker who had a baby younger than three years of age (born after 1 January 2008) was able to take leave to take care of the baby for one year. Changes have been made to the program by amendment to the Act to Encourage Equal Employment of Men and Women made on 21 December 2007. After the change, the childcare leave may be taken for two separate periods and the leave period may be used to the end even if the worker's baby reaches the age of three during the leave period. Total leave period is one year.

Childcare Leave Benefit is for the worker who takes the childcare leave out of the Employment Insurance Fund. It pays a total of 500,000 Won per month. Childcare leave period used in year 2008 was 216 days by women and 191 days by men. Women took 25 days more than men for childcare.

Childcare Leave benefit is paid when the following conditions are all satisfied:

- The insured must have been given childcare leave for no less than 30 days as prescribed in the Act to Encourage Equal Employment of Men and Women
- The insured period of the worker must be 180 days or over on the date when the childcare leave begins
- The spouse of the insured, who is also insured, must not be given childcare leave for more than 30 days in regard to their same baby
- The insured person must apply for the benefit from one month after the beginning of the leave and before 12 months after the end of the leave.

Childcare Leave Benefit was paid to 35,400 people in the sum of 139,724 million Won in 2009, increased by 21.5% in terms of beneficiaries and by 42.0% in the payment amount.

Table 29 Annual payment record of Childcare Leave Benefit

(unit:people,million won)

	Payees			Amount Paid
	Total	Male	Female	
2002	3,763	3,683	78	3,087
2003	6,816	6,712	104	10,576
2004	9,303	9,122	181	20,803
2005	10,700	10,492	208	28,242
2006	13,670	13,440	230	34,521
2007	21,185	20,875	310	60,989
2008	29,145	28,970	355	98,431
2009	35,400	34,898	502	139,724

4. Revision of Employment insurance system in 2009

(1) The recent situation of the employment insurance system in Korea

The first half of 2009 showed a poor start falling into the negative growth rate compared to the previous years under the influence of the financial crisis in late 2008, but the full-fledged economic recovery was shown at the end of the year; showing signs of recovery and switched to positive economic growth plus an increase in imports and exports.

Most job reports of the labor market in 2009 were not good due to the impact of the financial crisis in late 2008. The number of employed was decreased by 72 thousand (-0.3%) with the employment rate of 58.6% with a decline over the previous year by 0.9%. Non-economically active population had increased by 447 thousand (2.9%) and the unemployed by 119 thousand due to the economic recession. Respectively, the unemployment rate had increased by 3.6%, 0.4% p.

In particular, the decrease in employment was visible mainly for non-wage workers. In the crisis, 247 thousand wage workers increased over a 319 thousand non-wage worker decrease and the decrease (-259 thousand) of the self-employed, which are vulnerable to a crisis, was the most prominent. Different aspects could be seen as a 383 thousand increase in commercial wage workers and a 22 thousand increase in temporary workers compared to a 158 thousand decrease in daily workers. The number of the young employed decreased largely compared to the previous year due to increasing uncertainty of the economy and reluctant hiring by companies and the employed at the age of 30s were also reduced a lot due to struggling construction and manufacturing businesses.

The unemployed were 889 thousand and it increased by 119 thousand (15.5%) over the previous year and the unemployment rate increased by 3.6%, 0.4% p. The unemployment benefit applicants increased greatly with their number passing above one million and its growth rate was

also high with 28.0% in 2009. It could be interpreted that the increase in the unemployment benefit applicants was due to the increase of the unemployed and it seems that the unemployed number is on the increase because of the economy.

In 2009, the number of the employment insurance insured has steadily increased with 9 million and 654 thousand (compared to 382 thousand of the previous year's, increased by 4.1%) with a greater increase margin and it's on the steady increase in spite of the recession. In terms of gender, female is (235 thousand, 7.0% compared to the previous year), in terms of age, the number of the insured elderly (60 years or older) and of elders (ages between 40 to 50) increased (14.6%, 8.4%p compared to the previous year) while the younger insurers (under 29 years of age) was on the decrease (-2.6%).

In 2009, employment insurance recipients were 5 million and 177 thousand (7.8% increase over 375 thousand of the previous year's) and it showed the steadily increasing trend with a continuous growing margin. Regarding gender, females were (262 thousand, 12.6%), for age, the holder numbers among the elderly (60 years or over) and of the elders (ages between 40 and 50) increased (18.5%), 59.5% compared to the previous year's) and the young (under 29) holder numbers decreased by (-3.0%) and the creasing gap was narrowed slightly. For each industry, the holder numbers increased among 'public administration, defense and social security administration industries' and 'health and social services industry and manufacturing industries' (318 thousand and 49 thousand respectively) and there was a decrease of 54 thousand (-4.8%) in the manufacturing industry.

In 2009, a number of people who lost the employment Insurance was 4 million and 723 thousand (compared to 313 thousand of the previous year, 7.1% increase) and the number is steadily growing but its increase gap was narrowed slightly. In terms of gender, females were (187 thousand, 9.9%), regarding age, the number of people who lost their insurance among the older (over 60) and of the elders (ages between 40 and 50) increased (compared to 25.3% of the previous year, 53.4%) and the number of young (under 29) people lost their insurance was on the decrease (-4.9%). For each industry, the number of people who lost their insurance increased in 'public administration, defense and social security administration industries' and 'health and social services industries' (248 thousand and 35 thousand respectively), and 59 thousand (-5.4%) decreased in the manufacturing industry. Specifically, the public administration, defense and social security industries had high numbers of increased new holders (248 thousand, 140.4%) and loss of holders (318 thousand, 165.7%) compared to the previous year.

(2) The main features and the results

1) Launch of the Employment Insurance Commission

In the meantime, the government has been revising the main points on the employment insurance in the employment policy committee according to 「the basic employment policy act」 but has made the employment insurance commission to perform its function by revising 「the

employment insurance law」. The employment insurance commission is the undisputed operating organization regarding the employment insurance and its 1st meeting was held on last July 1 after its official launch.

The employment insurance commission consists of four persons (total 16 persons) for each of employee representatives, user representatives, the government representatives and public service representatives with the secretary of Ministry of Employment and Labor as the chairman for rational management by converging opinions of the working groups and user groups. In 2009, a total of two meetings were held to vote for the employment insurance committee by laws, 2009 employment insurance fund management plan and the employment insurance law change plans, etc.

2) Installation of the Employment Insurance Evaluation Center

In 2008, the employment insurance law was revised to raise effectiveness of the employment insurance business through systematic assessments and evaluation results conducted by external specialized agencies to establish assessment and feedback systems and it was agreed to build and operate the employment insurance evaluation center from 2009.

It was prepared to specify the employment insurance evaluation center, but this did not work out as the external conditions were not met and therefore the assessment of 2009 employment insurance business was carried out as the previous method of selecting an external specialist agency without specifying the employment insurance evaluation center.

The assessment of 2009 employment insurance business was carried out by separating the general assessment and in-depth assessment, and the general assessment was conducted to prepare for the external evaluation including fund operation assessment (equipment division) carried out every year and the in-depth evaluation was carried out regarding outside issues pointed out by the National Assembly and necessary projects requiring system improvement for the general evaluation results.

3) Creation of the special filing period

「A law of special measures to promote reporting formation of insurance relationships in terms of the employment insurance and the accident compensation insurance」 was passed in the national assembly in December 2008. Accordingly, a special filing period was set from 1 May until July 30 2009 and small businesses and their workers, not signed up for the employment insurance, received exemption benefits for the past non-payments by voluntarily signing up for the insurance during this period among the small businesses.

4) Social safety net expansion secured for the global financial crisis

In 2009, the government had supported the job sharing as a nationwide movement and supported it intensively as loans support for living costs of the unemployed by changing the employment insurance fund operation plans.

The government secured social safety net expansion by supporting income for the unemployed workers through the job sharing and provided funding to support maintaining the employment through job shifting conversion, and raised the level of new employment subsidy support to strengthen support for vocational training for vulnerable groups including the unemployed and to stimulate employment for them.

5) System improvement efforts to consider the effectiveness of the employment insurance business

In 2009, system improvement plans were devised for the purpose of employment stability and stimulation for facilitating the employment insurance business to enhance the employment stability and maintenance of business requirements, and to promote women's employment for creating short jobs, etc. In details of the new employment stimulus subsidy, it prevented business losses by setting the highest limit of supporting scale and it promoted women's participation in the labor market by establishing an unlimited contract for short-term job creation projects. Social conflicts were resolved by reasonably adjusting fraud activity restriction standards regarding employment stability businesses and by strengthening support for vulnerable groups through easing the requirements for individual support. Finally, outside opinions of the effectiveness of business was positively reflected by greatly rearranging the early reemployment allowance system. The system was to prevent risks of business losses by setting strict payment requirements and standards and to increase the effectiveness of the project by reasonably adjusting the number of the payment days.

6) Unemployment payment for the self-employed temporary signing up plan submitted to the national assembly

Self-employment businesses are sources of economic vitality and it has the great impact on the national economy and the labor market as the new job creator but its social security net is lacking compared to other workers. Since the global financial crisis, self-employed businesses have been increasingly going out of business and this has been undermining the overall economy's growth potential, and therefore a discussion about the social safety net took place.

"T/F for the self-employed employment insurance plan" was established and operated by Ministry of Employment and Labor with participation from the relevant departments and organizations. After several rounds of meetings by sufficiently converging stakeholders' opinions, measures were confirmed for the employment insurance unemployment benefits regarding the self-employed. The government finalized amendment to the employment insurance law and submitted it to the national assembly on December 29, 2009.

7) Vocational ability development system conducted nationwide as a pilot scheme

The government has expanded training options for trainees, improved the quality of training by easing market entry barriers and restrictions in the training market and strengthened connection with employment support services with in-depth consultation and providing

information to enhance training performance and effectiveness of resource allocation, and therefore the government has expanded the pilot scheme of the vocational ability development system, which was operated in Daegu and Gwangju areas from September 20, 2008, across the nation. As a result of the pilot operation, the training course has become a modular training period, an average training period per person is 2.7 months and this is reduced by twice compared to the previous training period for the unemployed, 5.1 months. In addition, 280 billion won investment was made for the unemployed training and 119 thousand people were trained in 2009 but the vocational ability development system has provided employment training opportunities to more people with less budget of 57 billion investment for 116 thousand (annual number of persons basis).

8) Promotion of spreading peak wage system and preserved allowance system

The peak wage system and the preserved allowance system were planned to be operated temporarily until 2008 in the hope that the wage system was to be reformed over a short period of time when the peak wage system was introduced in 2006. However, in the situation with growing concerns about social problems due to the worsening ageing society and the retirement of baby boomers, the government announced to expand support for businesses to spread the peak wage system and it was switched to a permanent system through the employment insurance law enforcement order.

(3) Main achievements and features of the employment insurance fund

1) Policy directions of 2009

The goal of the employment insurance fund operation in 2009 was to prevent unemployment through the employment insurance programs, to promote employment, to enhance vocational skills development, to strengthen the role of the social safety net through stability to the lives of unemployed workers and job search assistance, and to support the active labor market policy. The detailed policy directions were set as follows.

First, unemployment prevention with a job security fund, employment opportunities for the active labor market policies to promote employment with strengthening the support for vulnerable groups including irregular and small business workers, and for reducing the number of unemployed youth.

Second, expand skills development opportunities for the most vulnerable workers including irregular and small business workers through specialized training programs for these workers.

Third, effectively support the individual self-directed worker for development of vocational skills through the consumer-oriented market-friendly professional development system (vocational competency development system suppository).

Fourth, the livelihoods of workers unemployed through unemployment compensation and early support by helping facilitate the return to the labor market due to high oil prices expected to actively respond to the uncertain economic situation.

Fifth, to enhance career interruptions for women's employment and expand support for custom jobs and promote job security for the elderly should continue to be supported.

Sixth, strengthen support for region-specific employment creation innovation of employment services by establishing a cooperation network between the public and the private sectors.

Seventh, strengthen capabilities of employment stability and employment insurance networks, including building a comprehensive professional experience hall for the advancement of employment support services to continuously promote the expansion of infrastructure.

2) Detailed achievements and features for each project

① Employment insurance coverage and tax

With respect to applying the employment insurance, the number of insured businesses decreased to 139 down by 2.7% compared to 142 of the previous year's by the end of 2009 due to the economic downturn and the number of insured people increased to 9.65 million up by 2.8% compared to the previous years. This figure is increased by 247.5% compared to 400 thousand in 1998 in terms of number of insured worksites and by 83% compared to 5.27 million in terms of number of insured people.

To make the employment insurance management work related to insured people effective and to enhance prevention effort for missing reports, the voluntary subscription special report period (May 1 2009~July 30 2009) was run with exemptions given to non-insured worksites and workers, even though they should have been insured for the employment and compensation insurances, and this contributed to improving signing up for the insurance. In addition, new discovery and application efforts were made through establishing the search system by linking data between the National Tax Service data and related organizations.

Regarding the collection of insurance payment, insurance payment rates were 97.1%, increased by 0.7%p compared to the previous year's, the collected insurance payment was 4 trillion 216 billion and 400 million won increased by 5.4% over the previous year's and the collected insurance tax amount was 222.9 billion won by the end of 2009 and this showed an achievement of a 13.8% decrease compared to the previous year's through providing convenience to businesses in tax payment, efficient tax payment administrations and strengthened management for taxed insurance amount.

② Strengthened support for employment retention to spread job-sharing

In early 2009, the economic downturn became worse due to slowing sluggish domestic demand and exports under the influence of global economic crisis in the second half of 2008 and the bad employment condition escalated as the employment number decreased and

unemployment number increased. Some large companies in industries such as automobile manufacturing production scaled back or closed temporarily and because of this, the number of closed small and medium suppliers increased dramatically, and the employment instability increased among employees with expected huge scale employment adjustments, etc. Accordingly, the employment retention fund system was greatly improved and run in the aspect of the employment insurance to fully support prevention of unemployment and job security through job sharing. The employment retention fund system amendment plan is included not only in direction of the economy of 2009 but also in the main policies, its main details are as follows.

First, the job retention measures to minimize the burden on companies to raise the level of funding, job retention and mitigation requirements were supported (act enforcement amendment on March 12, 2009, and implementation rule amendment on April 1 2009).

Second, the employment insurance fund plan was modified by monitoring trends of the implementation of management plans for job retention and job retention action plan funding on a daily basis, and an amount expected to be limited to the supplementary budget was obtained through a full budget.

Third, to avoid the situation where the system is not used as the company does not know about it, a variety of promotions were carried out including radio advertisements and distributed brochures (60 thousand copies) and, especially a lot of effort was being made to increase the utilization of the system for small and medium enterprises.

Fourth, in consultation with related ministries, maintaining employment and providing support measures for companies with preferential treatment was performed.

* (Small and medium business policy fund priority) funding for small business policy, priority support for companies supporting the employment retention fund in supporting small and medium business policy fund priority support (SMBA), etc.

It is estimated that employment maintenance subsidies would play the leading role in 2009 for stabilizing employment and overcoming the employment risks in the unprecedented risks of the global economy and employment. Job retention grant in 2009 was 310 billion and 200 million won for 14,000 companies, and 941 thousand people and this was a 10-time increased amount compared with 30.6 billion won in 2008.

③Enhanced support for vocational training for the unemployed

Since the second half of 2008 in the aftermath caused by the global financial crisis to respond to large-scale unemployment and widespread unemployment in the budget to expand training, vocational training, one month earlier than in previous years was conducted. In addition, a special training has been established at polytechnic universities to help the unemployed youth who are struggling to find jobs in the situation of economic crisis. In particular, a new project was introduced for providing loans to ease the burden of the livelihood of the unemployed take part in vocational training with a low interest of (2.4%).

④ Unemployment benefit

The unemployment benefit has expanded its function as a social safety net for livelihood support for the unemployed since the unemployment benefit system was introduced in 1995. Worsening economic situation, especially after the second half of December 2008, as the unemployment benefit applicants were increasing, the unemployed benefit of 116.4 billion won was paid to 1 million 301 thousand people through securing a supplement of 1 trillion 538 billion and 300 million won in 2009, and the number of recipients of unemployment benefits has also increased steadily through expansion of various systems in the meantime.

Since January 1 2004, after the unemployment compensation system has been applied to the daily workers, the number of daily workers, recipients of unemployment benefits has risen substantially each year. (3,635 people in 2004 → 26,215 people in 2005 → 40,200 people in 2006 → 54,769 people in 2007 → 82,939 people in 2009 → 139,236 people in 2009)

⑤ Employment support project for low birth rate, aging women and the aged

* Changes in parental leave and subsidies: ('04), 6.7 billion won → ('05) 7.2 billion won → ('06) 9.8 billion won → ('07) 11.2 billion won → ('08) 15.9 billion won → ('09) 20.4 billion won.

* Alternative recruitment subsidies (supported since '07): ('07), 1.2 billion won → ('08) 2.5 billion won → ('09) 3.4 billion won.

Women workers numbering 70,560 who gave birth received maternity leave payments of 178.5 billion won and 139.7 billion won was given to 35,400 as parental leave payments for maternity and childcare leave, and administrative leave during the period of employment of women workers were promoting stability and livelihood support. Especially, activity rate of the employees on maternity leave was 50.2% in 2009 and this was increased by 7.7%p compared to 2008.

Employees' child care burden was eased by installing and running (Labor Welfare Corporation commissioned) public childcare facilities (16 locations) in small and medium businesses intensive areas and high-quality child care services were provided. Free conversion costs and equipment costs (27 locations, 3.2 billion won) and building installation and rent costs (2 offices, 300 million won) were supported for the employers installing child care facilities. In addition, labor costs and child care teachers (173 places, 12.6 billion won for 1,921 people) were supported to businesses running childcare facilities.

Also, in preparation for an ageing society, new start programs were established to support the field training program for the elderly and the peak wage system support was widened through the customized peak wage system consulting services for free advice and support for the elderly with an employment subsidy to establish a basis for the elderly to work for a long time, while even trying to improve social awareness through promotional activities for the elderly including an Age campaign, etc.

* Peak wage conservation benefits: ('08), 997 people, three billion won support → ('09) 1,497 people, 6.5 billion won support.

* Peak wage system consulting support: ('08), 35 corporations and labor organizations, 1.5 billion won support → ('09) 33 companies and labor organizations, 1.5 billion won support.

* Number of elderly employment subsidy beneficiaries increased: ('07) 259,357 people → ('08) 273,945 people → ('09) 274,849 people.

"Women newly back to work centers" were set in 72 locations in collaboration with Ministry of Gender Equality to promote employment for the unemployed women due to childcare and household responsibilities in 2009 with providing comprehensive employment support service linking the 「group counseling training programs ↔ job training and housewife internships ↔ careers advice and post-management after employment」. Ministry of Employment and Labor has supported 3 billion and 285 million won to 10,955 trainees by operating a group counseling program and promoted women's participation in economic activities through post-employment management support with career advice.

5. Conclusion

To resolve the worsening situation of the labor market due to the economic downturn, each economic organization of the labor, private, public and governmental sectors in Korea reached a major agreement last February 23, 2009 and the social atmosphere of sharing work has been spread nationwide.

The Korean government has strengthened political public relations of sharing jobs to spread it as a nationwide movement on the one hand, and has expanded support for companies and workers to give substantial benefits to the participating companies. In particular, the support was raised for the participating companies in the job sharing with job retention efforts by keeping the wages for the workers from getting reduced income due to their shorter working hours and holidays, etc.

In addition, the vocational training for the unemployed has been strengthened to improve their working abilities and to raise a necessary functional and professional workforce for the future industry by allocating a supplementary budget for training former and newly unemployed staff and strengthening training for the core competencies between large and small-medium enterprises for their coexistence and cooperation. The Korean government has made efforts by expanding unemployment benefits and benefit plan requirements to improve the individual extension of unemployment benefits and social security employed in crisis situations to support the livelihoods of vulnerable groups in the program. They have expanded loans for the training cost of living for the unemployed to focus on the training during the training period.

The Korean government carried out various policies as above to avoid a mass unemployment situation during the financial crisis. However, the possibility of losing a job for non-regular workers who are used to having a bad working condition and low income level is getting higher. The ratio of the non-regular worker in Korea reached 34.9% in 2009. After losing their job, generally their chance of reemployment is not good during the recession period. It is

true that a large portion of that group of workers is still outside of the Employment Insurance system, so they are not getting most of the benefits from the system despite the high demand for the benefits. The Korean government passed protective legislation in 2007 targeting non-regular workers and is trying to mitigate growing job insecurity. However, the result does not yet appear. Thus it is necessary to improve the labor policies for the non-regular workers and to involve them into the safety net system. Korea government should carry out a more active labor market policy including an unemployment insurance system.

Employment Insurance and Active Labor Market Programs in Japan

Naoki Mitani*

1. Introduction

The purpose of this paper is to show the actual status of Employment Insurance Scheme and Active Labor Market Programs in Japan as well as their historical developments and to shed some light on the related issues under the structural changes in the labor market, in order to share the Japanese experiences with other economies which are seeking to introduce an unemployment/employment insurance scheme or to improve it to augment the social resilience.

In the context of the global economic crisis, the Japanese economy fell into its deepest recession in the post-war era. Output contracted by around 6% in 2009, reflecting a plunge in exports and tight financial conditions. Accordingly, employment had to be adjusted and the unemployment rate soared. Thus, it is an important task to evaluate how Employment Insurance and Active Labor Market Programs responded to this crisis and contributed to the social resilience.

Second, the Japanese Unemployment/Employment Insurance has a history of over 60 years. The historical developments might be interesting especially for those economies in East Asia which plan to introduce the Unemployment Insurance.

Third, it would be also suggestive to shed light on the current issues of Employment Insurance Scheme in face with structural changes in the labor market, such as how to integrate non-standard employees into the safety net of employment.

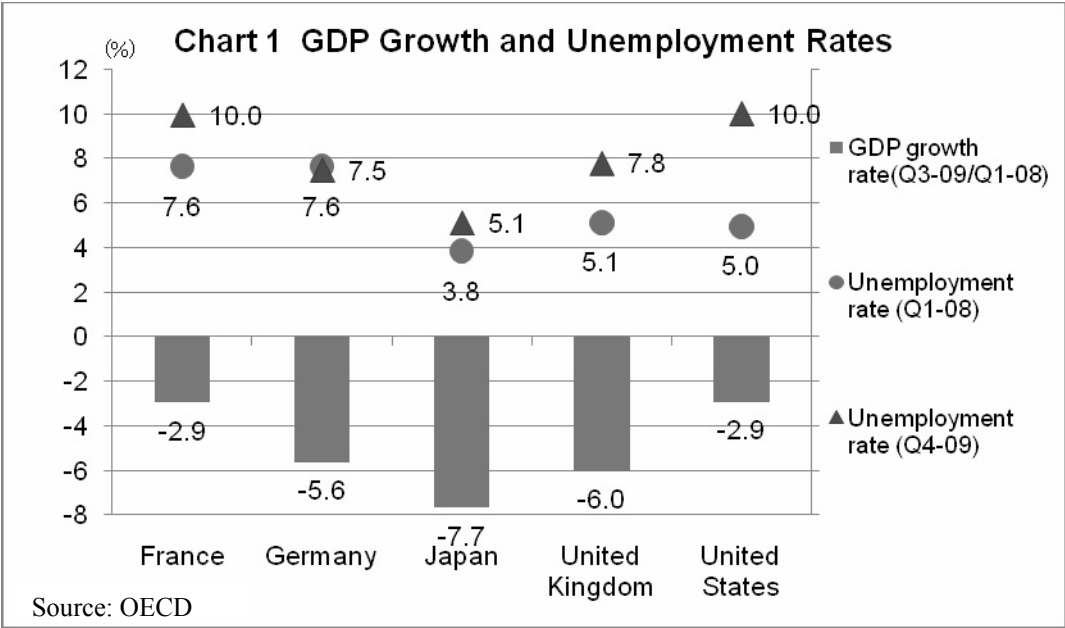
The structure of the following sections is as follows. In the second section, the policy response to the crisis is discussed. In the third section, the features of the Japanese labor market are shown. The fourth section discusses the historical developments, institutional aspects, and issues relating to unemployment benefits of Employment Insurance. The fifth section shows the Active Labor Market Programs. The final section concludes.

2. Impact of the crisis on the labor market and policy responses

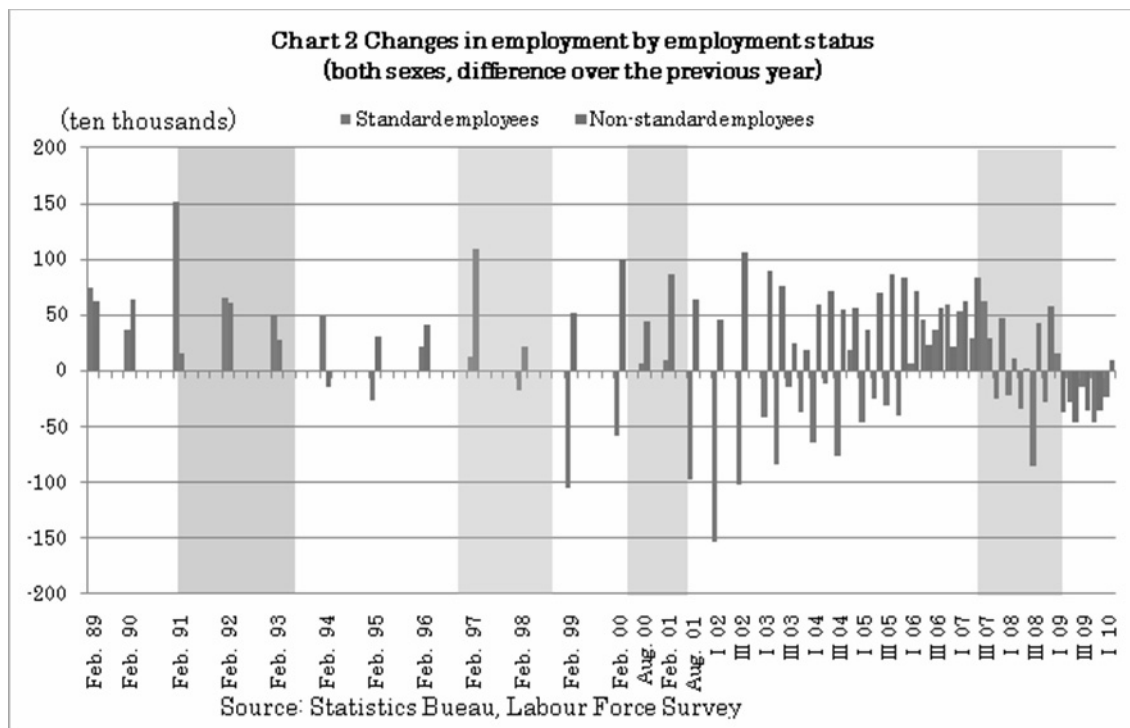
Unemployment rate (in seasonally adjusted series) has soared to the historical high 5.7% in July 2009 from 3.7% in December 2007. It decreased somewhat to 5.1% by the end of 2009. The number of the unemployed reached to 3.76 million (in seasonally adjusted series) in July 2009.

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Compared with other OECD countries, the increase in unemployment rate was relatively small although the output plummeted sharply after the beginning of the crisis. Chart1 shows the GDP growth rate and the changes in the unemployment rate in five OECD countries. Whereas the real GDP decreased by 7.7% from the first quarter of 2008 to third quarter of 2009, the unemployment rate increased by 1.3 percentage points to 5.1% during the same period in Japan. Among the five countries, Germany shows the least rise in the unemployment rate. The United States and United Kingdom experienced relatively larger rises in the unemployment rate in spite of the smaller reductions in GDP than Japan. The main reason for the relatively smaller rises in the unemployment rate in Japan and Germany is the large labor hoardings in these countries.



The deterioration of the Japanese labor market under the crisis was associated with large shedding of temporary workers or non-standard employees. The salient feature of the current recession is that the number of non-standard employees decreased for the first time. Chart 2 shows the changes in the number of standard employees and that of non-standard employees over the previous year from 1989 and onwards. The number of non-standard employees increased during the previous three recessions, while the number of standard employees decreased during the 1997-1999 recession and thereafter. After the Lehman shock in September 2008, the number of non-standard employees began to decrease only in the first quarter of 2009, whereas the number of standard employees began to decrease quickly. But the number of non-standard employees decreased by 470,000 persons (or 2.7%) over the previous year in the second quarter of 2009, much more largely than that of standard employees which decreased by 290,000 persons (or 0.8%) over the previous year in the same period.



According to the survey¹ conducted by the Ministry of Health, Labour and Welfare, the accumulated number of the non-standard employees who lost (or are going to lose) their jobs between October 2008 to September 2009 is 282,181, which consists of contract workers (49.7%), dispatched workers (16.3%), workers from subcontract firms (3.4%) and others (30.6%). The reasons for the loss of jobs are “expiration of contracts” (52.0%), “break of contracts” (42.3%) and “other reasons” (5.7%). Most of these workers (83.4%) worked (or are working) in the manufacturing sector before the job loss. This suggests that the de-regulation of the worker dispatching undertakings in 2004, which allowed firms in the manufacturing sector to employ dispatched workers with a contract duration less than one year (in 2007, the maximum contract duration was extended to three years), accounts for an important part of the large shedding of non-standard employees. Some of them lost their residence, together with their jobs, which was offered by companies. The proportion of the non-standard workers who lost their residence was 6.1% in December 2008 and it declined gradually to 2.1% in June 2010. It should be noted that 97.7% of the separated non-standard employees were insured by Employment Insurance and 90.9% were estimated to be qualified for unemployment benefits.

In response to the crisis, the Japanese government took various employment measures as follows².

¹ This survey has been conducted each month through the hearing by the Public Employment Security Office to the firms in the district. The number is based on the June 2010 issue.

² The following is based on OECD (2009b).

Measures to stimulate labor demand

public sector job creation

- public sector job creation was expanded for nursing, medical care, agriculture, environment, energy, tourism and the local community.

reductions in non-wage labor costs

- temporary reductions in employer contributions to unemployment insurance schemes
- #### *short-time work arrangements*
- extension to coverage of short-time working to workers with less than six months of unemployment insurance coverage
 - temporary increase in subsidy paid to employers for short-time working.
 - temporary introduction of short-time work subsidies for firms maintaining employment by reducing over-time work in reaction to a sudden and temporary decrease in demand.

Re-employment measures and training

job-search assistance and activation measures

- planned increase in PES staff and counselors in FY 2009.
- increase in re-employment benefit for unemployed who find work quickly for three years.

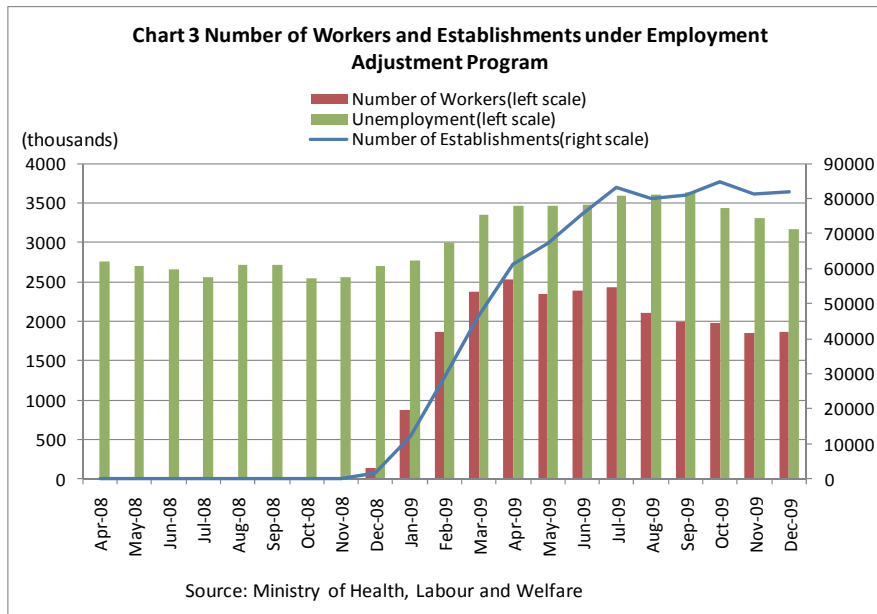
training and work-experience programs and business start-up incentives

- extension of trial employment program to older unemployed over 65 years.
- provision of income support loan to unemployed not eligible for unemployment benefits to allow them to participate in training programs

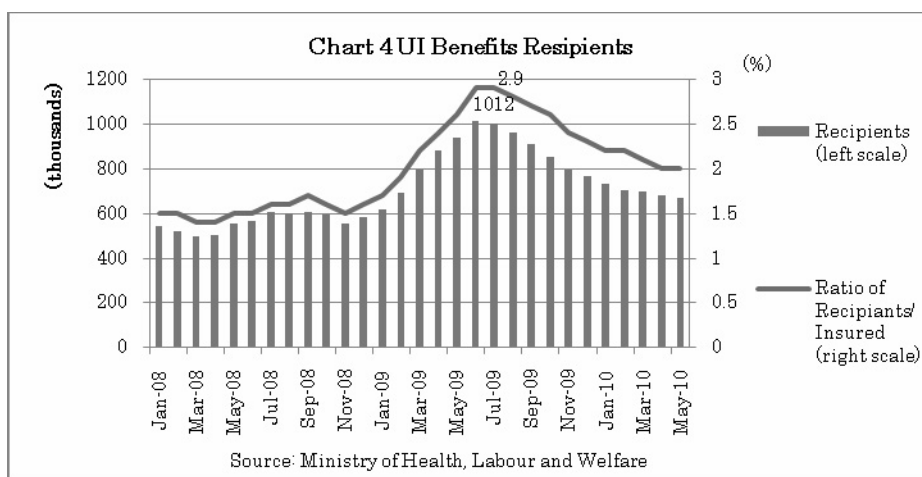
Income support for job losers and low-income earners

- easing of employment insurance contribution requirement for fixed-term workers
- extend benefit duration for hard-to-employ job seekers for three years
- temporary creation of a living allowance for unemployed without access to employment insurance to take part in vocational training
- temporary subsidies for employers who continue to provide housing to dismissed workers and additional advice through PES for job losers with housing problems

Among these measures, the most important was the Employment Adjustment Subsidy scheme (EAS). The number of the establishments which applied was only 1,707 in December 2008, but it rose to 84,672 in October 2009. The number of the workers under this program reached to its peak 2,534,853 in April 2009 (Chart 3). The ratio of the workers under the program to unemployment was ranging around 60%~70%.



The number of unemployment benefits recipients soared to 1.01 million in June 2009 and decreased to 0.67 million in May 2010 (Chart 4). The ratio of unemployment benefits recipients to the insured reached to 2.9% in June 2009 and then decreased to 2.0% in May 2010. The proportion of unemployment benefits recipients among the unemployed was 29.1% in June 2009 and decreased to 19.1% in April 2010.



3. Features of the Japanese labor market

Salient features of the Japanese labor market are as follows.

First, long term employment practice is prevalent, especially in large firms. Table 1 shows the average tenures with current employers in six OECD countries. The average tenure for both sexes is longer in Japan, Germany, France and Italy than the United States and United Kingdom. The male tenure is the longest in Japan, followed by France and Italy. It is much shorter in the

United States and the United Kingdom. However, the Japanese female tenure is much shorter than in West European continental countries. It is slightly longer than in Anglo-Saxon countries.

It should be also noted that the average tenure has rather lengthened in Japan over the last twenty years.

Table 1. Average Tenures with Current Employers in Selected OECD Countries (year)

	Japan			US	UK	Germany	France	Italy
	1988	1998	2008	2008	2008	2008	2008	2008
Both sexes	10.6	11.6	11.6	7.1	8.3	10.8	11.6	11.3
Males	12.2	13.1	13.1	7.5	8.7	11.5	11.6	11.6
Females	7.1	8.2	8.6	6.8	7.9	10.1	11.5	10.8

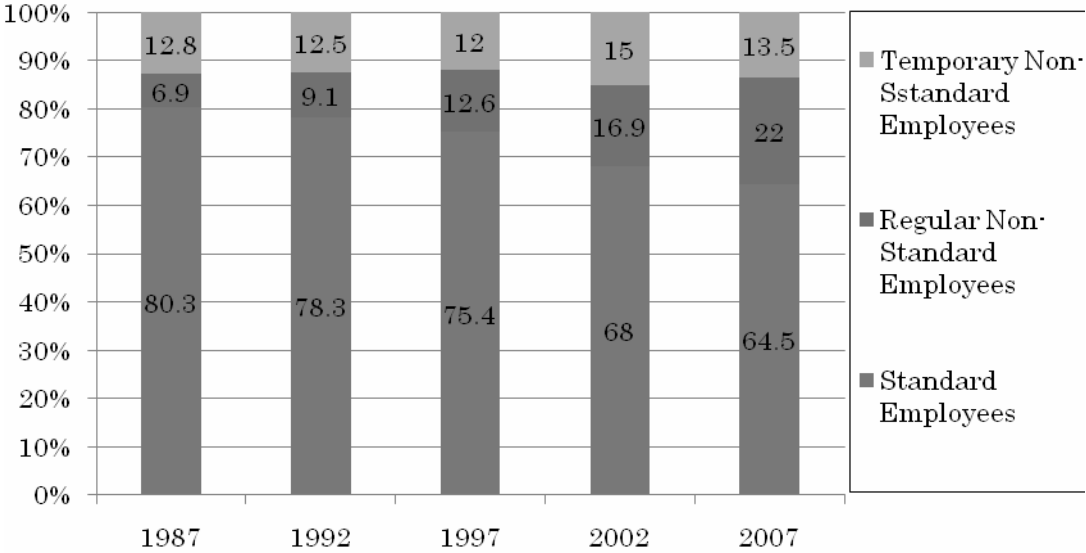
Source : Japan: Ministry of Health, Labour and Welfare, Basic Survey on Wages Structures, United States : BLS, Current Population Survey, January Supplement, 2008, Other countries : OECD.Stat

Second, OJT (On the Job Training) is relatively more intensive, especially in large firms. With the perspective of the long term employment relation, both employers and employees tend to invest intensively in firm specific human capital, and share the return to the investment or the rent. This in turn results in long term employment. Thus, the long term employment practice is complementary with intensive OJT. This is reflected in the relatively steep slope of age-earnings profiles (Hashimoto and Raisian (1985), Mincer and Higuchi(1988)). The skill formation is conducted mostly in the form of OJT as well as Off-JT(Off the Job Training). Typical workers in large firms accumulate the skills to detect the problems and solve them on the site, by experiencing various jobs in the workplace and through occasional Off-JT to learn the relevant knowledge. Thus, even production workers tend to acquire fairly high intellectual skills through long term OJT (Koike (1996)). This practice of intensive OJT is also complementary with firms' high propensity to hoard their skilled workers during the recession. Nonetheless, it is mostly limited to standard workers in large firms.

Third, the number of non-standard employees is increasing rapidly, especially among young workers, as well as female workers and older workers. In fact, the proportion of non-standard employees among all employees excluding executives of corporations rose from 19.7% in 1987 to 35.5% in 2007. Among non-standard employees, the proportion of regular non-standard employees, whose terms of contract are more than one year or unlimited, rose relatively faster (Chart 5). Such structural change is found not only in Japan but also in other OECD countries, especially in Western European continental countries. It is pointed out that the polarization of the labor market is mostly due to the structural changes such as technological changes (especially ICT), and the globalization of the economy, as well as the severe EPL (Employment Protection Legislation) in these countries. Nonetheless, in Japan, the proportion of non-standard employees

is increasing rapidly among youth and Japan has never experienced such deep dualization or polarization of the youth labor market since the mid-1950s, just before the High Growth Period. Thus, the social and economic systems so far have not been adjusted enough to such structural changes. The most important aspect of non-standard employment is that it does not provide young workers with enough training opportunities. In general, intensive OJT is rarely offered to non-standard employees. Consequently, age-earnings profile is flat. In addition, non-standard employment is fixed term or temporary. Moreover, it has been revealed that in Japan, those who are obliged to take non-standard jobs on the graduation from schools tend to be employed in non-standard jobs for a long period (state dependency). Thus, non-standard young employees tend to suffer from a poor economic situation as well as poor employment stability for a long period and it is pointed out that this may cause a low fertility rate and the future poverty problem.

Chart 5 Trends in the Proportion of Non-Standard Employees (Both Sexes)



Source: Statistics Bureau, Employment Status Survey

4. Employment insurance

4.1 Historical developments

The Unemployment Insurance Act was enacted in 1947 as one of the series of the postwar preparation of the labor legislation. In the same year, the Employment Stability Act was enacted. The main policy issues in this period were the recovery of the economy after World War Two and to cope with the increasing number of the unemployed. However, the function of the Public Employment Stabilization Offices (PESO) and the Unemployment Insurance did not meet enough with the necessity, because of the disorder of the labor market and the particularity of the unemployment in the post-war period, as well as the immaturity of the institutions. The PESO was

very busy over placing the laborers separated from the mining industry and the US Force stationed in Japan. The UI scheme has just begun, with the number of the benefit recipients being only 27,000 persons in 1948. In face of the large number of displaced workers due to the deflationary policy, the Law of Emergent Relief Measure for the Unemployed was enacted in 1949. The law stipulated the Relief Program for the Unemployed, in which the local governments employed the unemployed in public employment such as road construction and maintenance, drainage maintenance projects, or public building maintenance. Though the aim of the law was attained immediately, the intended effects phased out. In the early 1950's, the displaced workers were temporarily reemployed in the public employment program in the regions where disproportionately large displacement took place. But an unexpectedly large flow of older workers with little employability, the needy self-employed and newly entrant women entered into the program and piled up thereafter.

The high economic growth began in the mid-1950s. The employment in the industrial sector increased and absorbed the large flow of new graduates from junior and senior high schools and workers from the agricultural sector in rural areas. The active labor market programs in this period were (1) placement of new high school graduates, and (2) measures for structural unemployment such as those for the unemployed who left US forces stationed in Japan, mining industry, and the middle aged or older workers who lost their jobs and migrant workers from the agricultural sector. These measures consisted of employment subsidies to the employers who employed targeted unemployed workers, housing allowances for the migrants who found jobs in remote areas, and training associated with placement, etc. On the other hand, the number of workers who participated in the Relief Program for the Unemployed increased sharply. Most of them were previously self-employed or not in the labor force. They might become job-seekers because it was difficult to continue their traditional small businesses under the rapid industrial changes. In 1971, the new introduction to the Relief Program for the Unemployed was stopped. Thus, the employment policy changed dramatically from the traditional measures to provide temporary employment and absorb the unemployed into various programs such as a public employment program. In 1966, the Employment Measures Act was enacted to cope with structural unemployment. This Act systematized and extended to all industries the measures that emerged in the process of transformation of the industrial structure. It also regulated procedures for mass job reductions, including dismissal, and later led to policies strengthening employment security.

In 1974, the Employment Insurance Act was enacted. The main purpose of the Unemployment Insurance was “to stabilize the standard of living and employment of workers by providing necessary benefits for workers who are unemployed”. The Employment Insurance Act added another one “to facilitate their job-seeking activities, as well as to prevent unemployment, redress the employment situation, increase employment opportunities, develop and improve the capacity of workers, and promote their welfare, so as to contribute to their employment security”. In order to implement the above purpose, the Employment Insurance Act stipulated that the

Employment Insurance may, in addition to granting benefits for unemployment, undertake the following four services; services for the improvement of employment, services for the human resources development, services for the welfare of employment, and services for the stabilization of employment.

Initially, the Employment Insurance was planned to integrate the Active Labor Market Programs to the Unemployment Insurance Scheme in order to reduce the structural unemployment which persisted even under the full employment situation before the First Oil Price Shock. It was also planned to systematize and develop the stopgap labor market programs so far partially conducted in face of the structural changes due to the rapid economic growth and the symptom of the ageing of the population. In reality, the First Oil Price Shock occurred in 1973, when the initial Employment Insurance bill was aborted at the Parliament. But, as the economic turbulence increased, employers' associations and labor unions urged the government to take necessary measures and the employment adjustment subsidies, which had not been considered so important and appeared only at the end of the services for the welfare of employees in the initial bill of Employment Insurance, attracted these groups abruptly, because under the employment adjustment subsidy program the employers would be paid the half (for large firms) or two third (for small and middle firms) of the allowance for absence from work which the employer paid, when the firm was obliged to contract its business because of the economic downturn. The renewed Employment Insurance bill was quickly voted on and the Act was enacted in December 1974. Thus, services for employment stability (the fourth services) were newly created in the Act and among them the employment adjustment subsidy became one of the most important measures. The employment stability fund was created in the budget to finance the subsidy with mobility.

The structural changes, due to the strategies taken by firms after the Oil Shock such as drastic lean management, changes in undertakings, and introduction of new technologies, might give rise to large structural unemployment. To meet this situation, lots of measures were taken by trial and error in the Employment Insurance, especially in the four services. These measures were systematized, arranged and put together in 1980. In the 1980's, unemployment benefits scheme was reformed, reflecting the financial problem in the service granting benefits for unemployment due to the increase in the unemployment rate stemming from the structural changes in both supply and demand sides of the labor market. On the other hand, measures for the elderly were disproportionately reinforced mainly in services for the improvement of employment.

Ujihara (1989) pointed out the problems regarding the Employment Insurance Scheme in this period as follows. First, the four services were created in order to complement the service granting unemployment benefits and keep its sound finance by mobile and flexible application of measures, in the awake of sudden unemployment problems. This purpose was attained successfully to some extent in the second half of the 1970's. But once the measures were created, they tended to remain even after the necessity disappeared. Second, the measures in four services should be complemented by other policy measures, because the financial effects of the former

were limited as employers considered the whole costs and benefits of these measures. Third, the administrative procedures were conducted by the employees at the PESO. Thus, as the benefits scheme became more complicated, the administrative burden on the employees of the PESO became heavy and troublesome.

A financial upset in autumn 1997 triggered a sudden recession. As the unemployment rate began to soar at the beginning of 1998, the government incorporated measures for employment into its comprehensive economic measures of April 1998. And five consecutive employment packages were put in force from 1998 to 2002. Ohtake (2004) points out three principal courses of action in the measures in this period. First, they involve an expansion of the traditional policy of maintaining employment. A typical example includes raising the rate of subsidies for Employment Adjustment subsidy. Second, they are based on traditional policy involving the use of public works to absorb the unemployed and maintain employment. Third, they involve a new type of employment measure involving subsidies for job creation, such as the wage subsidies for firms newly hiring middle-aged and older workers, and new or extended subsidies for small and medium-sized enterprises that require human resources for new business conversions.

In addition, two new measures in this period are noteworthy. The one is the introduction of the Education and Training Benefits System, commencing in December 1998. This is epoch-making because it is a direct subsidy for individual workers, in contrast to previous labor market training measures which had been executed mainly through subsidies to organizations in charge of training. It can be seen as a kind of voucher system, because the subsidies are paid after completion of vocational training. The other is the measures for youth. They had been scanty, compared with other OECD countries, partly because the unemployment rate for youth had been relatively low. But under the long economic recession, the youth unemployment rate soared and the ratio of non-standard employees increased. Employment measures for youth were taken for the first time in 1999, though modest at the start. Thereafter they are expanded gradually.

A series of employment measures were implemented from 2002 to 2003, based on the Comprehensive Measures to Accelerate Structural Reform. The plan identified three principal policy targets. The first concerns responses to unemployment resulting from the liquidation of non-performing loans. The second concerns job creation. The third concerns re-vitalization of demand-supply adjustment in the labor market through private-sector involvement and responses to diverse forms of employment.

4.2 Institutional Aspects

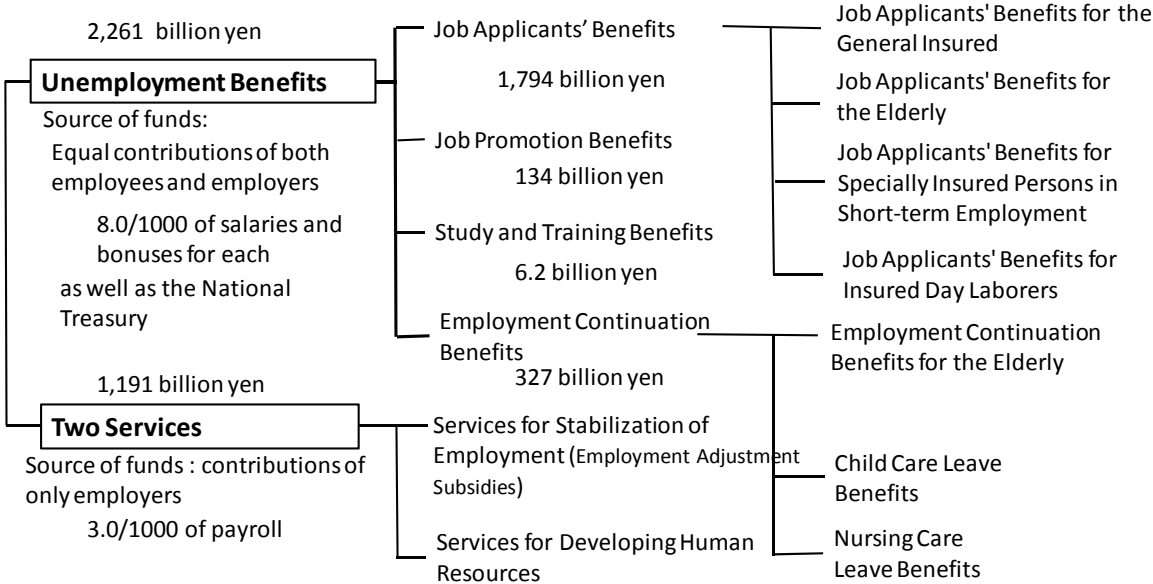
The current Employment Insurance Scheme consists of granting benefits for unemployment and two services; services for stabilization of employment and services for developing human resources (Chart 6). Services for stabilization of employment are mainly those granting employment adjustment subsidies. Services for developing human resources consist of subsidies for training by employers and management of public training facilities, etc. The number of the

insured workers was about 37,840,000 and that of covered undertakings was about 2,020,000 in fiscal year 2008.

The qualifying conditions to be insured are as follows;

- The scheduled hours worked per week must be 20 hours or more.
- Must be expected to be employed for more than 31 days (The minimum expected length of employment for short-time workers and dispatched workers was shortened from 1 year to 6 months in 2009, and from 6 months to 31 days in 2010.)
- Must be employees younger than age 65.
- Voluntary coverage for employees in agricultural, forestry, and fishery establishments with less than five standard employees.
- Exclusions: Seasonal workers whose term of employment is four months or less.
- Special systems for seamen and civil servants.

Chart 5 Outline of the Employment Insurance Scheme



Source: The revised budget of the fiscal year 2009

Job applicants' benefits are classified to job applicants' benefits for general persons, job applicants' benefits for the elderly, job applicants' benefits for specially insured persons in short-term employment, and job applicants' benefits for insured day laborers, according to the targeted job applicants.

Job Applicants' Benefits for General Insured Persons

Job applicants' benefits for general insured persons consist of the following:

- (i) Basic allowance;
- (ii) Skill acquisition allowance;

- (iii) Lodging allowance;
- (iv) Injury and disease allowance.

The qualifying conditions for the unemployment benefit (basic allowance) are as follows;

- Must have at least 12 months of insurance during the last 24 months before unemployment (at least six months of insurance during the last 12 months for *specific qualified recipients* and *the qualified recipients who are separated for specific reasons*, see the next paragraph for the definitions).
- Must be registered with the Public Employment Security Office and be capable of, and willing to, work.
- Unemployment must not be due to voluntary leaving, serious misconduct, refusal of a suitable job offer, or nonattendance at vocational training (otherwise, the benefit may be limited to one to three months).

The rigid procedures to approve these conditions are implemented to avoid the moral hazard of job applicants.

The duration of benefits varies with age, tenure and reasons of separations, etc. (Table 1). In any case, it is designed to avoid frequent receipt of benefits that the longer the tenure of the insured, the longer the duration of benefits is. *The specific qualified recipients* are those who are obliged to be separated through bankruptcy or dismissal (excluding dismissal due to significant cause imputable to the accused themselves), etc. *The qualified recipients who are separated for specific reasons* are those who are separated because their fixed term labor contracts are not renewed or for other compelling grounds. The latter category of conditions to receive benefits for a longer duration was added in the Act amended in 2009 to ease the hardships of the unemployed who were non-standard workers.

Table 1 Duration of benefits (basic allowances)

	Duration of benefits for								
	(1) separated workers having specified recipient qualification or specific reason					(2) separated workers not falling under category (1)	(3) separated workers having difficulty finding a job		
Tenure (year)	Age (years old)					All ages	Age (years old)		
	Under 30	30-34	35-44	45-59	60-64		Under 45	45-64	
Less than 1	90 days	90 days	90 days	90 days	90 days	-	150 days	150 days	
1-4	90 days	90 days	90 days	180 days	150 days	90 days	300 days	360 days	
5-9	120 days	180 days	180 days	240 days	180 days	90 days	300 days	360 days	
10-19	180 days	210 days	240 days	270 days	210 days	120 days	300 days	360 days	
20 or over	-	240 days	270 days	330 days	240 days	150 days	300 days	360 days	

Source: Ministry of Health, Labour and Welfare

The premium of Employment Insurance is the payroll multiplied by the insurance premium rate in Table 2. The premium rate is 6/1000 for the insured worker and 9.5/1000 for employers in

general industries, of which 6/1000 is the contribution to unemployment benefits and 3.5/1000 is that to Two Services. The premium rate is higher in agriculture, forestry and fisheries, Sake brewing industry and construction. The premium rate is raised in FY 2010, reflecting the tight budget of the Employment Insurance due to the large increase in job seekers under the current financial crisis.

Table 2 Premium of Employment Insurance (as in April, 2010)

	General Services	Agriculture, forestry & fisheries, Sake Brewing Industry	Construction
Insured person	6/1000	7/1000	7/1000
Employer	9.5/1000	10.5/1000	11.5/1000
of which contribution to UB	6/1000	7/1000	7/1000
contribution to Two Services	3.5/1000	3.5/1000	4.5/1000
Total	15.5/1000	17.5/1000	18.5/1000

Source: Ministry of Health, Labour and Welfare

The daily amount of the basic allowance is an amount obtained by multiplying the daily amount of wages by a rate ranging from about 50 percent to 80 percent (the rate is higher, the lower the wages are). The daily amount of wages is obtained by dividing by 180 the total amount of monthly wages (excluding bonus, etc.) paid during the last six months before the separation from employment.

Job Applicants’ Benefits for the Elderly

As mentioned above, the qualification condition to be newly insured excludes workers aged 65 years old or over. The person, who is already insured and is aged 65 years or over, receives a lump-sum payment of job applicants’ payments for the elderly when he is unemployed.

Job Applicant Benefits for Specially Insured Persons in Short-term Employment

When persons employed seasonally and persons who are normally engaged in short-term employment (term of employment is less than one year) become unemployed, a special lump sum payment is made.

Job Applicant Benefits for Insured Day Laborers

There is a special system for day laborers, who are defined as persons who are paid by the day, or persons who are employed for a fixed period of employment of 30 or less.

4.3 Features of the Japanese Employment Insurance Scheme

Compared with other OECD countries, features of the institutional aspects of the Japanese Employment Insurance scheme are as follows³.

- (1) The qualification conditions to be insured include the lower limit of the expected duration of employment in addition to scheduled weekly hours worked and ages, etc.

³ This part is based on Higuchi(2010), who made an international comparison of six OECD countries: Japan, United States, United Kingdom, Germany, France and Sweden.

(2) Regarding the qualification conditions to receive UB, the payment is stopped when the beneficiary is re-employed, even if the hours worked are short and the wages are low in Japan. In other countries, payment is made for the partially unemployed.

(3) Employment Promotion Allowance is paid as an incentive for early re-employment when the beneficiary is employed before the expiration of the duration of UB in Japan.

(4) The replacement ratio is lower for the beneficiaries whose former wages were higher in Japan, while in other countries, it is the same regardless of the former wages. In Japan, the replacement ratio is constant for the whole period of payment, while in some countries, it decreases as the duration of UB becomes longer.

(5) The replacement ratio in Japan is not so low, as the gross wages before tax reduction are used to calculate daily wages and the UB is exempted from tax.

(6) There is no unemployment assistance scheme, which assures the income for the unemployed after the expiration of UB duration or those unemployed with no qualification for UB such as some non standard employees, even though the payment is lower.

(7) The proportion of UB beneficiaries among the unemployed (in the ILO definition) is relatively lower in Japan, compared with other countries⁴. It should be also noted that the proportion is decreasing gradually from 39.8% in FY1995 to 22.1% in FY2008. This is partly accounted for by the increase in the unemployed persons whose previous employment status was non-standard employees.

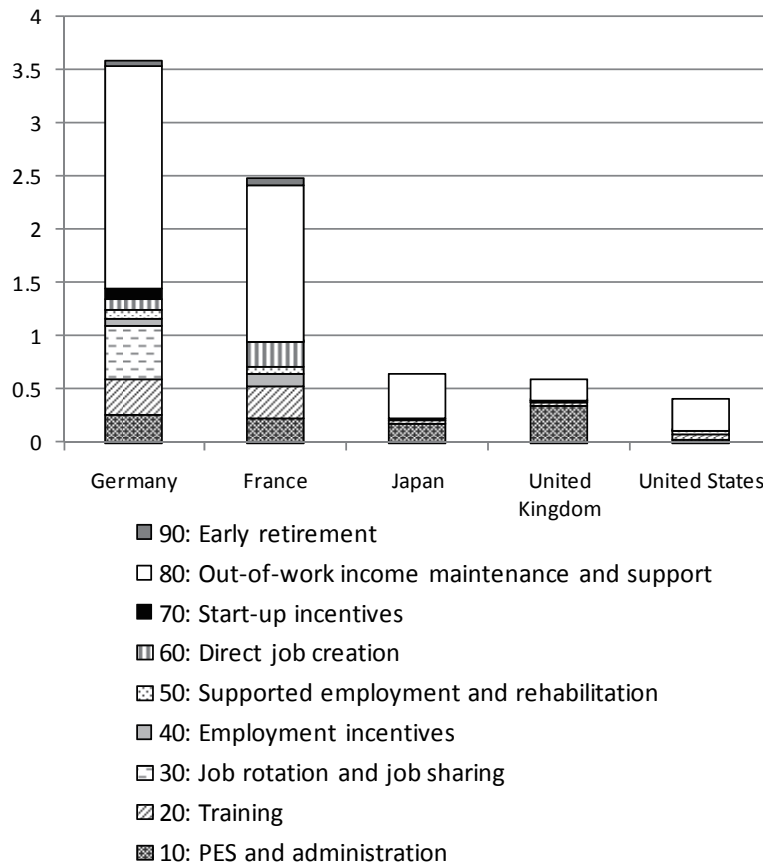
4.4 Public expenditures on labor market programs

Chart 7 shows the public expenditures on labor market programs (in ratio to GDP) in selected OECD countries on average for the period from 2003 to 2007. Several features are observed. First, Japan's ratio is much smaller than France and Germany, and as small as United Kingdom and United States. Especially, "out-of-work income maintenance and support" is much smaller in Japan. Second, "Training" is much smaller in Japan than France and Germany. Third, "PES and administration" is somewhat smaller in Japan than France, Germany and United Kingdom, but larger than United States. These observations suggest that the labor market policies are disproportionately concentrated in passive measures in Japan⁵ as well as in the United States.

⁴ According to Higuchi (2010), Germany (87%), France (82%), United Kingdom (60%), United States (43%) are much higher than Japan (23%).

⁵ Higuchi (2003) points out that one of the factors behind the relatively low public expenditures on ALMP is the large dependence on the public expenditures on infrastructure as an employment promotion measure during recessions after the World War II.

**Chart 7 Public Expenditures on Labor Market Programs in Five OECD Countries
(in percentage of GDP, average for 2003-2007)**



Source: OECD

4.5 Unemployment benefits

Unemployment benefits (UBs) are provided so as to protect individuals against the risk of unemployment. UBs offer replacement income to workers experiencing unemployment spells after having lost their employment.

Theoretical studies predict that the receipt of UBs negatively affects job search intensity and increases the reservation wages of job seekers and a large body of empirical studies support the standard prediction that greater generosity (higher level or longer duration) of UBs increase the duration of unemployment (Atkinson and Micklewright (1991), Krueger and Meyer (2002), OECD(2006), Kohara(2002, 2004)). Nonetheless, increased generosity of UBs during recessions may be necessary for the unemployed to find jobs under greater difficulties of finding jobs. It is pointed out that careful integration of UBs and ALMP, combined with close monitoring of the job search, can be effective in dampening disincentive effects brought about by generous UBs (OECD(2006)). In this regard, it is appreciated that the government increased recently the amount

of the employment promotion allowance, which the UB recipient can receive if he is employed early.

Furthermore, recent studies investigate whether UBs increase labor productivity by enhancing labor reallocation. Some empirical studies find a positive effect of UBs on labor reallocation. For instance, Boeri and Macis (2010) study the effect of reforms that introduced for the first time UB schemes in countries that previously did not have any such scheme. Using a large number of countries that had UBs throughout the period as a control group, they find that the introduction of benefits significantly increases between-industry job reallocation, although the estimated effect fades over time. OECD (2010) shows also the positive effects of the generosity of UBs on reallocation of workers, based on the difference-in difference OLS estimate.

4.6 Non-standard employees and Employment Insurance

Given the increasing share of non-standard employees, the Government extended the eligibility of Employment Insurance and eased qualifying conditions for UBs. The minimum expected length of employment for non-standard employees to be insured was shortened to six months from one year in 2009, and to 31 days from six months in 2010. The minimum total length of insurance for non-standard employees to be qualified for UBs was shortened to six months from 12 months in 2009. The duration of UBs for those non-standard workers, who are separated because their fixed term labor contracts are not renewed, became also as generous as *the specific qualified recipients* as those who are obliged to be separated through bankruptcy or dismissal in 2009.

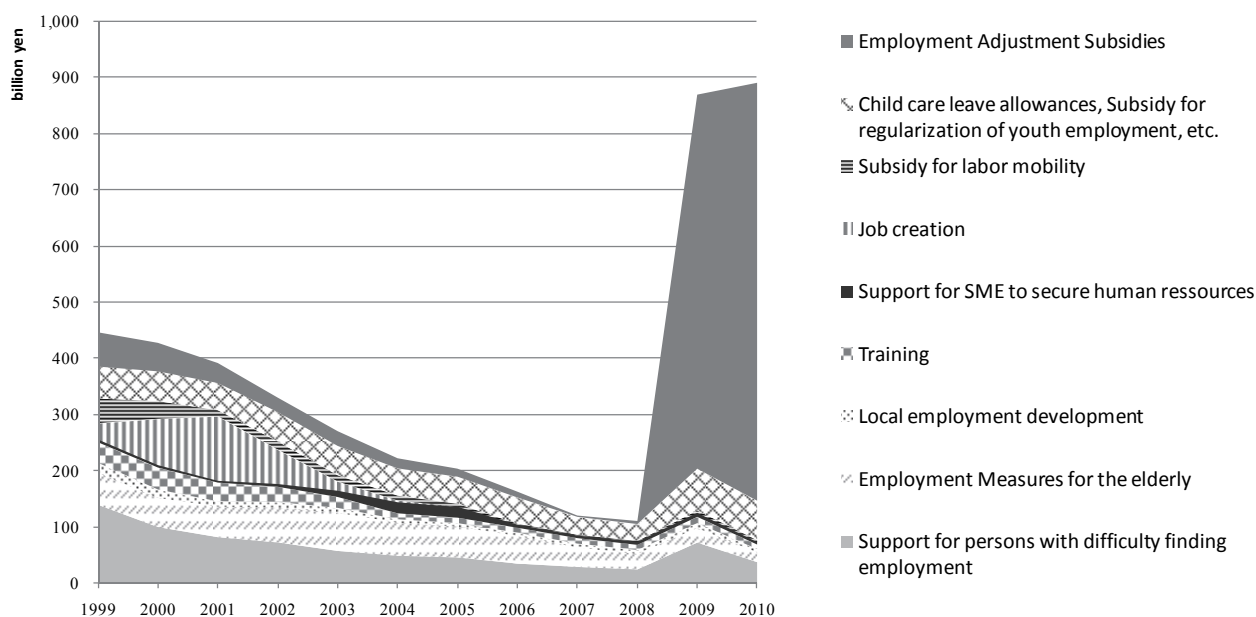
In spite of the effort of extension of eligibility of Employment Insurance, there remain a certain category of unemployed workers and non-standard workers who are not covered, such as new school-leavers without a job. Thus, a new type of safety-net is now searched for this category of workers⁶. For instance, “Fund training” discussed below provides those who are not eligible for employment insurance benefits with training and living support during training. Or, some sort of social assistance may be necessary. In that case, the comprehensive measures should be considered in combination with other anti-poverty schemes.

5. Active Labor Market Programs

Chart 8 shows the budget for various ALMP. In general, they tended to decrease from the end of the 1990’s to 2007. After the beginning of the crisis, the budget for EAS jumped to 667 billion yen in FY 2009 and 745 billion yen in FY 2010. The actual expenditure of EAS was about 654 billion yen in FY2009, which was ten times as large as the last peak of 65.7 billion yen in FY 1994.

⁶ Study Group of Employment Policy (2010).

Chart 8 Budgets for various ALMPs



Source: Ministry of Health, Labour and Welfare

5.1 Employment Adjustment Subsidies

Employment adjustment subsidy (EAS) is intended to preserve existing jobs at firms experiencing temporarily low demand due to changes in the economy, changes in industrial structures or other economic reasons, by encouraging temporary closure of a part or all of operations or temporary transfer of workers to other firms (*shukko*).

More concretely, the firm must satisfy the following three conditions to receive the subsidies.

- (1) it must be covered by Employment Insurance.
- (2) it must satisfy one of the following two conditions;
 - (i) the average sales or the average output for the recent past three months decreased by 5% over the previous three months or the same period of the previous year.
 - (ii) the average sales or the average output for the recent past three months decreased by 10% over the same period of the previous year and the current balance for the last period is a deficit.
- (3) it closes temporarily a part or all of business (and conducts training during absence from work) or transfer workers temporarily (*shukko*).

The amount of subsidies is two third of daily wages or compensation for temporary closure of business and 4,000 yen is added if training is conducted during the suspension. It is two third of the wages which the sending employers paid in case of temporary transfer to other firms.

The maximum duration is fixed as 300 days for three years.

EAS is a kind of public short-time program (STW) widely used in OECD countries. It is subject to deadweight and displacement effects that reduce their cost effectiveness. Deadweight loss occurs when EAS is paid for jobs that employers would have retained even in the absence of the subsidy, implying that this spending is a pure transfer which does not limit total job losses. Displacement effects can be said to occur when EAS preserves jobs that are not viable without the subsidy, even after business conditions recover. If these subsidies are maintained they lock workers in low productivity job matches and thus represent a barrier to job creation by firms with the potential to grow and efficiency enhancing labor mobility⁷. These potential efficiency costs are likely small during a recession, but they become more of a concern as the recovery takes hold.

OECD (2010) conducted an econometric analysis on the effects of STW on employment, hours worked and wages during the 2008-09 recession, using the data for the period 2003 Q1 to 2009 Q3 for 19 countries and four industries (manufacturing, construction, distribution and business services). According to the results of the analysis, (1) there is a clear evidence that STW schemes helped preserve permanent jobs during the economic downturn, while also increasing average hours reductions among permanent workers, (2) there is no evidence that STW schemes had a significant impact on the employment and average hours of temporary workers, (3) short-time work does not have a significant effect on the responsiveness of average wages to output, although the point estimate that real hourly wages are more strongly downward responsive to output declined in the presence of STW schemes is plausible; (4) the absolute jobs impact is estimated to have been particularly large in Japan and Germany. Short-time work is estimated to have reduced the loss of permanent employment by almost 400,000 in Japan and by over 200,000 in Germany.

Thus, EAS has contributed significantly to preserve permanent employment during the 2008-09 recession, while it has had little impact on employment of temporary workers. The policy response to the crisis has been towards placing a greater emphasis on expanding STW participation by easing the qualification conditions. This seems reasonable since many more viable jobs are at risk in a steep recession, while the social cost of locking workers in unviable jobs is temporarily lower since there is little prospect they could move quickly into more productive jobs. However, this may come at the expense of lower employment and job reallocation in the medium run, especially if support for temporary closure of operation is maintained for too long into the recovery.

⁷ Griffin (2010) contends that EAS reduces steady-state labor productivity by encouraging labor hoarding, and in some case, preventing the exit of least efficient establishments. By contrast, Chuma et al. (2002) found some positive effects on employment.

5.2 Training Policies

Employment Insurance Scheme has measures encouraging the job-seekers to take public vocational training. When a qualified recipient takes a course of public vocational training, etc., as directed by the Chief of the Public Employment Security Office, a skill acquisition allowance is paid for the period of said course and further, in that case, the basic allowance may be paid to the person for a period in excess of the prescribed duration of benefits.

The educational training benefits are paid to the insured workers or those who have been separated from employment take and complete educational training designated by the Minister of Health, Labour and Welfare as job related educational training necessary for employment security and promotion of job placement, to cover a part of the expenses which the persons paid to educational training institutions.

Public vocational training courses are (1) training for the separated (job-seekers, free), (2) training for workers, and (3) training for new school-leavers (charged). Both central government and local governments have training institutions. A part of training for the separated is entrusted to private training institutions.

Emergency Training-Employment Support Fund was created to provide those who are not eligible for employment insurance benefits with training (called as “Fund training”) and living support during training. Training and living support allowances are paid as living support during training to a person who is not eligible for unemployment benefits, if he meets certain conditions and is trained as directed by the Public Employment Security Office. This measure is intended to support those job seekers who are new school leavers or separated from non-standard employment and are not eligible for unemployment benefits.

5.3 Employment policies for older workers

Employment continuation allowances are paid to older workers who continue to be employed after the mandatory retirement if wages drop largely⁸. This measure will be abolished gradually from 2012, since the Act Concerning Stabilization of Employment of Older Persons postulates that employers should provide older workers with employment opportunities after mandatory retirement age.

Various measures were implemented to encourage firms to employ middle-aged and older workers such as subsidies.

5.4 Measures for Work-Life Balance

Child Care Leave allowances (50% of the wages) or Nursing Leave allowances are paid to the workers who take child care leave or nursing leave and continue to be employed.

⁸ To be eligible for the allowances, the insured person (1) must be aged 60 years old or over and younger than 65 years old, (2) must have an insured period of 5 years or over, (3) the wages must be less than 75% of those at 60 years old, and (4) has not received UI benefits after 60 years old.

5.5 Employment measures for youth

Faced with the severe youth unemployment problems, various employment measures for youth have been introduced since the end of the 1990's.

- Trial Employment for Youth

This is a subsidy to the firms which employ workers younger than 40 years old for three months as a trial to see whether they have aptitude or ability enough to be employed further.

- Special Subsidy for Standardization of Employment of Youth

This is a subsidy to the firms which employ the young workers introduced by PESO as standard employees.

- Job Café

This is a kiosk-type career service center for young people.

- Job card

This is a document in which a worker's training and work experiences are recorded in order to facilitate the job matching and the career formation, etc.

6. Concluding Remarks

So far, Employment Insurance in Japan has played the expected role fairly well during the 2008-09 recession. EAS preserved a large number of permanent jobs, along with Germany which has shown good job performance by the use of STW (OECD (2010)). EAS is considered to be efficient when the adverse shock is sharp and covers all industries like the current one. Nonetheless, to avoid adverse effects on labor reallocation necessary for medium-term structural changes, the rigorous application of the eligibility rules is needed as the recovery progresses.

Second, the 2008-09 recession has revealed the instability of employment and the housing problems accompanied with unemployment among non-standard employees, whose employment share is increasing rapidly especially among youth. Comprehensive employment policy is needed to cope with the issue of non-standard employees, including the reform of UBs as well as the effective ALMP. If workers with a high unemployment risk who repeat employment and unemployment frequently are added to the insured of EI, the premium is necessarily raised. If it is not acceptable for other insured persons, either the premium should be determined depending on the risk of unemployment or the unemployment assistance scheme is needed to be introduced with the government general budget. In the latter case, it is necessary to implement measures to avoid moral hazard such as the frequent check of active job search activities or the inclusion of the participation to training into the qualification conditions for the benefits (Higuchi(2010)). In this regard, it is desirable to perpetuate the Emergency Training-Employment Support Fund measure⁹, which supports the training and the living of the non-eligible unemployed.

Third, it should be noted that passive and active measures are complementary. The negative effects of UBs on the search effort or duration of unemployment are mitigated by adequate ALMP,

⁹ This measure is currently of a fixed term of three years.

especially activation measures. In addition, it would be also worth considering to adjust the UBs to the wages in the external labor market, since the wages offered to middle-aged job seekers are generally much lower than those in their former jobs, given the steep age-wage profile in Japan (Ohtake (1999)).

Fourth, ALMP is efficient when it is complemented by other measures. For instance, the extension of mandatory retirement age could be realized not only by subsidies of ALMP but also by the legislative reform.

Fifth, public employment creation measures have a risk to call in un-intended workers such as the self-employed or those from not in the labor force and the useless and undesirable program may last for a long time.

Sixth, since five successive Employment Packages in 1999, new measures have been implemented. It is necessary to evaluate these measures scientifically as well as to learn the experiences in other OECD countries.

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