ESCAPING FROM THE CRISIS AND
ACTIVATING LABOR MARKET POLICIES IN ASIA

Some Lessons from European and French Experiences
with a Special Focus on South Korea

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INTRODUCTION

The recent Korean experience in labor market policies has something fascinating for an European observer. As a matter of fact, in order to fight the hard consequences of the 1997-1999 slump, Korea introduced or expanded a host of labor market interventions and social protection programs: besides the enlargement of the unemployment insurance, and of existing active labor market programs (vocational training, wage subsidies, job placement), the government introduced a public workfare scheme, expanded a temporary non contributory means-tested livelihood protection program, and created a social pension scheme for the elderly. What is particularly interesting is the attempt to cover many facets of the social needs and of the poverty problem. The new public work program was enacted in May 1998 (together with the expansion of the livelihood protection program) because most of the jobless did not benefit from the unemployment insurance despite the expansion of the scheme. The wage subsidy program was massive, paying up to two-thirds of a worker’s wage, and covered 800,000 workers in 1998.

Of course, such efforts are time-demanding and cannot yield immediate results. The temporary help program, even with an conspicuous additional financing in 1998 (nearly 40% increase), only reached 7% of the new poor while total coverage dropped from 32% prior to the crisis to just over 17% in

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1998. Even so, Korea’s initiatives appear now closest to old industrial countries experiences. It may added that this nation faces now classical « European problems », as the rapid ageing of the workforce. Some analyses go on and mention problems often presented as typical of Europe: incentives concerns and the «need to maintain flexible labor markets». Last, if we consider the importance of the (centralized) state and of big firms’ networks, we can compare Korea with France.

The aim of this paper is not to speculate on a possible convergence between these two countries, but to examine the place and scope of «active» labor market policies in East Asia at the dawn of the 21st century, in a context of employment crisis and progressive return of growth, with a special consideration of European recent experiences.

Such a discussion will put into the forefront the question of the adaptation and adjustment potential of social policies in a context of various macroeconomic shocks and various degrees and modalities of economic integration. It will rely on two main methodological orientations. First, we shall develop the idea that labor market policies are better understood in their adaptation potential when the regulatory concept of «transitional labor markets» is introduced; second, we shall put into the forefront, in our reflection on the possible transfer of some schemes, the interplay of different institutions, and introduce «functional equivalents» and «spillovers» as comparative tools.

The paper is divided in three sections. First, we focus on the Korean situation, and combine a macro-appraisal and an analysis of employment dynamics with constraints and substitutes. Second, we deal with recent European transformations and debates affecting labor market policies (henceforth, LMP), and enhancing their adjustment potential. Within this section the concept of "transitional labour market" will be briefly outlined. A third section will go back to Korea, and will set as an hypothesis the possible combined role of state intervention and some developments of the «third sector» economy as a way out of crisis.

PROTECTING FROM THE UNEMPLOYMENT DURING THE CRISIS IN SOUTH KOREA

Consequences of the crisis on the labor market

Before the end–1997 crisis, the Republic of Korea was the OECD country which experienced both the fastest real GDP growth rate (with an

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4 The Republic of Korea entered OECD as a permanent Member in December 1996.
average of 8.7 percent per annum over the period 1985–95 (Figure 1) and the lowest unemployment rate (only 2.0 percent of the total labor force unemployed in 1996 [Figure 2]). South Korea has often been described as a success story of capitalist development, profiting from the so-called “Asian miracle”5 — even if the recent financial collapse was anticipated by some local economists6. However, things have brutally changed since 1997–98. According to the last World Development Reports, South Korea’s GNP per capita dropped from $10,550 in 1997 to $7,970 in 1998 (World Bank, 1999 and 2000). Consequently, the country’s rank in terms of GDP per capita in PPP dollars fell from 24 to 55.

As a result of the crisis, open unemployment has more than quadrupled between the end of 1997 (October) and the beginning of 1999 (February). This dramatic tightening of the labor market resulted from massive bankruptcies7, large-scale corporate restructuring and dwindling employment in all sectors. Enhanced by a modified labor legislation authorizing layoffs for economic reasons, Korean firms laid off at least 120,000 workers only in 1998 — in fact, this figure is surely underestimated as numerous layoffs seem not to have been registered with the Employment Insurance System which administers the new unemployment benefit scheme.

In February 1999, unemployment peaked at 8.7 percent of the workforce (Figure 3). At that time, more than 1.8 million workers were officially registered as unemployed, corresponding approximately, for two-thirds, to a fall in employment owing to layoffs, early retirements… (1.2 million persons in 1998), and for one-third, to an increase in working-age population (almost 0.6 million persons in 1998).

Given that method of calculating unemployment in South Korea does not include (among others) self-employed whose businesses have gone bankrupt, the real total of unemployed may have been much higher. Following the National Statistical Office (NSO), the unemployment rate would have been (0.3 or 0.4 percentage point) higher if measured by OECD standards. The deterioration of labor market plight was even certainly more severe than suggested by the rise in unemployment because it was accompanied by a significant fall in labor force participation rate8, a shift from formal jobs to informal activities (where labor market conditions are not statistically known),

6 In 1997, the series of Chaebol’s bankruptcies began before the 21 November financial crisis: Hanbo, iron and steel industry (23 January), Sammi, iron and steel industry (19 March), Jinro, beverage (21 April), Daenong, commerce (28 May), Hanshin, construction (2 June), Kia Motors, automobile (8 September), Ssanbangul, clothing (15 October), Haetae, food (1 November), New Core, food (4 November)... Seo, I-J., 2000, La Corée du Sud – Une Analyse historique du processus de développement, L’Harmattan, Paris.
7 A lot of small (healthy) enterprises closed down, because of the “credit crunch”.
8 The participation rate, which is the labor force as a percentage of the total working age population, declined from 62.2 to 60.7 percent between 1997 and 1998. The inactive population had increased by 1.2 million people from 1997 to 1998.
and a rise in the agriculture sector and unpaid family employment (implying a potential increase in underemployment).

The crisis struck all sectors of the Korean economy (as shown in Figure 9) — hardest hit having been construction and manufacturing. Employment losses concentrated among production workers in the industrial sector, with a cut in their number of 632,000 in 1998 corresponding to 53 percent of the “newly–unemployed”. In contrast, the number of managers and professionals has kept increasing. Joblessness affected mostly the young, especially in the 20 to 29 age group. The sharpest rise in the number of unemployed concerned people with little education. As a whole, the decline in “regular employees” (permanent workers and those with fixed–term contracts of up to one year) is estimated by OECD to have reached 0.9 million persons — phenomenon which is “unprecedented in Korea where the ability of firms to dismiss workers was limited prior to the labor law revision in early 1998” (OECD, 2000).

In addition, most of the non–regular workers who lost their jobs in the year after the crisis were temporary or daily employees, whose previous contracts were not renewed or who worked in firms that went bankrupt, principally in the manufacturing and construction sectors (in the poor working conditions “3–D industries”: dirty, dangerous and difficult). Among the newly–unemployed in 1998, 398,000 were temporary workers (with fixed–term contracts of between one month and one year) and 345,000 daily employees, accounting respectively for 33.3 and 29.0 percent of the total. This reflects the very pronounced, striking dualism in the Korean labor market, as pertinently pointed out by Viossat (2000).

One of the outstanding characteristics of the present Korean crisis is to have produced a change in the composition of employment in the country. The time is gone by when job was secure; now, the casualisation of labor prevails. As a matter of fact, many workers shifted from higher wage indeterminate–term jobs to lower wage determinate–term jobs. The number of workers who maintained jobs for one year or longer has been reduced from 7.3 million in 1997 to 6.8 million in 1998. As an example, 70 percent of workers in the construction sector changed their statutory position from a long–term secure job to a short–term insecure job after the crisis. By mid–1998, 6.5 million (just half 13 million workforce) were part–timer employees and contingent working people.

In parallel with the employment fall, real wages in South Korea saw a substantial decline of 12.5 percent from mid–1997 to end–1998, translating the large wage flexibility in the Korean labor market. As a consequence, the share of salaries in national aggregate income sharply fell from 55.0 percent in 1997 to 50.8 percent in 1998, while the share of profits rose from 9.2 to 9.4 percent. In spite of unions’ relative weakness in the 90’s, with a number of unionists falling from 1.667 to 1.402 million between 1993 and 1998, this trend in wages

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9 Those with work experience who have been unemployed for less than one year.
11 The share of self-employed income rose from 33.3 to 37.2 percent over the same period (Atinc, 2000, p. 126).
entailed increasing occurrence of labor disputes throughout the country: 129 disputes, 146,065 workers involved and 1,452,096 working days lost in 1998, against respectively 78,439 and 444,720 in 1997\textsuperscript{12}.

The deterioration of working conditions has been general. The most vulnerable groups who suffered from massive unemployment, lower earnings, and longer working hours, have been the aged, women, and migrant workers. We must bear in mind that, in South Korea, the aged are not many to receive pensions, given the relatively limited extension of pension systems among the retired. As to women, they are steadily become more insecure workers, and were very often the first to be dismissed — despite labor codes provisions\textsuperscript{13}. A significant increase in hardships and abuses of rights of migrant workers has also been recorded\textsuperscript{14}.

**Social impact of the crisis**

The sharp income decline accompanying massive unemployment had a direct influence upon the large fall of purchasing power and a very depressive impact upon households’ final consumption expenditure (Table 1). Besides, the income distribution in South Korea was strongly, negatively distorted by reason of the crisis (Figure 5). According to data from the NSO, with the cut in wages (Figure 4), the four lower quintiles of urban households declined in the first half of 1998. In addition, the lower the income level, the steeper the fall in income. On the contrary, the income of the top quintile has kept increasing over the same period, thanks to higher interest rates in real terms and tax systems.

All estimates disclose a rapid degradation of inequalities. According to OECD (2000), the Gini coefficient of income equality among urban households jumped up from 0.28 in 1997 to 0.32 in the first six months of 1998. If the figures furnished by the World Bank (2000) exhibit a Gini index for urban households income registering a smaller rise from 0.271 to 0.301 between 1997 and 1998, the magnitude of the gap between rich and poor could be here underestimated by the fact that national income data is available only for urban households where the family head earns a salary.

Data given by Prescott and Kakwani (2000) underline the extreme vulnerability of the poorest and a significant increase in the number of the “ultra poor” (households with per capita consumption at less than 80 percent of the poverty line) between pre– and post–crisis: the latter were 3.0 million in 1998, against 1.1 million in 1997. The number of “marginal poor” (those with per capita consumption at 80–100 percent of the poverty line) rose from 1.7 in 1997 to 3.3 million in 1998; that of “poor” (those around the $8 per capita per day in PPP dollars subsistence level of income) from 2.8 to 6.2 million; and that of “near poor” (those with per capita consumption at 100–120 percent of the poverty line) from 2.7 to 4.1 million. At present, homelessness is


\textsuperscript{13} Such is the case of the Equal Employment Law and Labor Standards Law.

\textsuperscript{14} Now, there may be more than 100,000 illegal foreign resident workers in South Korea.
widespread in the largest cities of South Korea, phenomenon *quasi* unknown before the crisis\(^{15}\).

Indeed, South Korea experienced a sharp increase in the proportion of poor in cities\(^{16}\), increasing from 7.5 percent in the first quarter of 1997 to 22.9 percent in the third quarter of 1998 — and returning to 15.7 percent in the last quarter of 1998 (more than twice the rate of the pre–crisis period). Thus, poverty incidence rose from 9.6 percent in 1996 to 19.2 percent for the whole year 1998. The Korea Development Institute (KDI) indicate a percentage of urban households below the poverty line rising from 3.5 to 7.5 percent between the beginning of 1997 and the end of 1998; but the stretch of poverty is underestimated in these estimates, that paradoxically do not include unemployed. Both ILO (1998) and UNDP (1999) data show a rise in poverty to more than 12 percent of the population, corresponding to 5.5 million persons.

The effects of the crisis have been sensitive even in the educational system. In a context where public schools charge fees, the registrations in the primary level and in the first cycle of the secondary level regressed from 1997 to 1998\(^{17}\). The proportion of unemployed, low–income households who have withdrawn their children from school as a result of the crisis is estimated to be at least 10 percent. In upper classes, drop–outs have reached impressive rates in 1998\(^{18}\). These changes intervened in a period of decline in educational public spending. The *Korean Statistical Yearbook 1999* shows a share of education in government expenditure reduced over the period 1996–98 (NSO, 2000), while the World Bank (2000) points out that the ratio of 1998 to 1997 decreased at 94.2 for education, and at 96.8 for health. This evolution is rather worrying, if we believe the new growth theories which emphasize the engine role of education and human capital accumulation in long–run growth\(^{19}\).

Some of these adverse effects were attenuated by family transfers of funds to the poorest, as unemployed relying on support from families are estimated to have exceeded 50 percent. However, it should be observed that the traditional family structure itself has been damaged. For instance, one registered an recent outbreak of domestic violence\(^{20}\), divorce, child abandonment and abuses...

Suicides suddenly went up from a monthly average number of 620 in 1996 to 15  For example, Godement (2000) reports that the number of homeless living at the Seoul central railway station was registered at 3 000 in August 1998 (p. 10).\(^{15}\)

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\(^{16}\) This poverty incidence is derived using national poverty line, based on consumption expenditure, and calculated for urban households only.

\(^{17}\) For example, the number of students enrolled in the middle school knew a 6 percent decline, falling from 2.012 million in 1997 to 1.897 million in 1998.

\(^{18}\) As high as 36 percent in some sections of the upper school.


\(^{20}\) Seven times more complaints at the office for urgent calls destined to women have been recorded in the only year following the crisis.
more than 900 in 1998. The crisis has had other socially destabilizing impacts, in terms of social tensions and human suffering for which unemployment is cited as one of the major reasons. Offenses in criminal code rose by 17.2 percent (and violent offenses by 14.5) between 1997 and 1998. Juvenile delinquency followed the same tendency: +17.5 percent for property crimes committed by young of age 18. It is needless to emphasize that the crisis did not cause all these issues; but these accumulated indicators reveal the dire plight and social unrest in the Korean society owing to the end–1997 crisis.

**Labor market policies**

South Korea’s government has coped with economic and social problems through a range of policies, whose general objectives were: *i)* to slow inflation and control money supply (by tightening credit, raising interest rate, increasing savings and removing indexation); *ii)* to reduce budget deficits (by increasing taxes and cutting expenditure and subsidies for the public sector); *iii)* balance foreign payments (by devaluing the exchange rate). This ongoing austerity program, induced by the international organizations’ approach, was integrated within the framework of a liberalized policy, implementing measures such as restructuring of the financial, public and labor markets, privatization, deregulation, and openness to foreign capital. Regarding the labor market, the core of this market–oriented policy is to increase employment flexibility, through the implementation of free layoff provisions and determinate–term employment in a renewed labor legislation. As a matter of fact, prior to the crisis, South Korea has had a high degree of wage flexibility, but compensated by a strict employment security.

As a consequence, the labor law revision established, through the *Basic Employment Act* adopted in February 1998, the right of firms to lay off workers in case of “urgent managerial needs”. The latter cover, among other situations, deteriorating business conditions that may force the firm into bankruptcy, re–organizations performed to increase labor productivity and/or new technology that justifies a reduction of the workforce. Business transfers, mergers and acquisitions have also been recognized by court decisions to be “managerial reasons”. Firms in state of managerial difficulties that want to made use of layoff as a first measure to reduce production costs, are required to give 60 day advance notice to the workers’ representatives (on the efforts taken to avoid layoffs and on standards in selecting dismissed workers) and notify the Ministry of Labor in some cases.

Nevertheless, in 1998, only 10 percent of the 120 000 employees reported by the Employment Insurance System were registered following this procedure, testifying that very few companies notified the Ministry before carrying out layoffs and that most layoffs involved too few workers to require notification.

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21 Precisely: if layoffs exceed 10 employees in firms with less than 99 employees, 10 percent of employees in firms with between 100 and 999 employees, and 100 employees in firms with more than 1000 employees.
Besides, illegal labor practices by the abuse of the newly legalized layoff system tended to have widely spread out: according to Ministry of Labor, of the 233 cases received and settled by its offices for reasons of layoffs, 89 were decided as unfair dismissals, accounting for 38.2 percent of the total.

Concurrently, the government has provided part of wages (two-third for small workplaces, one-third for large ones) to firms that hired workers dismissed for “adjustment need”, and various wage subsidies to employers who try to make maximum efforts to retain redundant workers and avoid dismissals, in particular by reducing wages and bonus payments, suspending recruitment, cutting working and extra hours, closing temporarily, dispatching workers to affiliated firms, or promoting early retirement of consenting workers. In 1998, almost 4 200 firms received such subsidies concerning a total of more than 780 000 workers. The duration of subsidies has been temporarily boosted by the government from 6 to 8 months during the first half of 1999. Funding for this program of wage subsidies is covered by a payroll tax on employers equal to 0.3 percent.

A Public Employment Service has been promoted with the purpose to improve job placement. However, their placement ratio in 1998 remained inferior to 10 percent of the job seekers, and even weaker for “3–D” low wage workers. This poor efficiency suggests a huge lack of employees in these public agencies: more than 8 000 unemployed per staff. Concurrently, private agencies were allowed more and more widely to provide employment services to job seekers in the labor market. In 1998, more than 1 650 fee–charging offices were in charge of 1.435 million job seeker files, with limitations on employment categories concerned by their activities progressively eliminated since the beginning of 1999. However, some of these agencies have been criticized for their behavior of “grant–catchers”.

Employment flexibility has also been facilitated by the permission to operate granted to private temporary worker agencies, by the Manpower Leasing Act of February 1998. About 800 of these agencies have been in function since mid–1998. They are able to employ “dispatched workers” (employed by the temporary worker agency and sent to work at another company), whose number reached 42 000 by the end of 1998. Rules governing their contracts are much more flexible than in most other OECD countries: for instance, no limits are fixed on the employment period of such workers.

The government has strongly encouraged early retirement after the crisis. Some companies (about 15 percent of all firms) gave children of early retired systematic preference in hiring. Hence, more than 260 000 workers retired “at the recommendation of the employer” in 1998. That is the main reason why the 50 to 59 age group knew a large fall in employment in 1998–1999.

In a general context of rapid restructuring of the Korean economy, vocational training has been expanded systematically by the government after the crisis, in order to strengthen and adapt the qualification of the labor force. Funded both by a tax on employers (set at 0.1 to 0.7 percent of the payroll, depending on the size of the workplace) and at public expense, this program absorbed about 15 percent of the total budget on labor market policies in 1998,
and again more than 10 percent of the 68.4 percent increased spending in 1999 (Table 3). The benefits paid during the training to participants not qualified for unemployment insurance vary from 60 to 90 percent of the minimum wage. People covered by the unemployment insurance are eligible for three-step “re-employment training” program lasting from a one month to one year and during which training allowances are progressively reduced\(^{22}\).

Nevertheless, the total coverage of the vocational training program indicates, with 340,000 trainees in 1998, that only about a quarter of all the unemployed received such vocational training since the beginning of the crisis. Moreover, only 134,000 persons who participated to the program finished their courses, among whom less than 27,000 succeeded in finding a new job. A program of “vouchers to pay for training” (in 1998) and a “tailor-made training system” (in 1999) were also launched in order to increase the proportion of hired trainees, to suit courses to the needs of business, and to develop competition among training centers (including colleges, universities, and traditional educational institutions).

In 1998, more than 437,000 public works jobs were created by central and local governments. These jobs, with a duration of 4 to 5 months, intended to be beneficial for society and provide community services, such as repairing public buildings or taking care of environment… The wages paid ranged from about 50 percent of the minimum wage for unskilled labor (former industrial daily workers) to approximately 60 percent of the average non-farm earning for skilled labor (unemployed university graduates). Participation in this program, for which the number of applicants exceeded 650,000, was destined in priority to low income and few asset unemployed with dependants.

In spite of critics concerning the occurrence of public works jobs going to ineligible candidates, the government decided to intensify this employment creations, focusing in the first months of 1999 — when the problem of joblessness was the most acute. The efficiency of this policy to reduce unemployment rate seems to have been impressive, even if the jobs created are only short-term ones. This reflects the fundamental, constant preference of the Korean authorities for creating jobs rather than assisting unemployed. As announced by the Economic Intelligence Unit (1999), one means by which additional (short-term) jobs will be created in the next months is for Korea Telecom and Korea Electric Power Corporation (both state-owned) to invest massively in new infrastructural projects related to their businesses\(^{23}\).

Even if some had questioned its necessity and expressed their reluctance for the constitution of a “Welfare State” in South Korea, the government decided to implement a series of assistance programs dedicated to low income, weak assets unemployed households (Support for Living Costs, Temporary Livelihood Protection for unemployed, various loans provided by the State for housing or to start a new business, assistance for the payment of tuition fees or

\(^{22}\) These benefits are cut in half during the second period of courses and fully canceled during the third one.

\(^{23}\) South Korea, Intelligence Economic Unit, 2nd quarter 1999, p. 22.
school lunches…), and finally a “Livelihood Protection Program” — for which unemployed are strictly excluded.

Indeed, the goal of the Livelihood Protection Program is to assist people “unable to work, such as the handicapped, the elderly, and children”. Are ineligible for this governmental support all persons whose income exceeds a certain amount (corresponding to about 20 percent of the average non–farm wage) and who have family members capable of providing them assistance. Even if this program accounted for W 1.45 billion in 1999, advantageously comparing with the W 1.50 billion for unemployment benefits (Table 3), the average allowance remained extremely modest, clearly below the national poverty line. According to Ministry of Health and Welfare, in 1999, benefits under this scheme ranged from a minimum of $ 44 to a maximum of $ 124 per person and per month (depending on income level and the number of persons in the household). Besides, this ongoing program has come up against difficulties, as pointed out by many observers. Hence the stress laid by Atinc (2000) on its relative inefficiency: “the incremental budget of the Korean Livelihood Protection Program only reached 7 percent of the new poor while total coverage (i.e. for the former and new poor) dropped from 32 percent prior to the crisis to just over 17 percent in 1998”24. We will see that this is also the crucial problem encountered by the new social safety net.

**Improving the social safety net**

Until very recently, South Korea had no *lato sensu* social security system nor *stricto sensu* social safety net for the unemployed, testifying for the social *laissez-faire* of the authorities. During a long time, the only significant welfare scheme at the disposal of the Korean employees was the *Industrial Accidents Insurance*25. As we said, the first priority in the welfare policy of the Korean government has always been job creation26. This key role of employment in welfare was enhanced by various, numerous firm–level welfare provisions27. In this way, South Korea ranked in the 80’s among the lowest in the world in terms of the share of social spending in central government expenditure (e.g. 8.1 percent in 1985)28, reflecting the very low level of social security outlays in Korea, and the absence of an extensive social safety net.

In these circumstances, the recent expansion (since March 1998 and the “Comprehensive Countermeasures against Unemployment” policy) of the

25 The existence of this Industrial Accidents Insurance both revealed and encouraged hard working conditions in South Korea.
27 The active promotion of firm–centred welfare schemes include provision of secondary education on company premises, dormitories, medical facilities…
Employment Insurance Scheme must be seen as closely bounded up with — or even at best as a compensation for — the unions’ acceptance of labor market flexibilization and relaxation of long–run secure jobs. These last measures, legislatively adopted in February 1998 under OECD Jobs Strategy recommendations, are components of the global liberalization of the Korean economy, implemented to cope with the crisis. But they were still part of the struggle led by the Korean employers’ organizations since the end of 1996 in favor of “flexible work hour system” (introduced as soon as 1997) and free–layoff procedures “in specified circumstances”. The institutionalization (and in some extend the improvement) of the main elements of a social insurance system — and in particular the insurance employment scheme — was designed to moderate social unrest which has been stretching for the late 80’s\textsuperscript{29}.

Thus, the inception of an unemployment benefit scheme by South Korea on 1 July 1995, under the terms of the Employment Insurance Act adopted in 1993, directly resulted from the huge wave of strikes and labor protests of the years 1987 and afterwards\textsuperscript{30}. Thus, when the financial crisis struck in 1997, South Korea one of the four South–East & Pacific Asian countries (with Japan, the People’s Republic of China and Mongolia) having any form of unemployment benefit scheme.

Nevertheless, this scheme was completely overflow by the explosion of massive unemployment and the lengthening of its duration. Until March 1998, about a third of the Korean employees were covered by this formal benefit scheme, but only 7 percent of the unemployed received an allowance. The serious worsening of the crisis on the labor market stimulated its exceptionally rapid extension by March 1998, with the promulgation of the Wage Bond Guarantee Fund Act and the Labor Welfare Fund for Small and Medium Enterprises Act.

The State–managed compensation fund is financed by a contribution based on total payroll and shared equally between employers and employees. The contribution rates are variable according to the size of the company: 0.9 percent for the small firms, 1.1 percent for the medium–sized firms, and 1.3 percent for the large firms. Initially, the Act fixed a contribution equal to 0.6 percent of payroll, and a maximum at 1.5 percent for the contribution that could be levied. From March 1998, Parliament revised this maximum upwards to 3 percent of payroll. By 1999, a rise in the contribution rates was not necessary given the still limited amount in these expenditures.

The unemployment benefit (“job search allowance”) is half of the worker’s salary during the month prior the dismissal. In March 1998, the minimum amount was raised from 50 percent to 70 percent of the minimum wage, corresponding to W 240 000 a month. As the minimum wage is about 25

\textsuperscript{29} A national pension scheme was established in 1988 — but few Koreans are covered until now). The scopes of the Industrial Accidents Insurance (created in 1964) and the patchy Medical Care System (implemented in 1977) were also extended.

\textsuperscript{30} This scheme replaced a former small–sized scheme, the Severance Allowance System, which served both as pension fund and unemployment allowance destined to facilitate insertion of the young in the labor market.
percent of the national average manufacturing earnings, the minimum unemployment benefit is equivalent to 17.5 percent of average manufacturing earnings, which remains obviously extremely low. The maximum set at W 1 050,000, that is to say 80 percent of the average manufacturing wage. The average benefit level is then comparably lower to that in other OECD countries.\(^{31}\)

The duration of unemployment benefit entitlement remains relatively short, translating the view that the scheme should be an incentive to job seeking rather than provide long–term income support\(^{32}\). It is calculated on age at dismissal and length of the period insured: from 2 to 5 months for employees under age 30 depending on the enrolment time in the insurance system (2 months for a 1–3 year period insured, 3 months for 3–5 years, 4 months for 5–10 years, 5 months for 10 years and over); from 3 to 6 months for workers aged 30 to 50; from 4 to 7 months for workers over age 50. Unemployed whose benefits expire between July 1998 and June 1999 were eligible to receive benefits for a special two–month extension — period prolonged until the end of 1999.\(^{33}\) In June 1999, the minimum contribution period of insurance required to qualify for unemployment benefits was shortened from one year to 6 months.

To encourage job search, the State pay to those who find a new job within less than half the period for which they are entitled to benefit an early re–employment allowance — the lump–sum allowance being equal to one-third of the remaining unemployment benefit entitlement.

The coverage of the Employment Insurance System was initially limited to workers in companies with 30 or more employees. The scheme was further expanded in three steps: from 1 January 1998, to firms with at least 10 workers; by 1 March 1998 (after the legislation revision increasing labor flexibility) to firms with more than 5 workers; in October 1998, to enterprises with fewer than 5 workers, that is to say to all companies. Thus, the coverage of the insurance scheme increased from 5.7 million employees in January 1998 to 8.7 million in December 1998. From 1 July 1999, temporary workers (employed at least one month per year), part–timers (working more than 18 hours a week), and daily–paid employees (who work less than 30.8 hours a week), were covered. Categories excluded are: public officials (who enjoy exceptional security of employment), teachers at private schools, postal service workers, new workers over age 60, and workers over age 65.

The Employment Insurance Scheme has been conceived to articulate with two other measures of the program against unemployment, which compensate partly the insufficiencies linked to the slowness of its expansion: public works jobs and vocational training. Thus, at the expiration of unemployment benefits,

\(^{31}\) As ILO notes, this scheme allows for “some vertical redistribution of income by having a maximum benefit but no maximum contribution” (ILO, 2000).

\(^{32}\) The minimum benefit period was doubled to 60 days in 1998. Before the crisis, the duration was set at between 30 and 210 days.

\(^{33}\) For example, a person of 30 to 50 years old, who has been in the Employment Insurance Scheme from its establishment in July 1995, would receive benefits for 4 months, plus the 2–month extension, that is to say a total of 6 months.
each unemployed person is eligible for public works jobs and for vocational training. As a consequence, unemployed are able to be covered potentially during a period of assistance of up to 18 months taken as a whole. Nevertheless, as OECD acknowledges, “in practice, such an extended period of assistance has not been available to most unemployed”\(^{34}\).

As a matter of fact, the unemployment insurance scheme, even extending, still appears to be extremely modest: the benefits are weak, the periods of application remain very short, and, until recently, not all employees have not benefited from unemployment insurance, particularly the most vulnerable workers (the temporary and daily employees for example). Moreover, workers earning low wages and employed in small enterprises — employees in firms with less than 5 workers numbered 6 million and represented about 45 percent of all workers of the country in 1998 — failed to be covered during the first twelve months of the crisis.

Many workers who have lost their jobs without receiving redundancy payments and with very little or no social security. In actual fact, despite the rapid extension of the coverage of the Employment Insurance System, only 266 000 persons, \(i.e.\) just less than 15 percent of the unemployed, received benefits in 1 January 1999, at the very worse period of the crisis. According to Atinc (2000), “the number of unemployment insurance beneficiaries increased but still stood at a low 10 percent of the unemployed labor force in March 1999 (up from 1.9 percent initially)”\(^{\text{a}}\). Bidet (1999) reports that no more than 12.5 percent of the unemployed effectively perceived allowances by June 1999. Estimates reveal that the unemployment allowance mobilized, from June 1996 to June 1999, the equivalent of $1 billion, destined to approximately 700 000 persons, that is to say $1 500 on average by beneficiary over the 3 years period. This proves again the extreme modesty of this system — without even speaking about the lack of equity of this scheme. At the beginning of 2000, almost 8.6 million workers, \(i.e.\) 70 percent of all workers, are covered by employment insurance.

**LABOR MARKET POLICIES AND SOCIAL PROTECTION IN EUROPE: SOME RECENT TENDENCIES**

The preceding section underlined the challenges and the adjustment burdens in the Korean experience. Even if it witnesses a high degree of policy activism, such an economy is clearly facing tight constraints, notably because it belongs to a weakly integrated area, with strong dependencies regarding the business cycles, little stabilization tools and little concerted policies.

The contrast of course is sharp with the more and more integrated European zone, even if many observers agree on the remaining coordination problems: beyond the ongoing monetary integration, the question of harmonizing the budgetary and social policies is still open. However, we will try to show the

relevancy of some European evolutions regarding active labor market policies as a tool for fighting against unemployment and for adapting labor markets to changing conditions.

In this section, we first introduce some brief statements about the possible ties between social protection and macro-economic shocks. Then we analyze some recent tendencies affecting European LMP. As a third point we introduce the concept of « transitional labor markets », and last we briefly illustrate our perspective by a brief discussion, in the light of TLM, of the ongoing reform of French unemployment insurance (mid-2000).

**Macroeconomic shocks and social policies : new and old challenges**

It is widely recognized that the traditional adjustment policies in European economies can no more be implemented as before. The construction of an integrated monetary zone and the existence of a single currency simply precludes separate national monetary policies (the use of interest rates and devaluations). These tools are to be used by a single authority, taking into account the whole European situation. Budgetary weapons are left to memberstates, by within strong constraints (cf the Maastrich criteria). So, if a demand or supply shock hits some sector, and if this sector is particularly important in a given country, it may be quite possible that this country cannot react with the classical macroeconomic tools.

Such a situation is not yet fully evident because at the moment (year 2000) the construction of the single currency is not completed and because the European zone so far has not received important sectoral shocks. But the question will inevitably arise of the available responses in the case of such events. It is clear that income losses, consumption cuts and labor market adjustments are the most likely candidates in this context.

In a country witnessing for example a sharp decline in the activity level of an important sector, if it is not possible to find other clients by devaluating and stimulating exports, and if the internal market is simply maintained, plant closing will become necessary, leading to a rise of unemployment, the mobility of workers looking for other jobs and/or leaving the region, to a rise of transfers, some efforts for developing other activities, and to wage and income cuts. The key question is of course the relative importance of each reaction element. If wage and income cuts predominate, there are risks of reinforcing inequality and depressing the demand within the concerned area.

So, in the European case, the policy responses necessarily combine at least three levels : a supra-national (federal ?) level, for the monetary decisions; a state level for budgetary decisions and for transfers, and a local-regional level as regards workers mobility, wage adjustments and the developing of new activities.

The labor market adjustments, at a regional/sectoral level, take more and more scope in this context. This evolution is interesting for Korea and other

35 A conspicuous exception is the 2000 oil shock. However it hits the whole European zone.
east-Asia countries because, even if they develop contracyclical policies, these nations face many constraints when they endeavour to define and implement macroeconomic policies. And, somehow paradoxically, we can more easily compare today some European evolutions, within the ongoing European integration process, to the east-Asia challenges, than ten years ago.

The adaptation potential of labor markets, considered with their ties to social policies and social protection, then becomes a question of growing importance and a new challenge.

Consider for example the connections between non paid socially useful activities (domestic tasks, childrearing, benevolent activities), the informal economy and the official economy. It is well-known that such activities, together with formal and/or informal transfers, may act as a buffer in the case of adverse shocks. Three government reactions can occur. The first is to leave the existing buffers react : family help, solidarity networks... The second is to directly promote some buffers : public works, parental leaves, early retirement... The third is to foster local/regional negotiations on coordinated sets of locally adapted opportunities.

In a nutshell : the first two reactions correspond to “old” challenges : either no intervention, or full, unilateral state involvement. The new challenge is, for a given community, to reach negotiated arrangements controlling for the risks of increasing inequality and social exclusion, as well as limiting the costs and the irreversibility of the programs.

« Activation » and negotiation

The wide diversity of European choices and institutions regarding social protection is mirrored in LMP36. Most European countries are high spenders, and keep developed programs even in periods of high employment level, while others are less willing to engage in such interventions and promote temporary schemes. There is no sign of convergence towards a unique model. At the turn of the century the strong diversity of efforts and arrangements is maintained. For example, Denmark keeps a very high level insurance protection against unemployment (but sets practically no obstacles to dismissals) and offers a remarkably developed (and costly) set of « active » interventions, i.e. training, subsidies, and placement measures. Other countries chose a different way, and offer more protection to employees, but unemployment benefits with less generous replacement rates, and less opportunities in terms of placement and retraining programs. Some of them strongly rely on early retirement, and/or introduce part-time jobs, and/or introduce retirement age and/or working time regulations, while others deliberately avoid such interventions.

Even so, the dominant traits of the European behavior towards the employment relationships and the labor market are : the strong presence of the

social partners, often involved in the management of social insurance schemes; the existence of minimum wages regulation and minimum incomes programs, avoiding too much income inequality for the less employable; and a clear priority given to training and fostering a high-skill workforce.

Two main tendencies affect LMP in Europe, especially since the nineties. The first is « activating », and the second is decentralizing. A third tendency, less important, goes towards privatization and competition amongst employment agencies.

Away from superficial evidences, « activating » is a complicated and diversified process37.

We have to recall the well-known distinction, diffused by many studies, notably from the OECD, between « active » and « passive » components of LMP. Are considered as “passive” the programs which aim at compensating the negative effects of unemployment: income maintenance and unemployment benefits, but also the programs aiming at withdrawing undesirable candidates on the labor markets, such as ageing and redundant workers, or migrant workers. Symmetrically, the « active » measures correspond to programs aiming at curing the labor market situation, by creating new jobs, or bettering the matching process: public jobs, employment subsidies, placement, training of the unemployed.

So, the apparent evidence goes: it is always better to pay people in order that they do something, not because they are doing nothing. It seems to make sense promoting « active » measures and seeking the shortest way of limiting « passive » expenditures. Another basic argument says that LMP expenditures ought to be limited anyway, because they are financed by resources that otherwise could generate jobs more directly, especially if they are financed by firms’ contribution. More sophisticated concerns include disincentives, especially when the income guarantees are combined with other transfers or rights.

However such orientation i) does not rely on a clear distinction and ii) may lead to very different interventions.

It is easy to remark that if the unemployment level is high, training programs may function without employment opportunities and may end in pure income maintenance programs. Even with some reemployment outcomes for the trainees, their net effect may be null if they simply change the pecking order of the group looking for jobs. Some « make-work » programs can fall under the same critic if they bring no useful work experience, and almost no production. They are equivalent to income maintenance programs with a punitive/deterrent component. Symmetrically, it has long been recognized that unemployment benefits, properly managed, do have a matching function and may be considered as an investment for a good matching process, enabling people to find durable jobs.

So the idea of promoting « active » measures while limiting the « passive » ones, although appealing, needs further elaboration. Quite different, and even opposed strategies have been implemented under this brandname. A first example is the « New Deal » enacted in U.K. by the Tony Blair government in 1998. Focussed on youth, this policy package introduced a series of options and opportunities: subsidized jobs, publicly financed jobs in environment-preserving interventions, taylor-made training … and excluded from any financial help the young people keeping out of the proposed « options ». We evoked above some of the Danish choices, which fall evidently under the « activating » banner. Typical of this approach are the « Job rotation » programs, helping ensuring that nobody stay durably on the rolls without any training or work experience. They organize on a big scale voluntary paid, six-month or one-year, leaves for training or childcare purposes. And they allow the replacement of the leaver by a previously trained unemployed. At the end of the leave period, the previously employed person gets back to his or her work. But the unemployed got six months or one year of work experience and employment relationships, a possible network, and can more easily find another work. The net effect of this rather costly and sophisticated device combines a pure sharing effect (the leave and the replacement) with a re-homogeneizing process of the labor market, helping some stigmatized and discouraged persons. While back-to-work pressures on unemployed can be found in Denmark as well as in U.K., they do not have the same meaning not the same operating way. The « workfare » component is absent from the Danish LMP, the opportunity set is richer, and adjustments are made on a voluntary basis. The quality of « activating » depends much on the expertise and opportunity networks and its non-compulsive versions rely on a well-developed public employment service.

Another notion, at least as ambiguous as « activating », and closely related to it, is « employability ». Without getting into details, employability enhancing policies are interventions on the supply side of the labor market (the worker) designed to improve recruitment and ease employment decisions. They insist on individual, Taylor-made and future-oriented interventions, including personal check of competencies and potential, and sequential, accompanied retraining trajectories elaborated by employment agencies specialized workers. These elements are more or less agreed upon by the beneficiary. In its 1998 « Guidelines », the European Commission promoted such an « activating » and « employability-enhancing » approach as a first set of common minimal objectives given to the memberstates in the LMP field. It was a benchmarking initiative: concretely, each memberstate had to propose to every adult unemployed for more than one year, a competency check-up and a personalized way back to employment; the same self-obligation held for youth with more than six months of unemployment. The last target with quantitative indicators was a minimum of 20 % of the unemployed to be engaged in training or retraining programs. Each memberstate has to elaborate a yearly report about

LMP, showing that the objectives had been reached or explaining the reasons of non-compliance.

The decentralizing trend is closely complementary to the preceding one and can be dealt with more briefly. « Activating » means developing taylor-made schemes, and its implementation needs important degrees of local discretionary initiatives. We noted the increased weight of regions in more integrated Europe. The decline of nationwide regulations, the constraints put on state budgets deficits, and the emergence of supranational policy and institutions, lead to a greater differenciation of regional reactions to various supply and demand shocks affecting the European economy. So we observed that the regional level may become the main adjustment level as regards the labor market imbalances. The first form of decentralization, frequently observed, is the globalization of the budget of local employment agencies, left free to choose amongst a list of programs.

Such a trend may also lead to create some competition between local agencies, but, as proved numerous experiences, the targets must be carefully fixed and detailed. Otherwise the road is open to perverse effects such as « creaming »: placing the easiest to place, training the easiest to train. Ultimately, privatization could appear in some countries as a mean to foster competition and innovation in a field often criticized for bureaucratic biases. The main case here is again U.K., while Germany illustrate the initiative power of local « Länder », and France explored the way of global budgets for local agencies.

However, the recent European employment revival leads to bring some complements to this « activist » perspective.

The first nations able to reach good employment performances during the nineties were some small countries : Austria, Denmark, Ireland and the Netherlands. With considerable differences, each managed to early curb down the unemployment curve, and escaped from the often evoked « European disease ». Amongst the common traits shared : a connection between LMP and relatively stimulating macropolicies, a combination of income protection and overall wage moderation, obtained through a long, time-consuming bargaining process. So the keyword here becomes negociation, together with an « activating » stance maintaining « passive » expenditures.

Since 1998, the fall of unemployment became generalized, and blatantly due to a clear return to growth of the whole European zone. Then it becomes difficult to select a national experience that could be presented as a « model »: as remarked J.P. Fitoussi and O. Passet in a comparative study made for the French Council of Economic Advisers, the proposed success models changed very quickly over time: first egalitarian Sweden, during the eighties (with little wage differenciation and the most developed « active » LMP in the world), then the USA (with strong wage differenciation and a LMP budget ten times lessen), then the Netherlands and their « Dutch miracle », to some extent U.K.,

and now the mostly liberal Ireland and interventionist Denmark… Other nations maybe wait their time.

The main lesson to draw from such developments is that LMP are under pressures and undergoing evolutions, but they had and still do have their role in combating unemployment. Their various more or less ambitious versions correspond to deliberate social and political choices limiting the scope of market adjustments. But their efficiency seems closely connected to macropolicies stimulating growth, and it seems more and more that their success depend on a negociated process of global decisions and implementation. However, bargaining by itself is not a guarantee that proper decisions had been taken: some « corporatist » attitudes may obviously lead to foster vested interests, and in decentralized contexts, there is the risk of increasing the inequality between regions or communities.

« Transitional labor markets » as an emerging regulatory idea

Such experiences with their success and pitfalls can be examined with a more evolutionary point of view, and connect some possible transformations of the labor market with these trends of LMP changes.

With the risk of oversimplification, it may be observed that the usual stabilization basis on the labor market is shifting in Europe (and presumably elsewhere), from big firms offering long-term jobs, to networks offering shorter employment contracts but richer re-employment prospects. This new career profile seems associated with the expansion of services economy, with the feminization of the workforce, and with the need to be periodically re-trained. Other factors include the trend towards more workers’ autonomy and responsibility, the increase of result-sensitive components of wages, the limitation of the number of hierarchical levels and the intensification of competition and of shareholders’ pressures.

In such a context, some workers’ preferences also shift towards more discontinuous careers, which can evolve from one project to another, as well as include personal or family leaves.

We may name « transitions » any departure from the classical full-time employment situation, either part-time working, or parental leave, or training period… and name « transitional labor markets » the social, more or less negociated processes creating, and allocating the « transitional » slots.

This perspective has been initially proposed during the nineties by the German economist Günther Schmid, and inspired a host of studies, much of them financed by the European Community. We can only here briefly sum up some critical points, in connection with LMP.

Two main solutions are possible as regards the management of « transitions ». If we start from big firms’ practices, we observe that most often they offer to their workforce a wide set of options concerning their career and compensation. A luxury version is the sequential trajectory offered to highly qualified new entrants, with a first period of travelling around the world in order to get some knowledge of the multiple activity areas of the firm; then a first occupation in a non-exposed environment, followed by a position with more responsibility, then a complementary diversification before trying high level challenges. Such a profile may be combined with some leaves, for acquiring missing skills or for childcare… As regards compensation, a number of diversified tools such as premia, stock-options, pensions funds menus… can be adapted to each situation and demand.

A first solution then is simply to allow for contractual variety, i.e. leave the labor market actors conclude for themselves agreements on « transitions ». The problem of course is that the luxury version evoked above is only relevant for some big firms. Two drawbacks appear. First, most of the workers may only be faced with few, weakly desirable or even « bad » transitions, i.e. ill-paid and stigmatizing slots. Second, a number of externalities could be missed : as seen in the case of the Danish job rotation scheme, my mobility may be a condition for your mobility.

« Transitional labor markets » (henceforth TLM) are the second solution. They appear when labor market actors go further than contractual variety, and engage in defining and co-financing transitional positions through negociated arrangements. Transitions traditionally take place in five fields : transitions inside employment (from full-time to part-time, from salaried employment to self-employment), transitions between training institutions and employment (either initial transition, such as apprenticeship, or retraining), transitions between unpaid socially useful activities and employment (childcare, but also benevolent or militant work), transitions between unemployment and employment (job search), and last transitions between retirement and employment.

We can use this last field in order to illustrate the approach. An important and controversial LMP is early retirement, a fashionable policy in countries with an ageing and strongly stabilized workforce. However, this is not, besides some exceptions, the TLM option. Early retirement is a costly and irreversible arrangement, often proposed to people with no alternative. There is no, to our knowledge, systematic evaluation on the short-term and long-term effects of early retirement. French dispersed evidence suggests that three categories of fates must be distinguished. First, for low-skilled and vulnerable older workers, early retirement could be a positive deal : they receive state payments for a social « resting » policy. At the other end of the spectrum, some highly qualified workers can take advantage of the device, even if they would prefer to go on working : they benefit for a rather high level purchasing power, and are free to look for pleasant unpaid social activities (travelling…). The most negative aspects appear for the intermediate category of traditional skilled workers, often strongly attached to their professional life and their enterprise,
and so-to-speak condemned to inactivity and social reclusion. So the overall balance may well be mitigated in the short-term and negative in the long run.

The TLM approach is to ensure that other alternatives had been proposed to older redundant workers, and to develop part-time early retirement, with complementary part-times, i.e. offered by nonprofit institutions. Such arrangements are of course more complicated to implement than « pure », full-time early retirement. It is costly for recruiting firms to keep space and occupation for the half-timers, and important adaptation is required from workers. But besides the drawbacks evoked above (and others such as the distortion of the age structure of the firm) « pure » early retirement is remarkably costly for the state. In the TLM option, co-financing of complementary part-times is possible with the participation of municipalities, non-profit institutions. So there is less cost for the state. Additional output and maintained social integration easily compensate for additional organization and adaptation costs. And the arrangements remain flexible and can vary over time. The main point is to avoid costly irreversibility and to foster other credible opportunities for the « clients ».

We may now connect the TLM with labor market policies in general. Labor market policies represent unilateral, state-elaborated and implemented, and incomplete versions of TLM. LMP introduce co-financing with the public intervention. If we consider the trend towards « activation » and negotiation, we can see that they are not yet appropriated by local actors. LMP keep often managed in a separate way, while the idea of TLM is to organize in a systematic manner a whole set of transitions.

TLM are emerging as a regulatory idea. It means that they are a normative perspective, rooted in actual trends, opening new questions as well as contributing to solve social policy debates. Here are three typical fields of the questionings and contributions opened by TLM.

TLM implementation of course faces numerous classical problems, among which the key questions of financing, incentives and inequality.

As regards budgets and financing, TLM development may start from redeploying the existing public funds for LMP, and introduce co-financing by firms, individuals and local communities (municipalities, NPO networks…). Their orientation is not no expand public funding, and in a pragmatic way they seek to combine it with other contributions. The question of the optimal level of public financing in the long run is still open; it depends much on the development level of various actors.

Sequential by nature, TLM allow periodical re-examination of the situation of each worker, and a « good » transition fosters long-term employability. So the catchword is not « making work pay » but « making transitions pay ».

Their main risk, since they have to be managed at a local/regional level, is the possible inequality amongst regions: the « rich » ones proposing « good » and various transitions, while the poorer ones have a limited menu of rather « bad » transitions. A possible solution is to organize transfers (within the state...
contribution) according to the intensity of local unemployment and poverty problem\textsuperscript{42}.

Another important remark is that TLM set an important room of manoeuver for gender concerns. Here again the Danish job rotation example is relevant, because it underlines some important limitations of most jobsharing initiatives. Most of the leaves are taken by Danish women, thus increasing the distance between male and female career prospects. Important part of the problems faced by employed woman are the dearth, in their careers, of available options and the presence of constrained arrangements (schedules, lack of promotions…) and a distorted competition with men. The other side of the question is the more or less intense involvement of men in household and childrearing activities. But recent policy development in Scandinavia and Denmark contribute to make leaves (for childcare as well as for training) more appealing for men, with some success. For example, in some countries, the maximum leave span for women is only given if their husband take some leave too. TLM, as a more systematic use of negociated mobilities, could help reequilibrating the opportunities between men and women, in outside work and within household – if the social partners and the policymakers agree that they can be used in that direction!

Last, it may be observed that the general orientation of TLM as regards work and income appears intermediary between two controversial social policy tools under vivid discussion, universal basic income on one hand, which sets a global deconnection between work and income, and low-wage employment subsidy on the other hand, which ties closely (full-time) work and income\textsuperscript{43}. Maybe this intermediate position is a positive-sum compromise : they allow to internalize some labor market externalities, they foster a better equilibrium between paid and unpaid useful social activities, and they let people decide the size and the schedule of their engagement in paid work and family tasks.

Briefly put, TLM may be considered as an emerging regulatory idea. They systematize and rationalize some existing trends in LMP, as they appear in continental Europe : they develop their coordinating functions by proposing new commodities to bargain on in the labor market, enlarging the adjustment opportunities within a structured transfer process. They represent a way of flexibilizing labor market through « activation » and negociation, containing the pressures towards inequality and shifting the responsibilities from the central state to other collective, private and public bodies.

\textsuperscript{42} This leads to the thorny question of the revelant indicators. For a first discussion of this issue, cf B. Gazier, 2000, “L’articulation justice locale/justice globale : le cas des “marchés transitionnels du travail””, Revue Économique, may.


The French situation during the summer 2000 is characterized by a quick decline of unemployment, starting from a very high level (from more than 11% to 9% in less than two years), the controversial implementation of the two « Aubry laws » shortening the weekly working time, and a difficult reform process of the unemployment insurance scheme on which we may focus, keeping in mind the TLM perspective.

Everybody in France agrees on the need to transform the actual institution.

The existing system revealed itself as strongly unequal and inefficient during the last decade.

It is a three-layers device, with the third rather implicit and hidden. The first layer is the classical unemployment insurance (« régime d’assurance-chômage »), managed by the social partners together with the state (« paritarisme ») and protecting only stabilized employees with previous contributory payments. It is financed by contributions from the firms and from the workers. It pays benefits proportional to previous wages, for a maximum period of 4 years, but the benefits decrease over time whatever the labor market situation and the individual efforts made by the jobseeker. The second layer is a complementary, state-financed assistance scheme (« régime de solidarité »). It has two functions: to lengthen the benefits period for unemployed arrived at the end of their insurance rights; and to give basic helps to some categories of non-contributors unemployed. It pays floor-level benefits, again for a maximum period. It is clear that mass and persistent unemployment generated and still generates population not entitled to such programs. The system generates incentives for the social partners to limit the extension of the insurance scheme (in coverage and in payment levels)—because the state appears as a last-resort payer managing the complementary « solidarité » scheme. And the government did not develop the scheme, because it would be equivalent to change co-managed unemployment insurance into a pure state-managed welfare system.

As a consequence, only one half of the unemployed benefit from some (decreasing) payments by the two « régimes ». It is obviously the most favored group of workers, with previous long tenure. It is the reason why the minimum income (Revenu Minimum d’Insertion, RMI, enacted in 1988) is more and more used as a third component of unemployment benefits. This spillover has positive but also perverse effects. It gives a safety net (the income level is half of the minimum wage for an isolated individual), but has the drawback of stigmatizing, and confining some high-skilled unemployed in a kind of welfare together with traditional poor or marginal groups.

The system is also characterized by threshold effects, whose result is the exclusion of almost all workers with irregular work history.

Other « active » labor market policies are managed separately mainly by the French public employment service, ANPE, with some exception for the RMI, whose social re-integration policies are much more integrated. This lack of
coordination between « passive » and « active » components has often been criticized.

In this context, two recent developments illustrates the stakes but also the challenge of reforming the French unemployment insurance, which focus on the twin questions of « activation » and negotiation.

The first is a big bargaining round held, at the end of spring 2000, excluding any state participation, by social partners : the MEDEF (french employers’ union) and the five federal unions (CGT, CFDT, CFTC, CGC and FO). The overall perspective was set by the MEDEF : named « refondation » (refoundation), the process intended to renew old agreements between the social partners in such a way that the influence of the state would be minimized, if not eliminated. The first step was redefining unemployment insurance into a more positive « activating » tool. Finally the negociation ended up (june) in a partial agreement, signed only by MEDEF, CFDT and CFTC. In order to be implemented and become reality, this agreement has still to be completed and confirmed by the state44.

The content of the agreement is the following. Existing unemployment insurance would be terminated and replaced by a scheme exclusively centered on « active » components : the PARE, i.e. Plan d'Aide au Retour à l'Emploi. The idea is to conditionate benefits to a previous individual competencies check, followed by a back-to-work individually taylored program, with sequential revisions. On the « passive » side, two improvements intended to cure some of the defects underlined above. The benefits ceased to decrease over time, and could be opened to more inrregular contributors. The sequential revisions may lead to redefining the professional profile of the jobseeker, and obliging him or her to accept job offers either outside his or her previous specialization, or proposing inferior wages.

In the light of the preceding discussion, such an outcome could be characterized as combining incomplete negociation with incomplete « activation ». TLM components are no doubt present, in the welcome revival of negociation and responsibility of some social partners, and in the better covering and stability of payments over time, to be combined with the promised new opportunities. However, as regards negociation, the agreement is partial and excludes not only the state but also the majority of unions ; as regards « activation » it mainly took the limited and authoritative form, and looks like some of the U.K. « New Deal » reforms, putting pressure on the unemployed. It promises new opportunities but without really organizing them.

Maybe the future will bring the opportunity of enlarging both « activation » and negociation.

But another perspective, less dependent on the political process, can be briefly presented. It comes from a report involving social partners (not the MEDEF, which, although invited, did not participate) and members from public administrations and NPO networks : the Belorgey Report, from the name of the president of the discussion group organized by the French Commissariat

44 These lines are written during summer 2000.
Général du Plan. The scope of the report was wider, and included all income protection programs together with unemployment insurance and labor law. The objective was to discuss the connection between paid work, unstable employment situations, and social protection. Two key questions emerged: a «not enough» issue, first. We showed that unemployment insurance left half of the unemployed without protection. The same occurs with health and pension programs. The report insisted on the need to preserve the accumulation of social rights by workers whatever their employment situation. But there is also in some cases a «too much» issue: some cumulative effects of different programs separately enacted and managed led to clear inconsistencies. Seven different minimum income programs coexist, often with different population targets, but some of which can be cumulated (e.g., housing allowance). Some important rights were defined on a family basis. All this brought disincentives in some cases and the report makes suggestions in order to reduce them.

However, the report went beyond and also examined some ways of achieving a better stabilization of the employment relationship, proposing for example to clarify the responsibilities in the case of multi-employers as well as in the case of unemployment insurance, and discussing experience rating together with «job rotation» and other activating schemes. These proposals are close to a TLM orientation and their perspective was explicitly introduced.

Here again it is too early to know which suggestions will be implemented either by government decision, and/or by the social partners. An interesting trait is that the authors insisted on the need to make reforms simultaneously on different fields, thus giving a more open (and also more complex) view on what could be «activation» and negotiation.

PROMOTING REEMPLOYMENT IN KOREA: A PRELIMINARY DISCUSSION

Recent trends: encouraging or worrying?

If we return now to the Korean case, we can observe a sharp decline in the unemployment rate (Figure 7) and an increase in wages recorded since the beginning of 1999 (Figure 8). One of the features that distinguished the South Korean economy from most other OECD countries is the impressive speed with which unemployment has fallen and new jobs have been created. The bulk of these positive trends on an improved labor market comes from the recovery of economic growth, in almost all sectors (Figure 9), rather than from policies implemented by the government.

Consequently, the government cannot afford to be complacent. Furthermore, the pace of the fall in unemployment has decelerated because public labor programs have been cut back as a result of economic recovery. With further

46 In a subgroup report.
large-scale job losses due to the strong Chaebol conglomerates restructuring still to be completed (at Daewoo Motor\textsuperscript{47} for example) and the financial sector down-sizing in the pipeline, the labor market might loosen again, even if the demand of labor has now stabilized.

The government is worried that unemployment among the young remains high, although declining. According to Ministry of Labor, unemployment in the 15–24 age group stood at 12 percent in February 2000, compared with around 7 percent before the end–1997 crisis. In an attempt to lower youth unemployment, the government is offering public funds to encourage large companies to offer internship programs to young people; but this program remains limited for the moment.

Another serious problem remaining unsolved is that secure, long-term jobs are becoming scarce. The Korean Labor Institute’s forecasts show that some 823 000 new jobs will be created in 2000, but that most of them will be only short-term. And the youngest group of workers, from 15 to 19 years old, will be the most sought after.

Long-term unemployment is also turning into a structural problem. KLI data indicate that those out of work for over 6 months accounted for almost 20 percent of the total in November 1999, considerably higher than before the crisis. The OECD Employment Outlook shows an increase in the frequency of long-term unemployment (over 6 months) from 14.7 to 18.6 percent of the total unemployed between 1998 and 1999. Over this period, the over–6–months unemployment rates rose from 16.8 to 21.3 percent and from 10.3 to 13.1 percent respectively for men and women.

OECD’s projections for unemployment indicate a rate at 4.5 percent for 2000 (and 4.1 percent for 2001). Unemployment is expected to average about 4.3 percent of the total labor force in 2000 by the KLI, with a number of unemployed close to 957 000 as a whole. This jobless total is far higher than the country has been used to, comparing with a pre–crisis period when unemployment was around 500 000.

The days of unemployment in the 2 or 3 percent range are over. As a result, it appears clearly that the need for an enhanced social security system remains undiminished. The questions are whether the European models are applicable or not, and if it is the case, in which conditions.

\textit{Mobility, solidarity and emerging social protection systems: complementarities and conflicts}

The Korean achievements and temptations can be briefly compared with some experiences of other countries facing the challenge of a big slump, equipped with a « young » social protection system, i.e. characterized by a

\textsuperscript{47} This is the case, for example, at Daewoo Motor, where the project of foreign ownership (the potential bidders being General Motors, Ford, Daimler–Chrysler and Fiat) arouses a strong opposition of the unions, seeking rather nationalisation. To back this demand, workers at all the main South Korean car plants went on strike for a week in April 2000.
rather low and growing coverage, low payments and the creation of new programs coping with urgent needs. We chose the experiences of three occidental states during the decade 1929 - 1939: The USA, UK and France. It is necessary to immediately precis the meaning and limits of such comparisons: they do not imply that the Korean development level could be compared with the development level of these three countries during the thirties! But the «big slump» was a laboratory in social protection as well as in deregulation, and it is interesting to recall some of the successes and failures that were historically recorded after the introduction of a number of measures and programs. Our intent is only to identify some challenges and drawbacks. The exercise is of course somehow artificial but may prove suggestive because, as it will become clear, the actual Korean experience combines several features found separately in our chosen historical examples.

Our first reference will be France. During the ten years 1929 – 39, the situation in France was quite bad, with 10% GDP losses in the first four years, followed by a persistent stagnation. What is striking however is the maximum unemployment rate of the decade: 6% (that could be advantageously compared with the 1990s’ levels!). The explanation is not whatever strength of the French economy, nor any labor market policy «active» effort, but depends on two reinforcing reasons. First, the statistics were not very accurate, and took into account only persons having lost their jobs. Newcomers in the labor market were not considered. Second, and it is the most interesting, France was still to a large extent a rural country, and each family had close ties with peasantry. So a big number of persons, becoming unemployed, took the decision of going back to the countryside and participated in harvesting and other rural activities. They found dwellings and relied on the family solidarity, which was rich enough and more or less sufficient to welcome them. Of course the overall consequences had been severe losses in income and social security; but to some extent an alternative was open and tried.

The second experience is the US programs of public works during the Roosevelt administration. The «New Deal» and the concomitant policy development are impressive: the Civil Works Administration (CWA) hired 4 millions unemployed in January 1934, and the Federal Emergency Relief Administration (FERA) had 20 millions beneficiaries during the winter 1934. And in 1935 the Social Security Act was enacted, creating retirement, health protection and family assistance programs. The point to make, however, is the controversial and complicated fate of the public works programs. Accused to pay too high wages and then to disturb the labor market, the CWA was suppressed in 1934, but quickly replaced by the Work Progress Administration (WPA), whose wages varied according to local conditions. And the implementation of the program became more restrictive. A maximum of 2.9 millions jobs in 1936, 1.5 millions in 1937, and 3 millions during a very short period, for the 1938 slump. We have to recall that the maximum number of

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unemployed people in the thirties was 11 – 12 millions. The treatment of the valid unemployed was to exclude them from the FERA programs and to refer them to the employment agencies.

So, after the emergency generosity of 1934, what is clear is the overall choice, made by the government, to send back to private employment the bulk of the unemployed, in a context of persistent low activity of the economy. The balance is quite negative. The social distress of the thirties in the USA was only relieved with the second world war, which allowed to re-employ most of the unemployed, and the peace, which allowed to keep into employment the veterans as well as most of the civilian workforce.

The last experience is the most positive one: UK after 1935 developed a deliberately contracyclical policy together with important social developments. The growth performance of UK from 1935 to 1940 is quite good, and it not often quoted because the UK of the twenties was considered as a sluggish economy, already with high levels of unemployment. After 1931 the UK government abandoned the gold standard and was helped by a more favorable international environment. The development of social protection was progressive, without spectacular ruptures or reforms. The (low) unemployment benefits were first cut by 10 % in 1931, but the measure was quickly abandoned, and pensions were developed. A number of laws and devices encouraged the building of individualized and standardized dwellings. So the housing sector witnessed a real « boom »: the number of newly built houses doubled in the thirties compared to the twenties. After 1937, the creation of paid holidays stimulated mass leisures and finally all this converged in an increasing popular consumption. However the success was not complete on the unemployment count: after a peak of 15 % in 1932, UK moved back to the levels of the twenties (8%).

What is relevant for our discussion on Korean activating labor market policies? We will focus on mobility as well as solidarity. Korea seems to combine some aspects of the French, North-American and British experiences: some traditional solidarities, together with mass emergency public works with the problem of a possible stopping, and contracyclical measures.

To a more limited extent, family solidarities may have quite worked in Korea during the 1990 slump. Korea is now a very urbanized nation, but some rural or traditional solidarities did worked. The persistent saving behaviour evoked above is another sign of a community able to act as a buffer as well as to go on accumulating private income protection and assets, thus not relying on state help. Some of the UK efforts seem close to the Korean initiatives, -leaving aside the housing boom: . If we add the massive public works programs, this combination shows probably good complementarities, helping to understand the absorption and recovery capacity of Korea, and an original way of conciliating mobility and solidarity.

But some elements of the CWA-WPA process also could become relevant, and put into evidence some limits and potential conflicts in the future. State-managed mobility is always difficult in times of tight budget constraints. It begins with volunteers and may end in authoritarian decisions, either
suppressing the programs or (more probably) reorienting them in a restrictive way. It could be the case especially in the case of relatively « small » or « lean » welfare states, suddenly growing and facing implementation as well as legitimacy problems. As a possible response, governments could develop less attractive forms of work-help and send back to the private labor market, quickly and bluntly, large groups without sufficient reemployment prospects. Then the whole process may foster an aggravated segmentation of the labor market.

Is it possible to get out this threatening vicious circle? The reference to the actual debates about transitional labor markets could bring some insights. It does not seem possible nor desirable to durably maintain huge state involvements into labor market mobilities and occupations. And the idea of TLM was precisely, in a different context, to give more decentralized control to the social partners regarding the labor market policies expenditures. An important recommendation is the opening of the transitions opportunities creation process to other financers, such as nonprofit organizations, municipalities, etc. The French experience during the thirties was, so to speak, the appearance of an informal transitional labor market, strongly unequal and heterogeneous. The challenge is today to keep the close adaptation to needs, and the flexibility, and to initiate a less unequal and more efficient process.

*The conditions for an innovative "employment compact"*

In order to meet this challenge, it seems then that two conditions need to be fulfilled. The first is that alternatives to the public-managed – private managed dilemma are developed. The second is that some mobilities of workers and unemployed are negociated with the social partners. In our view these two conditions are closely tied.

The efforts of the South Korean government in order to generalize the Employment Insurance System after the 1997 crisis must be fostered and sustained. This State involvement in the social sector appeared necessary and should be even consolidated in the future. However, risks exist that the Korean authorities feel tempted, with the rapid recovery of the economy, to dismantle some of the measures recently implemented.

Our intention is not to recommend that the whole burden of social protection is to be borne by the State alone; but rather to suggest a use of public expenditure in this field as a lever functioning in complementarity with an active mobilisation of social, connected networks and activities in the third sector. Taking into account the Korean context, some of these networks and activities could be informal, or still potential (such as associations, cooperatives or mutual benefit societies), and be supported by the traditional links of solidarity which remain particularly strong in South Korea: the traditional
familial structure, together with the culture of the “Confucianist spirit”… (Bidet, 1999)\textsuperscript{49}.

At this final step, the theoretical framework of the transitional markets, empirically experienced and under discussion in several European countries, as evoked above, could prove to be a relevant and profitable basis for reflection and proposals in order to "activate" employment policies, reduce the dualism in the labor market, and take advantage of the high level of human capital available in the country. Examples (among others) could be found in measures promoting part–time early retirements or establishing decentralized, co–financed systems of training and socially useful activities. The overall philosophy of the TLM is particularly adapted to the search for solutions combining state intervention and private (for-profit and non-profit) initiatives, either from the formal or the informal sector.

Of course, the implementation of such a scheme would be time consuming and new for South Korea. Nevertheless, it seems that the present period of economic growth is favorable and helpful to take such innovative measures, at the appropriate time and within a context adapted to the Korean situation. We then arrive to our second component : a \textit{sine qua non} condition for the success of this new employment policy remains negotiation between all social partners: State, employers and employees, in order to promote employment. Consequently, the challenge is now to reactivate the social dialogue, which is one key of our proposals.

This is here that some anxiety arises. Calling for proper social security system, the national union centres (FKTU and KCTU) are complaining about the renewed recourse by the Korean authorities to restriction to unions’ activities, going as far as to imprisonment of trade unionists. As a matter of fact, 61 trade unionists were imprisoned for trade union activities in June 1999 — 51 having been arrested in 1999. Amnesty International reports showed the organization’s concern on trade union rights and pluralism\textsuperscript{50}. OECD also pointed this worrying fact: “Another important issue is the imprisonment of union officials”\textsuperscript{51}. The result of the Korean government’s authoritarian way of doing is the that the Tripartite Commission has temporarily ceased to function. “Labor has become increasingly dissatisfied, complaining that the rise in unemployment was focusing workers to bear an unfair share of the cost of restructuring”\textsuperscript{52}.

This situation is not only worrying as regards democracy and social dialogue. It obviously impedes the negotiation of an "employment compact”,


\textsuperscript{52} \textit{Ibidem}. 
i.e. a set of compromises helping to combine wage policy and mobility opportunities.

**CONCLUSION**

The TLM approach as a reform proposal for labour markets and social protection is typically a sophisticated European perspective, elaborated by economist and political scientists observing the actual tendencies affecting European labour market policies. However, such a perspective, adapted to nations with mature, fully developed social protection systems, may be, paradoxically, even more adapted to nations managing a recent and still incremental social protection system. It fosters the search for new complementarities between formal and informal, domestic sectors, and for integrative compromises in the labour market introducing the social partners together with other actors (the State and other local authorities, the non-profit organizations...).

Of course we only sketched the TLM framework as well as the analysis of the Korean case at the turn of the century. Much more must be done in order to precisely identify the specific constraints and strengths of the Korean economy and society and go further in the debate.