

Executive summary

The government of Korea is determined to find ways to close considerable gaps in the country's social protection system and ensure adequate employment and income support for low-income jobseekers and the working poor. Current gaps are the combined result of a system that excludes some people outright and allows others to go undocumented and, therefore, without social protection coverage. This situation contributes to considerable inequality and poverty, reinforces widespread labour market duality and leads to poorer job outcomes alongside lower, less-inclusive economic growth.

Korea has gone through remarkable economic development over the past 40 years, rapidly catching up with the level of well-being in the average OECD country, and witnessing a fast social transformation. The labour market, however, has not kept pace with the development and continues to show a number of peculiarities that distinguish it from most other OECD countries. Most noteworthy are Korea's very high shares of self-employment and non-regular employment, especially among older workers, and employment in small businesses with short lifetimes that, in turn, result in very low job tenure for the average worker.

Over the past two decades, Korea has introduced and continuously improved a rather comprehensive welfare state with a strong focus on activation and employment. Nevertheless, features of Korea's labour market, which include a high degree of duality and a high level of informality, make it difficult for some measures to reach workers and jobseekers. As a result, Korea's Employment Insurance measure, for example, effectively covers only about half of the workforce. Half of those not covered are non-salaried workers while the other half includes workers who are formally excluded and those not enrolled although they should be. The latter mostly concerns dependent self-employed workers and undocumented workers employed in micro-businesses.

Many incremental welfare reforms, especially in the past ten years, have improved the situation. Important reforms include the possibility for self-employed people to opt into *Employment Insurance*; an effort to customise *Basic Livelihood Security Programme* payments to claimants' needs; the introduction and expansion of the *Employment Success Package Programme*, which provides targeted employment support and training as well as some income support to people not entitled to other benefits; and the introduction of an *Earned Income Tax Credit* to benefit the working poor with a recent expansion to self-employed people. These were important steps although the share of low-income jobseekers and low-wage workers not covered or supported by any measure remains stubbornly high. More could be done to extend welfare measures to them.

This report concludes that Korea is now at a critical stage of development. Significant additional action will be needed to diminish the ongoing gaps and make income and employment supports more effective and inclusive. Without additional steps, Korea will fail to realise the social and labour market outcomes it aspires to achieve.

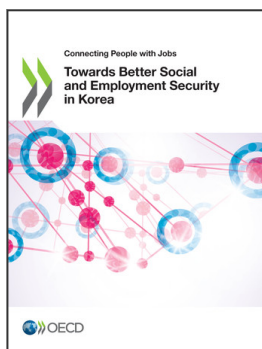
Korea's social protection system is especially weak for workers facing health problems; an issue that receives limited attention in the public debate. Sick workers gain no statutory income support during the entire time they are sick, although those eligible for Employment Insurance benefits may defer their entitlement until they are well enough to look for work. Access to support for sickness in Korea requires cutting the employment relationship, burdening many of them with unnecessarily long periods out of work.

Moving forward, Korea must continue and accelerate the reforms of its labour market and social protection institutions to expand the reach of its social and employment support. Building upon recent changes, future reforms should strengthen the enforcement of existing legislation; further expand existing measures; and bring in new measures as necessary; while ensuring in all cases that strong activation and positive employment outcomes remain a key focus.

Concretely, the OECD recommends to policy makers in Korea to:

- Boost Employment Insurance coverage by making it mandatory for self-employed workers and expand income support to workers leaving their job voluntarily (with a benefit sanction replacing the current disqualification penalty).
- Better enforce Employment Insurance rules by i) expanding the resources of the relevant monitoring authorities to observe and sanction offending employers, and ii) promoting and rigorously applying the arbitration procedure through which non-insured workers can claim Employment Insurance entitlements.
- Improve the situation of workers with health problems by introducing i) a degree of statutory employer liability for all workers, and ii) a cash sickness benefit, matched by a strong focus on rehabilitation and return to work.
- Maximise the impact of the effective Employment Success Package Programme by increasing its number of participants and improving the quality of services, especially among private providers.
- Ease access to the Basic Livelihood Security Programme including by gradually phasing-out the family support obligation and improving its effectiveness for conditional benefit claimants.
- Boost support for the working poor through the Earned Income Tax Credit by further increasing both the number of people covered and the size of the credit, in harmony with other measures, including the minimum wage.

The effect of any such actions will be stronger if Korea also makes further efforts to address widespread labour market duality and eliminate incentives to hire workers on non-regular employment contracts or to engage dependent self-employed workers.



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