



Unemployment Insurance in Asia

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Edited by
Deok Soon Hwang

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Foreword

With the exception of Japan, which industrialized relatively early, most Asian countries were slow to achieve development compared to their Western counterparts. Korea, Taiwan, Hong Kong, and Singapore, known as the Newly Industrialized Economies (NIES) of Asia, followed the example of Japan. China and India, the two major players among BRICs nations, have recently displayed an astonishing rate of growth as have Southeast Asian ASEAN members.

Nonetheless, because these countries were slow to industrialize, the pace at which they developed welfare programs such as social insurance were more gradual than the West. The introduction of unemployment insurance, among many other social insurance programs, has been particularly sluggish among Asian countries. *Social Security Programs Throughout the World: Asia and the Pacific 2008* provides a summary of social security programs in countries around the world. This publication has reported that Japan, China, Korea, Taiwan, Thailand, and Vietnam are the only Asian countries to be operating unemployment insurance programs.

As countries industrialize, economic factors such as business cycles increasingly impact employment, while global factors such as worldwide economic crises also influence unemployment issues. Looking back at the past twenty years, the Asian Financial Crisis of the late 1990s, the dot-com bubble burst of the early 2000s, and the global financial crisis of the late 2000s were events that shook the Asian labor markets. Moreover, as the influence of industrialization and global recessions on labor markets increases, so does the need for social protec-

tion programs for those unemployed. As a result, many Asian countries like Malaysia and the Philippines that have yet to adopt unemployment insurance programs have shown a growing interest.

The aim of this study is to introduce the labor market structures and social protection programs for the unemployed in Asian countries currently operating unemployment insurance, to review the performance of each program, and to provide directions for future development. Included in the list is India, which operates an alternative program for protecting the unemployed known as the Employment Guarantee Program. It is my wish that this study be of assistance not only to researchers and institutions interested in unemployment insurance and Asian social security programs, but also to trade unions, employer associations, and Asian governments. The Korea Labor Institute will continue to conduct joint studies on labor markets, industrial relations, and social security programs with experts from across Asia whenever the opportunity arises.

This study was conducted under the supervision of Deok Soon Hwang with participation from experts on unemployment insurance and social protection programs for the unemployed from each country. In November 2011, an international workshop attended by experts from China, India, Taiwan, and Vietnam was held in Seoul to share experiences and discuss strategies for improving the quality of the report. Experts from Japan and Thailand, while unable to attend the workshop, also contributed to the project with papers on their countries' unemployment insurance programs. I wish to express my gratitude to Jun Liao (Chinese Academy of Labor and Social Security) from China, Rakhee Thimothy and S.K. Sasikumar (V.V. Giri National Labour Institute) from India, Shinichi Oka (Meiji Gakuin University) from Japan, Yeun-wen Ku (National Taiwan University) and Yu-fang Chang (National Chi Nan University) from Taiwan, Sopin Jirakiattikul (Prince of Songkla University) from Thailand, and Quang Tuan Luu (Institute of Labour Science and Social Affairs) from Vietnam for their participation.

The publication of this report was made possible through the efforts of many people. I would like to thank Hoon Kim, Director of the International Cooperation and Information Office; Jiyeun Chang, the former Director of the International Cooperation and Information Office; Minjeong Kim, the coordinator of the study, for her support from arranging the international workshop to the publishing of this report; and the Publishing Team.

August 2013

Injae Lee

President, Korea Labor Institute

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Chapter 1

Unemployment Insurance in Asia: Development and Outlook

Deok Soon Hwang*

Welfare programs are largely defined as one of two types: cash benefits or social welfare services. Cash benefits can be broken down into social insurance, public assistance, and universal benefits. Since the creation of the first social insurance program, in the late nineteenth century in Germany, many countries have followed suit, making social insurance the core component of cash benefits. Designed to address the manifold risks an individual encounters throughout life, social insurance usually consists of a public pension (to guarantee old-age income), work injury insurance (for industrial accidents or occupational illnesses), health insurance (to address the loss of income following sickness and to provide healthcare services), and unemployment insurance (to address the risk of unemployment). As an ageing population increasingly becomes a major social issue around the world, elderly-care insurance is also becoming a part of the social insurance package. Meanwhile, many countries in Asia have put in place the provident fund plan, a form of compulsory savings (and not social insurance).

Of the different types of social insurance, UI is often introduced later than others (aside from the rather recent trend of elderly-care insurance). Although the need for protection for job displacement arises

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together with the start of industrialization, a certain level of industrial development must take place before it can evolve into a form of social security. There should be a considerable share of wage workers out of the total economically active population, as well as a social and political consensus on the need for society to provide protection against job losses that result from economic changes.

This situation is a trend particularly noticeable in Asia, where economic development came later than in the West. In *Social Security Programs Throughout the World* (2008), published by the International Social Security Association and the U.S. Social Security Administration, it is observed that although many countries in East Asia, Southeast Asia, and South Asia are found to have social security programs such as work injury insurance, public pensions, illness protection, and maternity protection, only a few have UI.

The first to become a modern industrialized country in Asia, Japan adopted UI in 1947, followed by China in 1986, Korea in 1995, Taiwan in 2003, Thailand in 2004, and Vietnam in 2009. However, even though China introduced a UI program in 1986, it was not until 1999 that it was more broadly implemented. Many other countries, such as Malaysia and the Philippines, are reviewing the possibility, which means that perhaps with the exception of Japan, UI is still a work in progress in many Asian countries.

From an academic perspective, it is intriguing to think about the spread of UI in relation to “how to understand the nature of the Asian welfare regime.” Even until the early 2000s, the prevailing view in international academia was to define the East Asian regime (including Korea’s) as a “developmental welfare system” (White & Goodman, 1998), as a “productivist welfare state” (Holiday, 2000; Holiday & Wilding, 2003), or as a “productivist welfare regime” (Gough, 2004). The implication was that social security fell behind in the East compared with the West as social policies were subjugated to economic growth. Nonetheless, different views began to emerge around the start of the

2000s with respect to East Asia, including Korea and some Southeast Asian countries. As their economies continued to develop, their social security programs have expanded, with new components being adopted beginning in the 1990s (Hort & Kuhnle, 2000; Kuhnle, 2004; Ramesh, 2004).

Although UI is in place in only a few Asian countries, it does provide important implications for the development prospects of welfare programs in Asia. Especially when the provident fund scheme is serving as the old-age income guarantee in many Asian nations, such as India, Malaysia, Singapore, and Indonesia, the broadening base of UI means that Asian welfare programs in general, at least in form, are becoming more like those in the developed welfare states in the West.

To have a more accurate understanding of the phenomenon of UI expansion in Asia and to look ahead, the KLI organized an international workshop in November 2011. Participants came from different Asian countries (economies) including China, Vietnam, and Taiwan (economies with UI) as well as India (with public works arrangements as a protection scheme for the unemployed). This book contains revised versions of the presented papers that reflect workshop discussions and comments from reviewers. In addition, there are two more country papers addressing UI in Japan and Thailand to cover all countries that have UI in East and Southeast Asia.

The country papers review the social context in which UI was adopted in each Asian country, as well as the UI design, evaluation of UI performance, and challenges for the future. In the conclusion of this book, the basic framework of each country's system is reviewed and the design and performance of UI in case countries are compared in terms of generosity and effectiveness as a social safety net for unemployed workers. In China and Vietnam, the major driver for introducing UI was the need to protect displaced workers following social and economic reforms of state-owned enterprises. Yet in Taiwan and Thailand, it was the changing global environment and heightening labor

market insecurity beginning in the late 1990s that facilitated UI adoption.

The programs are also designed differently in terms of their basic nature, scope, and qualifications due to variations in the purposes of the programs and the socioeconomic environments in which they operate. Further, the fact that many Asian countries remain less developed than Western welfare states is a major obstacle to ensuring the effectiveness of the programs. Social insurance programs such as UI are usually applied first to the formal sector, yet developing countries tend to have a vast informal sector. In Korea, even when the issue of informal sector or informal employment has long disappeared from social discourse, there is still a large loophole in the social insurance coverage.

As of 2011, Korea's employment insurance covers only 71.7% of those who are legally qualified to receive it because of the non-inclusion of workers in small or micro enterprises and non-regular workers in daily or temporary jobs. The situation is even grimmer in Southeast Asia. Although it is difficult to find statistics that allow accurate comparison between different countries, information available from organizations such as the ILO shows that workers in agriculture, forestry, and fishing accounted for 47.6% of the total workforce in Vietnam in 2009 and for 42.5% of the total workforce in Thailand in 2008. In the same year, wage workers accounted for only 33.4% of the total workforce in Vietnam and 43.2% in Thailand. In China, UI implementation is still limited to urban areas.

When the informal employment is as large as these considerable percentages, the effectiveness of public social security cannot be strong. There is also the paradox that a social security program limited to the formal sector first protects those workers who are relatively better off. Another challenge is found in administrative capability. Administering the UI program requires the ability not only to collect insurance premiums and to pay out benefits, but also to require that unemployed individuals register with public employment services. Administrators must

also monitor the job-seeking activities of the unemployed regularly. UI should also be accompanied by employment services that match demand with supply or provide vocational training. Higher efficiency can be achieved only when such operational procedures are clearly defined, recorded, and controlled in a computerized database. However, in many Asian countries, such infrastructure has not yet been fully built.

With respect to the development outlook, what is important is not only specific ways of improving the program but also having a mechanism that can reflect people's needs in the national decision-making process. In other words, what is needed is not only a basic democratic political order but also a civic society in which various needs and demands can be voiced and people can participate in administering programs and protecting the poor. In particular, it is necessary to involve unions or civic organizations in governing social insurance programs such as UI, which is maintained by contributions not only from employers but also from workers. Nevertheless, it is true today that in many developing countries, such a viable civic society is very weak, which also implies that it is a challenge to collect the views of various stakeholders like unions, or to find a social driver other than the government's will to keep the program moving forward.

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Chapter 2

Unemployment Benefits in Korea

Deok Soon Hwang*

1. Introduction

Korea's Employment Insurance System (EIS), which was launched on July 1, 1995, embodies not only the passive labor market policy of implementing the Unemployment Benefits Program (UBP) for unemployed workers but also the active labor market policy of seamlessly aligning the promotion of reemployment based on effective job-placement services with job-security programs and vocational training programs for stabilizing employment and improving the employment structure. The purpose of this study is to examine the current status and past performance of the UBP and to propose some policies for improvement.

The worth of the UBP was fully validated during the financial crisis that began at the end of 1997 and the ensuing period of high unemployment. When the EIS was launched in 1995, no one had anticipated the eruption of mass unemployment looming on the horizon. In the face of the sudden surge in unemployment, the UBP served as the primary safety net for workers who had lost their jobs. Most notably, the UBP responded promptly to the changing conditions in the labor market, expeditiously expanding the coverage of unemployment benefits (UB) and temporarily easing the program's strict eligibility criteria.

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In addition, in order to fight against skyrocketing unemployment, the special extended benefits scheme was implemented. Although the scheme was discontinued once the jobless rate was under control, the prescribed duration of benefit was extended. Since then, the legal coverage of the UBP has been extended to almost all workers, including daily workers in 2004. During the most recent economic downturn, caused by the global financial crisis, more than 1 million unemployed workers received benefits in both 2009 and 2010. To sum up, the UBP has undergone a series of institutional improvements for the purpose of reinforcing its effectiveness as a safety net for unemployed workers.

The structure of this study is as follows. The second section describes features of the labor market. The third section looks at the design of and transformations in the UBP since its introduction. The fourth section evaluates the performance of the UBP and its impact on the labor market. Finally, the fifth section suggests some policy measures based on the evaluation.

2. Features of the Labor Market

Trends in Unemployment and Labor Market Participation

The purpose of the UBP is to protect workers from the risk of income loss caused by unemployment. It appears, however, that unemployment is not a serious problem; according to the formal statistics in Korea, as of 2010 the unemployment rate is just 3.4% (see Figure 2-1). Another interesting feature is that there is no clear relationship between economic cycle and unemployment. It is a well-known stylized fact that the unemployment rate shows a countercyclical movement in most developed countries. However, since 1990 unemployment has remained almost flat, except during the period of economic crisis in the late 1990s, and the average unemployment rate has increased by 1% since

the crisis (Figure 2-1). The economic decline since 2008 has not led to the soaring of unemployment, either. This implies that the official unemployment rate may not be a good indicator of the labor market situation in Korea. This is because most job separators move out of the labor market rather than staying in the labor market as unemployed workers (Hwang, 2009). The employment rate, or the proportion of employment to working-age population, may be regarded as a better indicator of the labor market situation than the unemployment rate illustrated in Figure 2-1.

Another important feature of the Korean labor market is the slow improvement in labor market participation. The labor market participation rate is 65.6% in 2010, close to its level before the late-1990s economic crisis, and about 5 percentage points lower than the OECD average (OECD, 2011). In particular, women's labor market participation rate is lower for Korea than for other OECD countries; the gap between Korea and the OECD average is 2.6 percentage points for men and 7.3 percentage points for women. We can conclude that job-creation capacity is a key factor in improving the labor market partici-

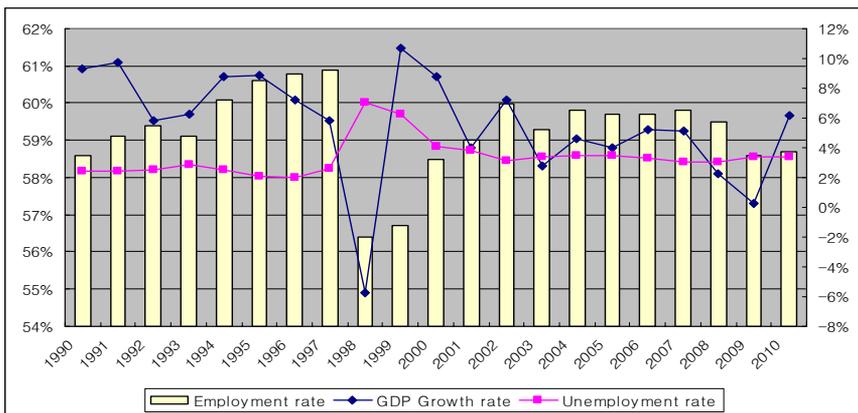


Figure 2-1. Economic cycle and labor market trends, 1990-2010. From Bank of Korea, National Accounts; *Economically Active Population Survey*, by National Statistical Office, each year (<http://www.kosis.kr>).

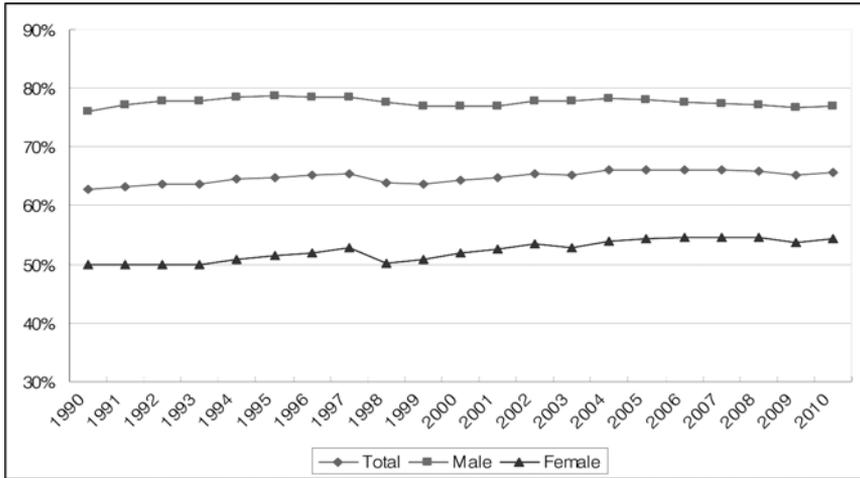


Figure 2-2. Trends in labor market participation rate, 1990-2010, people 15-64 years old. From *Economically Active Population Survey*, by National Statistical Office, each year (<http://www.kosis.kr>).

pation rate, given that the unemployment rate is almost flat.

Employment Structure

Tables 2-1 through 2-3 show the distribution of employment since 1995, when the UBP was introduced. Notable trends can be summarized as follows. First, the proportion of female employment increased only a little, to 41.6% in 2010, which reflects the slow improvement in women's low labor market participation rate. Second, the population is aging very rapidly. The proportion of workers age 40 or older was 59.1% in 2010, 16.3 percentage points higher than in 1995, and is due to rapid demographic change. Third, the proportion of agricultural and manufacturing employment has decreased continuously since 1995. The flip-side of this phenomenon is the growth of employment in business services and in social, public, and personal services. Particularly, the share of employment in social, public, and personal services has increased by 9.2 percentage points.

Table 2-1. *Distribution of Employment by Sex, Age Group, and Industry*

(1,000 persons, %)

	1995		2000		2005		2010	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Sex								
Male	12,147	59.5	12,387	58.6	13,330	58.3	13,915	58.4
Female	8,267	40.5	8,769	41.4	9,526	41.7	9,914	41.6
Age								
15-19	421	2.1	389	1.8	243	1.1	204	0.9
20-29	5,022	24.6	4,490	21.2	4,207	18.4	3,710	15.6
30-39	6,238	30.6	6,137	29.0	6,122	26.8	5,833	24.5
40-49	4,272	20.9	5,277	24.9	6,305	27.6	6,553	27.5
50-59	2,858	14.0	2,899	13.7	3,599	15.7	4,792	20.1
60-	1,604	7.9	1,963	9.3	2,381	10.4	2,737	11.5
Agriculture	2,403	11.8	2,243	10.6	1,813	7.9	1,566	6.6
Mining	26	0.1	17	0.1	17	0.1	21	0.1
Manufacturing	4,818	23.6	4,294	20.3	4,130	18.1	4,028	16.9
Electricity & gas & water	70	0.3	64	0.3	71	0.3	78	0.3
Construction	1,913	9.4	1,582	7.5	1,813	7.9	1,753	7.4
Wholesale & retail & Restaurants & hotels	5,415	26.5	5,966	28.2	5,804	25.4	5,469	23.0
Transport & telecom	1,075	5.3	1,259	6.0	1,803	7.9	1,948	8.2
Finance & business service	1,653	8.1	2,116	10.0	2,608	11.4	3,231	13.6
Social, public, and personal service	3,042	14.9	3,614	17.1	4,798	21.0	5,736	24.1
Total	20,414	100.0	21,156	100.0	22,856	100.0	23,829	100.0

Note. From *Economically Active Population Survey*, by National Statistical Office, each year (<http://www.kosis.kr>).

Fourth, the share of employment in large firms with 300 or more workers decreased until 2005 and then recovered slightly after that. The share was 18.5%, 12.0%, 11.8%, and 13.7% respectively in 1995, 2000, 2005, and 2009 (Table 2-2). Most of the change comes from the share of employment in firms with 1,000 or more workers. The drastic de-

crease in the share of large firms in the late 1990s resulted from the restructuring of the economy during the economic crisis.

Fifth, the proportion of regular workers with contracts of 1 year or more or with permanent contracts has fluctuated greatly during the last 15 years, decreasing to 47.9% in 2000 from 58.1% in 1995, and then increasing again to 59.4% in 2010. However, the proportion of tempo-

Table 2-2. *Distribution of Employment by Firm Size*

(1,000 persons, %)

Firm size	1995		2000		2005		2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
1-4	4,166	30.6	4,651	34.2	4,770	31.5	4,882	29.0
5-9	1,322	9.7	1,552	11.4	1,889	12.5	2,031	12.1
10-19	1,253	9.2	1,429	10.5	1,652	10.9	1,793	10.7
20-49	1,760	12.9	1,806	13.3	2,052	13.5	2,260	13.4
50-99	1,172	8.6	1,214	8.9	1,481	9.8	1,706	10.1
100-299	1,450	10.6	1,315	9.7	1,509	10.0	1,841	10.9
300-499	568	4.2	450	3.3	473	3.1	622	3.7
500-999	691	5.1	480	3.5	531	3.5	654	3.9
1000-	1,252	9.2	706	5.2	792	5.2	1,027	6.1
Total	13,634	100.0	13,604	100.0	15,147	100.0	16,818	100.0

Note. From *Establishment Employment Survey*, by Ministry of Labor, each year.

Table 2-3. *Distribution of Employment by Employment Status*

(1,000 persons, %)

Status	1995		2000		2005		2010	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Regular	7,499	58.1	6,395	47.9	7,917	52.1	10,086	59.4
Temporary	3,598	27.9	4,608	34.5	5,056	33.3	5,068	29.9
Daily	1,802	14.0	2,357	17.6	2,212	14.6	1,817	10.7
Total	12,899	100.0	13,360	100.0	15,185	100.0	16,971	100.0

Note. From *Economically Active Population Survey*, by National Statistical Office, each year (<http://www.kosis.kr>).

rary workers and daily workers remains very high, which poses a great challenge when protecting unemployed workers through the UBP in Korea.

Unemployment Structure

The primary purpose of the UBP is to protect the livelihood of workers from income loss caused by unemployment. Therefore, we must examine the features of unemployment carefully. Table 2-4 shows the distribution of unemployment by important variables.

The proportion of male unemployment to total unemployment is much higher than that of female unemployment. However, the gap has decreased substantially during the last 15 years. Two factors appear to have contributed this change. First, female employment has grown faster than male employment has. This change implies that the labor market attachment of women has also strengthened.

Second, the share of long-term unemployment out of total unemployment is much smaller, and that of short-term unemployment is much larger, than in other developed countries. This does not mean that these statistics accurately reflect the actual unemployment situation. Duration of unemployment means a continuous spell of unemployment in the Economically Active Population Survey results. As mentioned above, many job separators exit the labor market when they lose a job and then frequently change their labor market status between unemployment and out-of-labor force. Therefore, the magnitude of long-term unemployment is very small according the official statistics based on the Economically Active Population Survey.

The change in the distribution of unemployment by age group basically reflects the demographic change mentioned above. Another issue is how to tackle youth unemployment. The share of the unemployed age 20-29 in total unemployment is more than one third in 2010, although the share has decreased significantly during the last 15 years with

Table 2-4. *Distribution of Unemployment by Sex, Unemployment Duration, and Age Group*
(1,000 persons, %)

Variable	1995		2000		2005		2010	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Sex								
Male	288	67.0	647	66.1	553	62.3	577	62.7
Female	143	33.3	332	33.9	334	37.7	342	37.2
Duration								
-3	237	55.1	586	59.9	542	61.1	618	67.2
3-6	117	27.2	254	25.9	242	27.3	238	25.9
6-12	53	12.3	115	11.7	96	10.8	61	6.6
12-	19	4.4	23	2.3	7	0.8	3	0.3
Age								
15-19	36	8.4	66	6.7	35	3.9	28	3.0
20-29	226	52.6	364	37.2	352	39.7	312	33.9
30-39	86	20.0	232	23.7	210	23.7	214	23.3
40-49	48	11.2	190	19.4	165	18.6	165	17.9
50-59	27	6.3	97	9.9	93	10.5	120	13.0
60-	7	1.6	30	3.1	32	3.6	80	8.7
Total	430	100.0	979	100.0	887	100.0	920	100.0

Note. From *Economically Active Population Survey*, by National Statistical Office, each year (<http://www.kosis.kr>).

the rapid expansion of tertiary education. The protection for young unemployed workers through the UBP is limited by its own nature: the unemployed must contribute insurance premiums before they can be protected by the UBP, and many young unemployed workers are new entrants in the labor market or have only short-term employment experience in unstable jobs. This implies that another social-protection measure is necessary for young workers or for those in informal employment, discussed below.

Informal Employment

It is difficult to clearly define informal employment and employment

in the informal sector. The ILO explains that these are two different concepts. Informal employment is composed of both employment in the informal sector and informal employment outside the informal sector (ILO, 2003). It is difficult to measure the size of informal employment accurately using official statistics. Because the purpose of this study is to define the program's blind area, here the magnitude of informal employment is measured as the number of workers excluded



Figure 2-3. Distribution of informal employment, by firm size, employment status, industry, and sex. From *Supplementary Survey of the Economically Active Population Survey*, by National Statistical Office, August 2010 (<http://www.kosis.kr>).

from application of the UBP. These workers include legally excluded workers and those workers who are not actually covered although they are included in the coverage by law. The first category consists of workers working at firms that employ fewer than 5 workers in the agriculture, forest, and fishery industry; domestic service workers; quasi-workers; and part-time workers who work less than 15 hours per week. This study does not consider unpaid family workers, the self-employed, workers over 65, and workers in international or foreign institutions in calculating the magnitude of informal employment.

The number of workers excluded from the UB is 5.228 million, and their proportion to total employees was 34.6% as of August 2010, which means more than a third of all workers are in the blind area of the UBP. The distribution of informal employment is displayed in Figure 2-3. This issue will be discussed again when evaluating the performance of the UBP.

3. The Structure of the Unemployment Benefits Program

Overview

Currently, the legal coverage of Korea's UBP applies to almost all workers in all firms, as mentioned above. Korea shows a step-by-step approach in extending the coverage of the UBP and also an interaction between the economic situation and institutional change. When the EIS was first implemented in June 1995, the UBP covered all firms with 30 or more workers. In response to the economic crisis that began at the end of 1997, coverage was extended several times in 1998. Effective January 1, 1998, coverage was extended to firms with 10 or more workers; then to firms with 5 or more workers beginning March 1, 1998; and finally to all firms with 1 or more worker beginning October 1, 1998. Employment status was also crucial in determining coverage. Be-

fore October 1, 1998, workers with employment contracts shorter than 3 months who are classified as daily workers, and part-time workers were excluded from UBP coverage. Since that date, all workers other than daily workers with contracts shorter than 1 month have been covered by the UBP. Finally, coverage was extended to daily workers beginning January 1, 2004.

Benefit consists of two parts: job-seeking benefits and an employment promotion allowance (Figure 2-4). Job-seeking benefits are granted to those seeking positions after losing their jobs. The term “unemployment benefits” in most cases refers to job-seeking benefits. Illness and injury benefits, a special type of job-seeking benefit, are granted when employment becomes impossible due to causes such as illness, injury, or childbirth after the eligible recipient has applied for benefits. The next part further explores the eligibility criteria and the revisions to job-seeking benefits, the crux of the UBP, while this part takes a brief look at the employment promotion allowance.

The employment promotion allowance can be divided into the early reemployment allowance, the vocational training allowance, the wide-area job-seeking allowance, and the moving allowance. The early reemployment allowance was first introduced as an early job-placement benefit. Initially, it was designed to pay out one third of the remaining

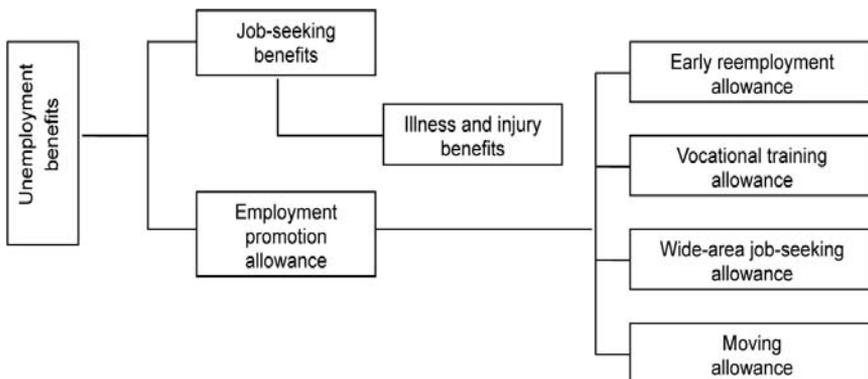


Figure 2-4. The structure of the unemployment benefits program in Korea.

job-seeking benefits on the condition that the qualified recipient was hired in a position with a job security of at least 1 year with one half or more of the prescribed duration of benefits remaining. Since 1998 the amount of benefits granted has been upwardly adjusted from one third to one half, and in 2000, the required job-security period was reduced to a minimum of 6 months. Since July 7, 2001, recipients who obtain new jobs at a small or medium enterprise in the manufacturing, construction, or fishery industries receive all of the remaining benefits.

Starting January 1, 2004, the scope of beneficiaries was again expanded, to include workers who start small businesses, and the early job-placement allowance was renamed the early reemployment allowance. The conditions for payment were eased to the effect that one half of the remaining benefits were paid out with a minimum of even 1 prescribed day of benefits remaining. Beginning in 2006, the amount of allowance was differentiated depending on the remaining duration of benefits: two thirds of the remaining benefits when the remaining duration is equal to or more than two thirds of the prescribed duration; one half of the remaining benefits when the remaining duration is equal to or more than one third and less than two thirds of the prescribed duration; and one third of the remaining benefits when the remaining duration is less than one third of the prescribed duration. A series of revisions to moderate eligibility for the early reemployment allowance led to a sharp increase in the number of allowance recipients; however, the rules for eligibility became more stringent beginning in 2010. At present, half the remaining benefits are paid when the remaining duration of benefit is equal to or more than 30 days. For adults 55 or older and the disabled, the amount of the allowance is two thirds of the remaining benefits.

The vocational training allowance is granted, in addition to job-seeking benefits, to qualified recipients who take vocational training courses as designated by the head of an employment center. The vocational training allowance covers expenses incurred while attending vo-

cational training courses, including those for transportation and meals.

The wide-area job-seeking allowance covers transportation and lodging expenses for qualified recipients who, at the recommendation of an employment center, engage in job-seeking over a wide-ranging area within a minimum distance of 50 km from their residence but who receive either no or insufficient support from their new employer for the incurred expenses.

The moving allowance is granted to qualified recipients who move their residence in order to attend vocational training courses designated by an employment center or for a new job but are either not supported at all or insufficiently supported by their new employer for the incurred expenses.

Eligibility Criteria

The eligibility criteria for UB consist of three measures: whether the insured has paid sufficient premiums or not; the validity of the reason for job separation; and whether the insured has actively sought positions after becoming unemployed or not. This subsection discusses the current status of and revisions to each of the three measures since the launch of the UBP.

The base period and the minimum insured period. Whether a worker has contributed sufficiently as an insured or not is determined by the base period and the minimum insured period. The current base period and the minimum insured period are 18 months and 180 days, respectively. In other words, a worker should have been insured for a minimum of 180 days during the 18 months prior to separation.

When the EIS was first launched in 1995, the base period and the minimum insured period were 18 months and 12 months, respectively. However, with the unemployment rate skyrocketing since the onset of the financial crisis at the end of 1997, the Employment Insurance Act was revised on February 20, 1998, to temporarily adjust the base period

and the minimum insured period to 12 and 6 months, respectively, from March 1, 1998, until June 30, 2000.

The coverage of the EIS was expanded on October 1, 1998, to include all workplaces as well as all temporary and part-time workers in addition to full-time employees. At this point there was a call to readjust the base period and the minimum insured period, because the temporarily adjusted base period and minimum insured period were not appropriate for employees of small enterprises or for temporary and part-time workers. In light of the situation, the Employment Insurance Act was revised again on December 31, 1999, to readjust the base period and the minimum insured period to the current 18 months and 180 days, respectively.

Cause of job separation. In order to qualify for UB, the insured must have a valid reason for the separation. In other words, the insured is disqualified from receiving benefits if he or she was separated on personal grounds without a justifiable reason or dismissed for critical fault(s) of his or her own. Considering that most of the Western countries suspend the benefit payment only temporarily in such cases, Korea's eligibility criteria are quite rigorous.

The criteria for determining the validity of the reasons for separation have not been altered significantly since the launch of the EIS. In essence, benefits have not been granted to workers dismissed for critical faults of their own, or to voluntary job separators without valid grounds. But in the matter of assessing the critical faults on the part of the worker or the validity of job separation, there have been gradual changes toward leniency in the eligibility criteria.

The criteria for determining the validity of the reason for voluntary separation have been moderated several times since the implementation of the UBP. Reasons for separation deemed valid at present include the employer's failure to observe the working conditions or changes in working conditions to the disadvantage of the worker, job insecurity, introduction of new technologies, relocation, discrimination, business

irregularities, and reaching (of the) retirement age. Among these, the regulations on job separation due to discrimination, leaves, workplace practices, and minimum wage were stipulated only after the launch of the system, whereas others such as delayed payment of wages and honorary retirement have been eased from original provisions over the course of time.

Registering for job search and active search efforts. Even if a worker qualifies based on the first two criteria, sufficient contribution and valid reasons for separation, he or she must make active job-seeking efforts to be eligible for job-seeking benefits. A claimant for job-seeking benefits must appear at an employment center once every 1 to 4 weeks, depending on the individual situation, and be recognized as an unemployed person. Before December 31, 2005, all recipients should visit an employment center once every 2 weeks. This process includes obtaining recognition of unemployment for the preceding 1 to 4 weeks and of active job-seeking efforts. Workers who were temporarily employed during the recognized period of unemployment are disqualified from receiving job-seeking benefits for the period of the temporary employment. In cases where the worker has earned above a certain level of income through his or her labor that cannot be considered employment, the regulation stipulates that he or she be paid the benefits after the deduction of the said amount of income earned.

The approval process for recognition of unemployment has not changed fundamentally since the launch of the UBP. But the criteria for evaluating active job-seeking efforts have been relaxed somewhat over time. For example, a worker can win recognition for unemployment for being engaged in job-seeking activities while preparing to start his or her own business. Applying for positions through the Internet, attending vocational training courses provided by an employment center, or participating in community services recommended by the head of an employment center in regions that lack job opportunities are also ways to receive recognition for unemployment.

A worker might become ineligible for job-seeking benefits when he or she loses the ability to work due to illness or injury. Workers in such situations are paid illness and injury benefits for up to the number of days they were ineligible to receive job-seeking benefits. The illness and injury benefits apply only to workers who were ill or out of work due to injuries for 7 days or more. Workers who have been out of work for less than 7 days can still obtain recognition for unemployment and qualify for job-seeking benefits.

Duration of Benefits

Prescribed duration of unemployment benefits. The prescribed duration of benefits is determined by age and by the insurance period of the recipient. In general, the prescribed duration increases with age and insurance period. The prescribed duration is as shown in Table 2-5, and the changes introduced since the launch of the UBP are described in the table note.

At present the minimum prescribed duration of benefits is 90 days for those under age 30, with a minimum insured period of at least 180 days and not exceeding 1 year. The maximum prescribed duration of benefits is 240 days for those 50 years and older or who are disabled, with a minimum insured period of 10 or more years. As of July 1, 2005, the 10th anniversary of the EIS, for the first time in its history qualified recipients for 240 days of job-seeking benefits, the maximum prescribed duration of benefits appeared.

Unless there is a special reason to do otherwise, UB must be claimed within 1 year of separation. UB are not paid for the first 7 days after the date unemployment was reported, as this is considered to be a waiting period. The waiting period was reduced to 7 days from 14 days with the revision of the law in December 2002. Recipients can get benefits within the feasible period. The feasible period was originally 10 months after job separation, but was increased to 1 year with the extension of

Table 2-5. *Prescribed Duration of Unemployment Benefits*

Group	Past					Present				
	Insurance period					Insurance period				
	6 mos., < 1 yr.	≥ 1 yr., < 3 yrs.	≥ 3 yrs., < 5 yrs.	≥ 5 yrs., < 10 yrs.	≥ 10 yrs.	180 days < 1 yr.	≤ 1yr., < 3 yrs.	≥ 3 yrs., < 5 yrs.	≥ 5 yrs., < 10 yrs.	≥ 10 yrs.
Age < 25		30	60	90	120					
25-29	60	60	90	120	150	90	90	120	150	180
30-49	60	90	120	150	180	90	120	150	180	210
Age ≥ 50 & the disabled	60	120	150	180	210	90	150	180	210	240

Note. Rows other than the 6 months–≤ 1 year section on the left side have been shaded because the minimum insured period was 1 year or longer at the time the Employment Insurance System was initiated. During the high-unemployment period (March 1, 1998–June 30, 2000), the minimum benefit duration was temporarily increased to 60 days and the minimum insured period was also adjusted (the three lower rows on the left side), but the 1999 revision of the Employment Insurance Act put the new duration guideline (on the right side) into effect starting in 2000.

the duration of benefits.

Extended benefits scheme. If the prescribed duration of benefits is not deemed adequate to protect the livelihood of the unemployed due to personal circumstances of the individual recipient or deterioration of general economic conditions, an extended benefit can be paid. The extended benefits scheme consists of training extended benefits, individual extended benefits, and special extended benefits.

Training extended benefits can be paid for a maximum of 2 years to eligible recipients attending job-training courses as ordered by the head of an employment center. The amount of benefit was increased from 70% to 100% of job-seeking benefits beginning in March 2008. Individual extended benefits amounting to 70% of job-seeking benefits are paid for a period not exceeding 60 days to an eligible recipient who experiences severe financial hardship, and who received job-placement services from an employment center on three or more occasions until the prescribed duration of benefits was exhausted. The condition for receiving individual extended benefits has been moderated several times,

most recently on February 5, 2009, to tackle the effects of the global financial crisis. The special extended benefits can be paid at the discretion of the Minister of Labor for a period not exceeding 60 days. The amount of benefit is 70% of job-seeking benefits like individual extended benefits. These benefits can be enforced if the unemployment rate exceeds 6% for 3 consecutive months, or if the number of beneficiaries of job-seeking benefits exceeds 3% of the total number of insured workers for 3 consecutive months, or if the number of new benefits claimants exceeds 1% of the total number of insured workers for 3 consecutive months. The special extended benefits scheme was in force from July 1, 1998 until December 31, 1999, but the individual extended benefits and the training extended benefits have not been widely used.

Amount of Benefits

The amount of job-seeking benefits is generally 50% of the average wages earned in the previous employment, although it is bound by upper and lower limits. The lower limit for the daily amount of job-seeking benefits is 90% of the legal minimum daily wage, and the upper limit is KRW 40 thousand. The earnings-replacement rate between the upper and lower limits has not changed since the law went into effect, even though the lower limit was newly established after the launch and the upper limit has been revised on two occasions thus far.

There had been no lower limit on the amount of daily payment at the time the program was first launched. It was first incorporated into the Employment Insurance Act with its revision on September 17, 1998, at 70% of the daily minimum wage, and was adjusted upward to 90% on December 31, 1999.

In the case of the upper limit for the daily amount of the job-seeking benefits, the amount can be adjusted to respond to economic conditions. The original upper limit was KRW 35 thousand but was

lowered to KRW 30 thousand on February 1, 1999, in consideration of the overall decline in wage levels during the economic crisis. When the crisis was deemed to be at an end, the amount was brought back to KRW 35 thousand as of January 1, 2001, and then increased again to KRW 40 thousand on January 1, 2005.

Financing Rules

In Korea, the premium for workers and employers to finance UBP are set to equal levels, 0.55% of payroll for each. The Korean government bears the administrative costs. Since the introduction of the UBP, the premium has changed twice: 0.3% for each party before 1998, 0.5% for each party from 1999 - to 2002, 0.45% for each party from 2003 - March, 2011, 0.55% for each party after April, 2011.

Another important issue is how to adjust the premium rates at the right moment, which requires regular actuarial assessment and premium-setting rules. Korea usually undertakes actuarial assessment annually and has introduced a rule-based premium-adjustment system on the basis of a 2008 tripartite agreement. According to the rule, the proper amount of reserve funds for UB is 1.5 to 2 times the previous year's expenditures. When the balance in the reserve fund falls below or exceeds is appropriate range, the Minister of Labor may set a new premium rate through deliberations of the Employment Insurance Committee, which is composed of tripartite partners.

4. Performance and Evaluation

Overview of Performance

The number of covered workers and firms has increased steadily since the UBP was implemented in 1995. The number of insured

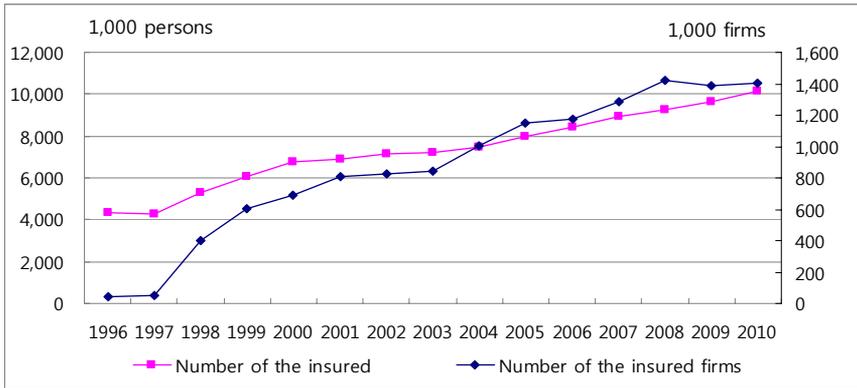


Figure 2-5. Trends in the number of insured workers and applied firms, 1996-2010.

Daily workers are not included in the number of insured workers. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year.

workers is 10.131 million, and the number of applied firms is 1.408 million as of December 31, 2010 (Figure 2-5). Two institutional factors other than the overall growth of workers may have contributed to the rapid increase in the number of insured workers and applied firms: the extension of coverage, and the enforcement of legal coverage. The jump in the number of insured workers and applied firms in 1998 shows the initial effects of the extension of coverage to all firms and to temporary and part-time workers. The steady increase in insured workers and applied firms may reflect the overall growth of workers and the improved enforcement of the legal coverage.

The number of UB recipients and the amount of benefits paid out are shown in Figure 2-6. The number of recipients was 44,591 in 1997 and skyrocketed to 393,935 in 1998. This can be attributed to the efficient countermeasures taken against the economic crisis such as easing the eligibility criteria for benefits, and implementing the special extended benefits scheme. The number started to decline once the economy regained some traction, reaching as low as 307,918 in 2000, but in 2001 sharply upsurged again, to 383,830, with the economic downturn. It

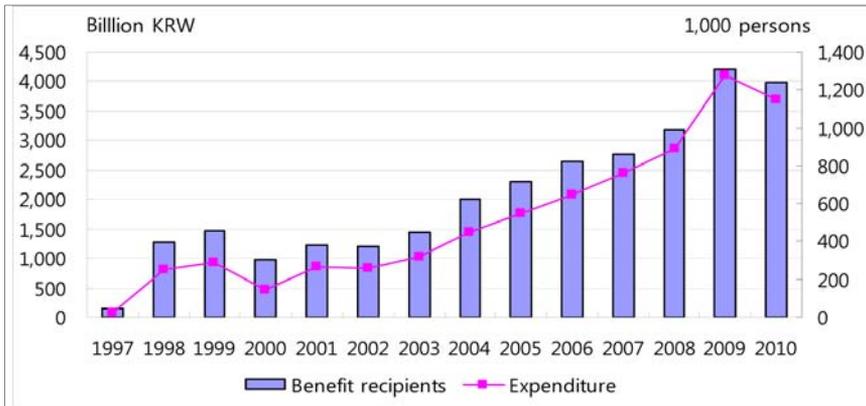


Figure 2-6. Trends in unemployment-benefits recipients and benefits expenditures, 1997-2010. The number of benefit recipients is the sum of those receiving job-seeking benefits and illness and injury benefits. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year.

dropped slightly with the mild economic rebound in 2002, after which the number of recipients grew steadily until 2008. In 2009 the number of recipients hiked again and reached a historic high of 1,306,152 when Korea's economy was hit by the global economic crisis. In 2010, it decreased again as the economy recovered rather quickly compared with other developed countries. The trends in benefit expenditures follow those for benefits recipients. The amount of benefit expenditure in 2010 was KRW 3.686 trillion.

Coverage

Although the number of insured workers has grown steadily, this growth may be due to the increase in the number of workers overall as mentioned above. Figure 2-7 shows the trends in the number of insured workers and their proportion to permanent and temporary workers. The proportion of insured workers to total permanent and temporary workers can be regarded as a proxy variable that shows the actual

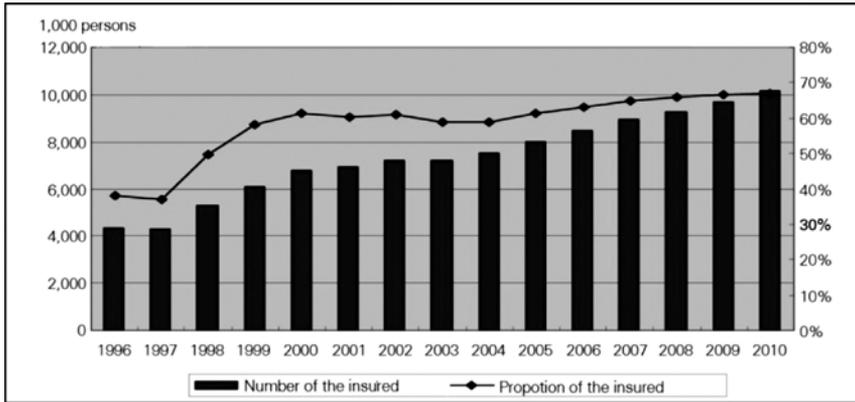
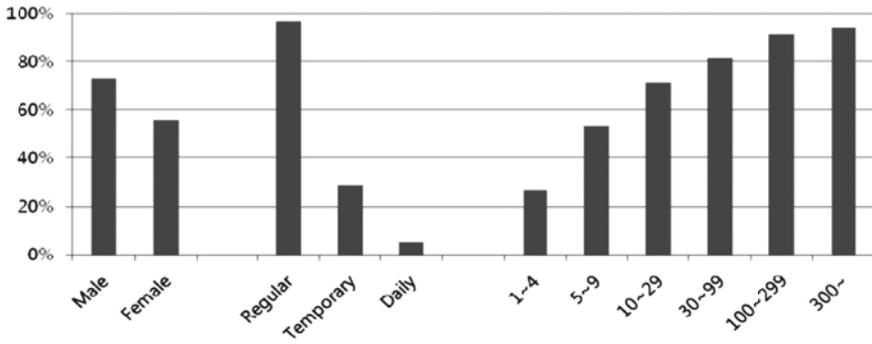


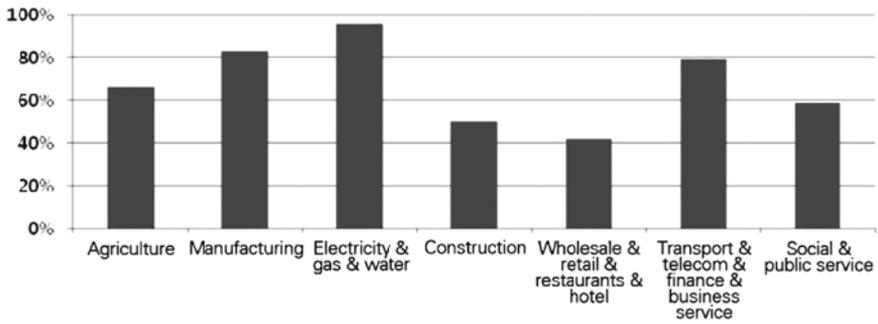
Figure 2-7. Trends in insured workers and actual coverage of unemployment benefits, 1996-2010. Daily workers are not included in the number of insured workers. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year; *Economically Active Population Survey*, by National Statistical Office, each year (<http://www.kosis.kr>).

coverage of the UI. Although the actual coverage improved quickly in the late 1990s with the extension of legal coverage, it is still only 66.9% as of December 2010. The slow increase in actual coverage after 2000 implies that most of the increase in insured workers comes from the growth of workers under legal coverage, and that filling the gap between legal and actual coverage has been a great challenge in Korea.

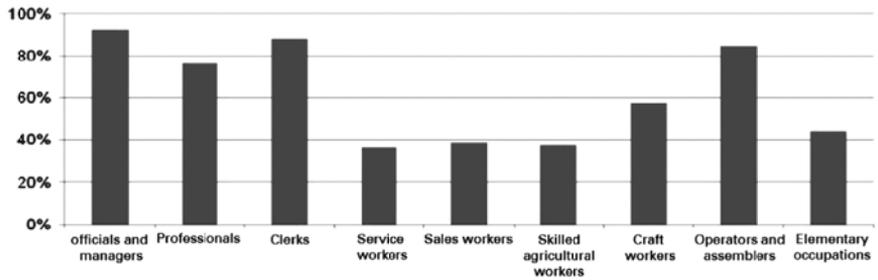
The Supplementary Survey of the Economically Active Population Survey, conducted in August each year, collects detailed information about social-insurance coverage and other employment-related topics. From this information we can estimate more accurately the actual coverage provided by the different types of social insurance. As of August 2010, the actual coverage of the UBP was 69.9% of legal coverage and 65.4% of both legal coverage and excluded workers by the EIS law. Figure 2-8 shows the proportion of covered workers to legally covered and excluded workers by sex and employment-related variables. Outstanding features of actual coverage are as follows: most daily workers are actually excluded, although legally covered by the EIS law; more



By sex, employment status, and firm size



By industry



By occupation

Figure 2-8. Actual unemployment-benefits coverage, by sex, employment status, and firm size; industry; and occupation. From *Supplementary Survey of the Economically Active Population Survey*, by National Statistical Office, August 2010 (<http://www.kosis.kr>).

than 70% of temporary workers are also actually excluded; actual coverage increases as firm size grows, and more than 70% of workers in small firms with fewer than 5 workers are excluded; men's actual coverage is higher than women's, which is mostly due to a difference in employment status; actual coverage is lower in the construction industry and in the wholesale, retail, hotel, and restaurant industry than in other industries; and more than half of service, sales, agricultural, and non-skilled workers are excluded from actual coverage. These findings reveal the target groups on which policy efforts to strengthen application should focus.

Effectiveness of Benefit Coverage

Table 2-6 presents the number of UB recipients by specific category. In Table 2-6 the total number of benefit recipients is the sum of the numbers of recipients of job-seeking benefits and of illness and injury benefits, since the recipients of early reemployment allowance and other employment-promotion allowances are counted in the job-seeking-benefit recipients. The number of job-seeking-benefits recipients accounts for more than 98% of the total number of UB recipients. The number of those receiving illness and injury benefits has ranged from 0.3% to 1.6% of total UB recipients. Recipients of other employment-promotion allowances do not constitute a significant portion of the total UB recipients, either. This corroborates the insufficient alignment between the passive labor market policy of the UBP and the active labor market policy of vocational training and creating a balance between supply and demand in the intraregional labor market.

The share of early-reemployment allowance recipients, on the other hand, represents a meaningful portion of the total number of UB recipients, reaching 17.7% in 2008. But the revision of eligibility beginning in 2010 resulted in a sharp decline in the share, to 7.4%, in 2010. In Table 2-6, whereas some job-seeking benefits recipients are paid

over two calendar years, recipients of the early-reemployment allowance are paid only once during the payment period. This means that the percentage of early-reemployment allowance recipients is underestimated. Therefore, recalculating the proportion of early-reemployment allowance recipients for each year to new UB recipients for the same year yields a figure greater than that shown in Table 2-6. For 2008, the recalculated percentage is 20.9%. To be sure, this is not an accurate method of calculation given that some of the new UB recipients for each year are paid the early-reemployment allowance in the following

Table 2-6. *Trends in Numbers of Unemployment-Benefits Recipients and Share of Total Unemployment-Benefits Recipients, by Category, 1997-2010*

(persons, %)

Year	Total		Job-seeking benefit		Early reemployment benefit		Illness and injury benefit		Others	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
1997	44,591	100.0	44,334	99.4	4,481	10.0	257	0.6	45	0.1
1998	393,935	100.0	392,569	99.7	17,712	4.5	1,366	0.3	39	0.0
1999	459,518	100.0	455,355	99.1	25,153	5.5	4,163	0.9	101	0.0
2000	307,918	100.0	303,859	98.7	24,710	8.0	4,059	1.3	64	0.0
2001	383,830	100.0	377,752	98.4	44,129	11.5	6,078	1.6	197	0.1
2002	372,142	100.0	366,270	98.4	43,690	11.7	5,872	1.6	209	0.1
2003	450,483	100.0	444,061	98.6	51,537	11.4	6,422	1.4	191	0.0
2004	625,760	100.0	619,420	99.0	81,419	13.0	6,340	1.0	253	0.0
2005	712,446	100.0	706,645	99.2	99,925	14.0	5,801	0.8	397	0.1
2006	821,871	100.0	816,692	99.4	121,232	14.8	5,179	0.6	439	0.1
2007	861,056	100.0	855,749	99.4	147,688	17.2	5,307	0.6	436	0.1
2008	987,421	100.0	981,985	99.4	174,403	17.7	5,436	0.6	710	0.1
2009	1,306,152	100.0	1,299,567	99.5	221,389	16.9	6,585	0.5	866	0.1
2010	1,243,849	100.0	1,236,985	99.4	91,864	7.4	6,864	0.6	726	0.1

Note. Total is the sum of job-seeking benefits and illness and injury benefits. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year.

year, but the recalculated percentage can be deemed to better reflect the ratio of the number of early-reemployment allowance recipients to the total number of UB recipients.

Korea's UBP offers three extended benefits. Of these, the special extended benefits program was activated during the period of financial crisis in the late 1990s. The other two extended benefits offerings are individual extended benefits and training extended benefits. Figure 2-9 shows the performance of these two benefits after 2000. The number of recipients of these two extended benefits has been very small compared with total UB recipients. In 2008, the number of individual extended benefits recipients was just 260, and of training extended benefits was just 52. The former jumped to 5,162 in 2009, when eligibility was relaxed to alleviate the shock of the global economic crisis. However, its share of total UB recipients is still less than a half percent.

The ability of performance measures to capture the effectiveness of the UBP as a safety net for the unemployed is limited. This study use three performance measures. The first one compared the number of insured separators and the number of UB recipients, which may be an

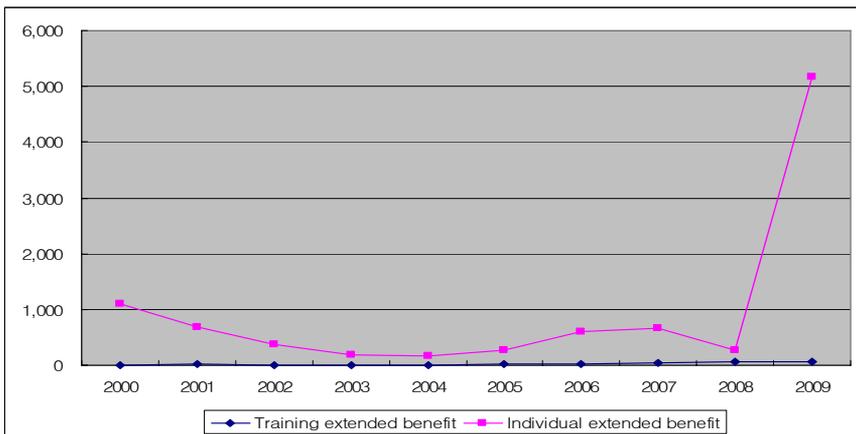


Figure 2-9. Trends in individual and training extended benefits recipients. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year.

indicator of the effectiveness of the UBP. Figure 2-10 presents newly qualified recipients and their share of the number of insured job separators.

The trends in the number of new recipients are slightly different from that of total UB recipients because some of the new recipients of a particular year continue to receive the benefits in the following year. A case in point is the year 1999. In 1999, despite the decrease in the number of new recipients, there was an increase in the total number of recipients and the total amount paid out, as shown in Figure 2-6.

There are two peaks in the trends in the ratio of the number of new recipients to the total number of insured separators: in 1998 the ratio reached 21.9% and in 2009, it reached 22.6%. Both peaks illustrate the shock of the two economic crises that Korea has experienced since the introduction of the UBP. Another notable phenomenon is that the ratio has increased constantly since 2002, which means that more and more insured workers receive UB benefits when they become jobless.

Because the eligibility criteria are based on the contribution require-

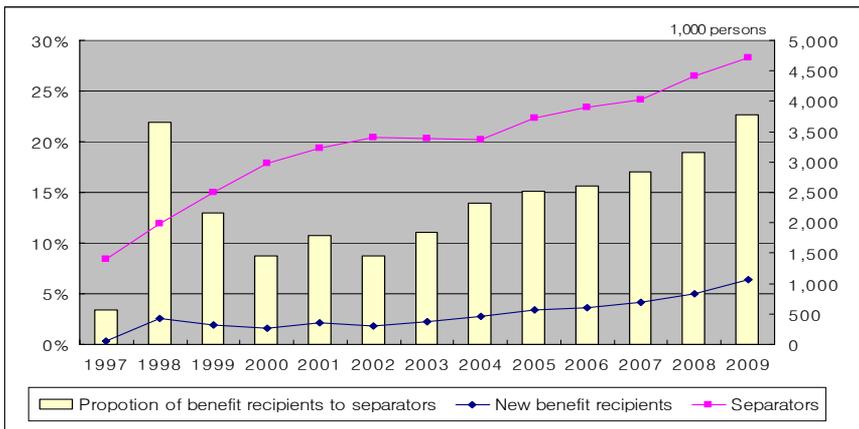


Figure 2-10. Trends in new benefit recipients and their proportion of total insured separators. New benefit recipients are those who are qualified to receive unemployment benefits in each year. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year.

ments and the validity of the reason for job separation, the surge in the proportion of new recipients in 1998 may be attributed mostly to the relaxation of the contribution requirements and the increase in the percentage of involuntary separators due to changing economic conditions. The subsequent drop in the ratio of the number of new recipients to the number of insured separators is evidently/apparently due mostly to the decrease in the proportion/percentage of involuntary job separators as a result of the economic recovery and to greater opportunities for reemployment in the labor market.

Figure 2-11 shows the changes in the distribution of insured separators by reason for separation. According to the figure, the percentage of voluntary job separators in Korea is by and large very high. In 1997, the proportion of voluntary separators was 88.0%; it nosedived to 67.8% in 1998 before climbing back up to the 70% level in 1999. However, the proportion of voluntary separators has generally decreased since 2002. It is safe to say that the reason for separation is a cardinal determinant of changes in the percentage of eligible recipients by year be-

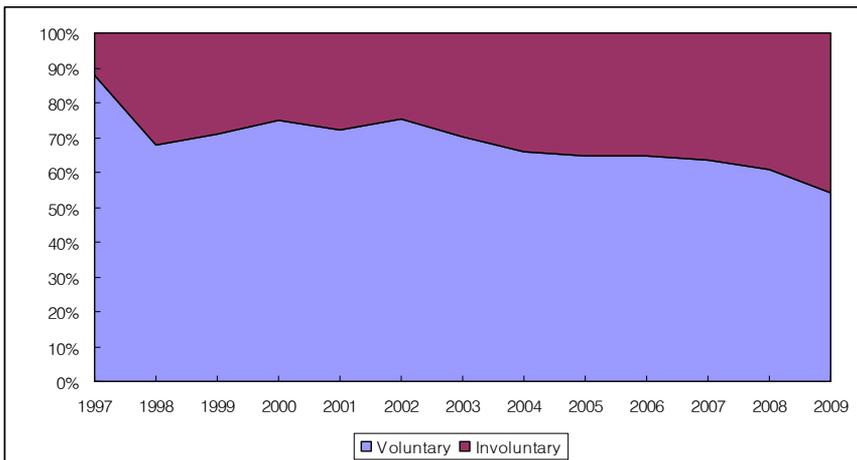


Figure 2-11. Distribution of insured job separators by cause of separation. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year.

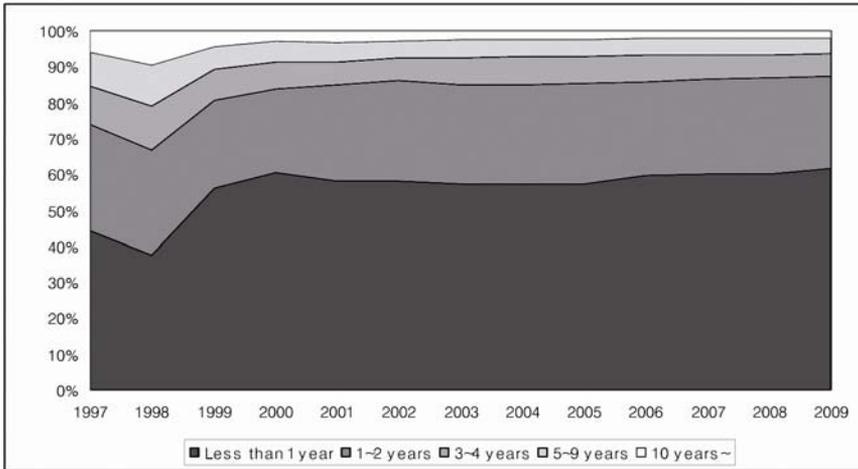


Figure 2-12. Distribution of insured job separators by tenure. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year.

cause most voluntary job separators are disqualified from receiving benefits—although, to be sure, benefits are granted to those with good causes for separation. That the proportion of separators with less than 1 year of tenure has changed little since 2000 (see Figure 2-12) supports this conclusion.

By and large, the UBP appears to play an insufficient role as a safety net in the sense of protecting the livelihoods of the unemployed. This is evidenced by the fact that the ratio of eligible recipients to insured separators peaked at a mere 22.6% in 2009 (see Figure 2-10).

The second measure is typically used in evaluating the UBP's effectiveness as a safety net, the ratio of the number of UB recipients to the number of unemployed, paints a different picture. In Figure 2-13, the ratio of the monthly average number of UB recipients based on UBP administration data to the number of unemployed according to the Economically Active Population Survey, peaked in 2009 at 42.7%, which is almost twice the number calculated using new UB recipients and insured separators.

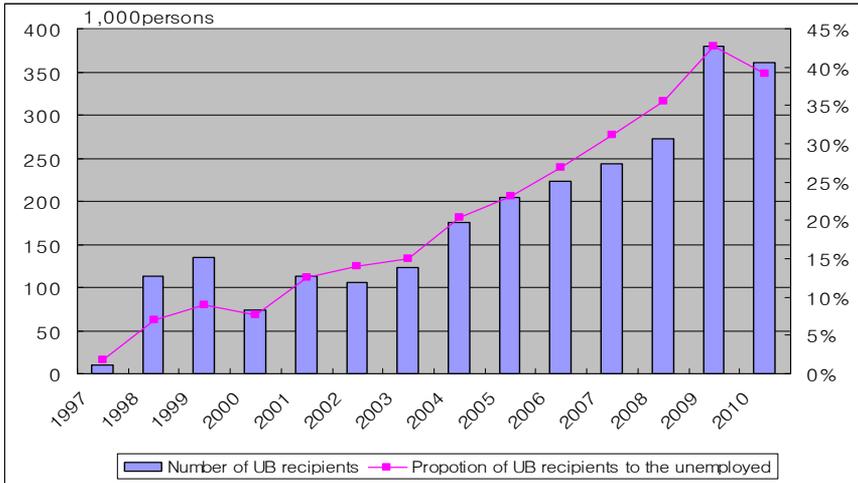


Figure 2-13. Trends in the proportion of monthly unemployment-benefits recipients to the unemployed, 1997-2010. Number of unemployment-benefits recipients is average of unemployment-benefits recipients in each month in a particular year. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year; *Economically Active Population Survey*, by National Statistical Office, each year (<http://www.kosi.s.kr>).

There are two major factors in this steady rise in the ratio of UB recipients: the institutional factor and the labor market factor. The institutional factor includes the growing number of insured workers as a result of the expansion of coverage in response the financial crisis, the easing of eligibility criteria for UB, the extension of the prescribed duration of benefits, and the maturing of the UBP. Because the duration of benefits is linked to the insured period, the maturation of the UBP naturally leads to an increase in the proportion of UB recipients to the unemployed. The main labor market factor behind the scene is the steady rise in the proportion of involuntary separators mentioned before.

On the other hand, the effectiveness indicator in Figure 2-13 is much higher than that in Figure 2-10 because of the labor market behavior of the job separators. The indicator in Figure 2-13 uses data from Ko-

rea's Economically Active Population Survey for the number of the unemployed and from administrative data for the number of UB recipients. This figure, which is simply a ratio of the number of UB recipients to the number of unemployed, is relatively overstated when compared with that of major European countries, which are based on only survey data. A large proportion of job separators move out of the labor market rather than staying in as unemployed workers in Korea, which reduces the size of the denominator in calculating the proportion of UB recipients to the unemployed.

Lee (2011) suggested an improved estimate, the third performance measure of the UBP, using another supplementary survey of the Economically Active Population Survey. Table 2-7 shows that only 11.3% of unemployed wage workers separated within 1 year of the survey date were receiving benefits as of August 2009. UB recipients who are out-of-labor force are not considered in calculating this estimate. The gap in the proportion among different employment statuses is quite large. The factors that caused the low rate of benefit receipt can be summarized as follows: First, many workers, particularly irregular

Table 2-7. *Distribution of Reasons for Not Receiving Unemployment Benefits, by Employment Status*

Employment status	Not receiving benefits					Receiving benefits
	Not insured	No sufficient contribution	Cause of separation	Others	Exhaustion of benefits	
Total	45.0	11.1	22.9	6.8	2.9	11.3
Permanent	9.0	5.7	34.2	7.6	6.6	37.0
Temporary	46.9	11.6	25.1	6.5	2.7	7.2
Daily	61.6	13.5	14.9	6.6	1.1	2.3

Note. From *Supplementary Survey to the Economically Active Population Survey*, by National Statistical Office, April 2009, as cited in "Policy Measures to Promote Formalization of Informal Employment by Supporting Social Insurance Contributions," by B. Lee, 2011, paper presented at the 23rd Anniversary Seminar of the Korea Labor Institute, October 13, Seoul, Korea.

workers, are not covered by the UBP; second, strict eligibility criteria deny benefits to most voluntary workers; and third, a substantial proportion of unemployed workers do not satisfy the contribution criteria because their employment status is unstable.

Duration, Amount, and Overall Generosity of Unemployment Benefits

The focus so far has been on the number of UB recipients. From this point onward, the focus will be on the actual benefits paid. The benefits will be examined against two measures: the duration of benefits and the earnings-replacement rate for job-seeking benefits. Figure 2-14 presents the average duration of benefits, and Figure 2-15 shows the earnings-replacement rate for job-seeking benefits.

Because Korea's UBP has experienced a maturing phase, the average duration increased until the mid-2000s (Figure 2-14). The average duration stabilized with the emergence of UB recipients having an insured period of 10 or more years, starting from July 2005 as the result of the maturing of the UBP. Average duration reached 121 days and changed slightly since then. Currently the prescribed duration of benefits ranges

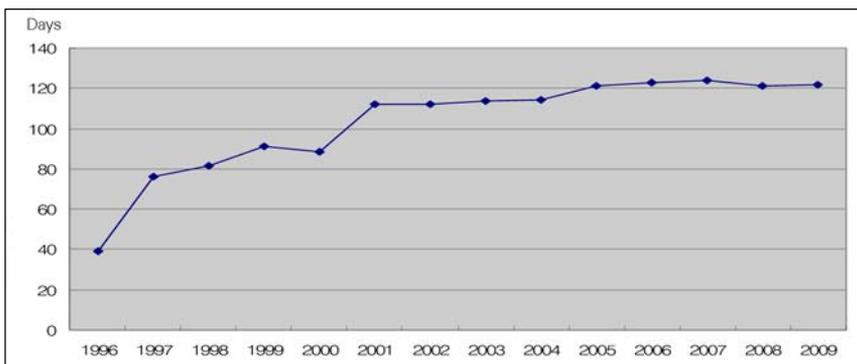


Figure 2-14. Trends in average duration of job-seeking benefits. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year.

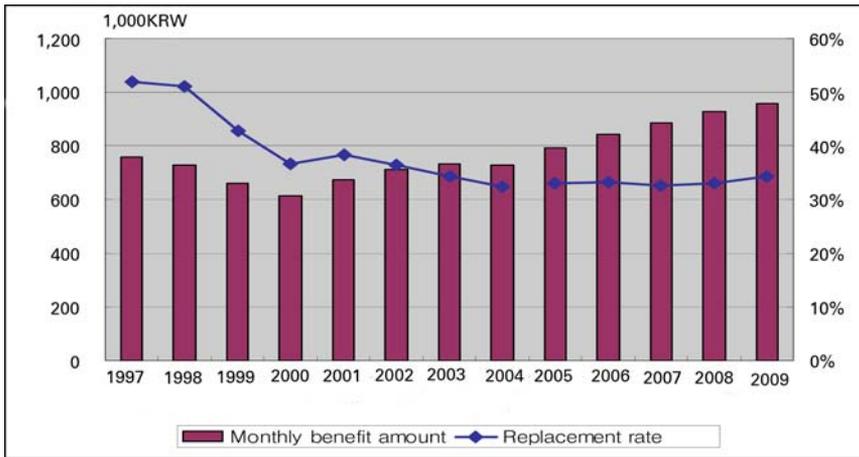


Figure 2-15. Trends in monthly benefit amount and replacement rate. From *Employment Insurance Annual Report*, by Korea Employment Information Service, each year.

from 90 day to 240 days depending on insured period and age, as shown in Table 2-6. This implies that the insured period for many UB recipients is very short. Figure 2-12 clearly supports this interpretation.

The average tenure of Korean workers is much shorter than for workers in other developed countries. The proportion of wage workers with less than 1 year's tenure was 36.2% in 2009, which is much higher than the OECD average of 16.3%. On the other hand, the proportion of workers with 10 or more years of tenure is just 16.9%, which is also much lower than the OECD average of 34.0% (the numbers were calculated using the OECD database). This implies that an unstable labor market led to the weak effectiveness of the UBP, whose benefits are linked to employment experience.

Next, let us look at the earnings-replacement rate of the job-seeking benefits. The actual daily amount of job-seeking benefits would be set at less than 50% since it is bound by upper and lower limits. According to Figure 2-15, the earnings-replacement rate, the ratio of average monthly job-seeking benefits to average total earnings, declined steadily,

from more than 51.9% in 1997 to a mere 32.3% in 2004. In 2005, the Korea Employment Information Service began providing a different estimate of average monthly job-seeking benefits, which resulted in a slight increase in the indicator, thus the broken line between 2004 and 2005 in Figure 2-14. During these years, the earnings-replacement rate fluctuated between 32 and 34%.

The low earnings-replacement rate mainly derives from two factors. First, when the UBP was first implemented, its coverage included workers with relatively good working conditions; but with the expansion of coverage in 1998, a great number of workers with relatively poorer working conditions entered the UBP. This explains the decline of earnings-replacement rates from 1998 to 2000. Since then, the upper limit of the daily benefit has prevented the earnings-replacement rate from recovering to its standard level of half of the previous earnings.

Eligibility criteria, duration of benefits, and amount of benefits constitute the overall generosity in terms of UI design. Hwang (2011) compared the overall generosity of UI design in 14 major OECD countries and concluded that Korea's UB are the least generous of the selected countries. Kim (2010) also showed that Korea's generosity, measured by replacement rate and by the proportion of benefit recipients to unemployed, is much lower than other countries that have only UI as a safety net for the unemployed. Generally, the generosity of the safety net for the unemployed is higher in countries with UI and unemployment assistance than in those with only UI, when other things are equal.

The Effects of Unemployment Benefits on Unemployment Rates and Reemployment

The purpose of the UBP is to protect the livelihood of out-of-job workers during spells of unemployment. By protecting the livelihood of jobless workers during their job-search period, the program is also

expected to help unemployed workers find better employment. In other words, by enhancing the quality of reemployment, the program promotes a more efficient distribution of resources at the national level. On the flipside, many of the overseas studies on the effect of UB point out that they have a negative side effect of prolonging the duration of unemployment. Against this backdrop, this section will examine the effect of UB on the labor market. The grounds for the theory that UB have a negative effect on the reemployment of jobless workers are presented in the job-search model and the labor-supply model. UB protract the duration of unemployment, according to the job-search model, by reducing the opportunity costs of job-search activities, and according to the labor-supply model, by reducing the opportunity costs of choosing leisure. In addition to prolonging the term of unemployment, UB can also influence a worker choosing among being unemployed, being economically inactive, or being employed. Although UB may have varying effects depending on how the program is designed, the UBP might encourage the transition from the state of employment to unemployment or increase the chances of a job separator choosing to enter the state of unemployment rather than to exit the labor market (Decker, 1997; Mortensen, 1977).

Owing to the relatively short history of the UBP in Korea, as of yet there are few studies on the subject. But the mass unemployment that erupted during the financial crisis at the end of 1997 and the subsequent increase in the number of UB recipients have resulted in some studies on the effects of UB on the labor market. These studies, which were based on microsurvey data, are those by Hong and Yang (1999), Ryoo and Ryoo (1999), Hwang (2004), and Yoo, Kim, and Seong (2003). Nam and Lee (1999) and Kim (2000) analyzed the effect of the UBP by setting up proxy variables for eligibility using the data from the Economically Active Population Survey. What is remarkable is that, in contrast to similar studies conducted overseas, the above-mentioned studies drew inconsistent conclusions regarding the effect of UB on the

labor market. While Hong and Yang (1999) and Nam and Lee (1999) stated that UB do not protract the term of unemployment, Ryoo and Ryoo (1999), Hwang (2004), and Yoo et al. (2003) claimed that they do. Kim (2000) did not uncover any negative effect of UB, in the sense that he found no differences between the unemployment rates of the benefits recipients and the non-recipients. On the other hand, Hwang (2004) analyzed the effect of UB not only on the duration of unemployment but also on the choice between being unemployed and being economically inactive. The results of his study show that some UB recipients opt to be unemployed rather than to be economically inactive, which implies that the UBP improves the labor market attachment of benefit recipients.

More recent studies are Yoon and Park (2008), Lee (2008), Yoon and Lee (2010), and Jang (2011). Both Yoon and Park (2008) and Yoon and Lee (2010) used data from the Employment Insurance Database, but they obtained conflicting results. Yoon and Park (2008) found that receiving UB leads to a longer period of reemployment, but Yoon and Lee (2010) found the opposite results. Lee (2008), using Economically Active Population Survey data, showed that workers who are qualified to receive UB may take more time for the first reemployment, but their overall duration of employment within 1 year after job separation and the stability of their new job is better than that of others. Jang's (2011) approach was different from other studies and focused on the effect of UB coverage on length of unemployment and job quality. Jang (2011) showed that the unemployment spell for insured workers is shorter than that of uninsured workers and that the quality of insured workers' new jobs is better than that of uninsured workers.

We cannot conclude the effects of UB on the labor market clearly from the studies done so far. Some of the apparent reasons are a lack of data needed for an accurate analysis of the UBP and the short history of the UBP. Thus, consistent efforts should be made to conduct studies that can accurately evaluate the effect of UB on the labor market

behavior of the unemployed and on the quality of new jobs.

5. Conclusion: Proposals for Future Development

Based on the evaluation thus far, two recommendations may be presented for improving the UBP. One is to reinforce the role of the program as a safety net for unemployed workers. This includes measures to boost the percentage of UB recipients, for example, to extend the actual coverage and to ease the eligibility criteria with regard to reasons for separation. The other is to enhance the protection level of UB, such as the duration and amount of benefits.

Although the absence of an unemployment assistance system is one of the key reasons why the proportion of unemployment-related benefits recipients to total unemployed is lower than in other developed countries, also in play are other factors such as the employment structure and the actual coverage of benefits, the eligibility criteria, and the duration of benefits. Since a detailed discussion on unemployment assistance is beyond the scope of this study, this section will focus on UB design: the coverage of the UBP, the eligibility criteria, the amount of benefits, and the duration of benefits. Finally, the issue of unemployment assistance would be dealt with briefly.

First, the legal expansion of UB coverage is evidently at an end. The UBP now encompasses all temporary and part-time workers at business enterprises with 1 or more persons on the payroll. Moreover, since January 2004, daily workers with job security of less than 1 month are also covered by the program. But despite the legal expansion of UB coverage, the actual ratio of the number of insured workers to the total number of employed has hovered near 60% since 2000. Therefore, consistent efforts should be made to improve the actual rate of coverage. To this end there is a need for more strong enforcement of laws,

as well as revamping the overall tax administration and social security system so as to prevent employers from dodging the EIS, for example, by establishing a system that integrates tax administration and the collection of social insurance premiums. Another new initiative to induce more compliance is under way. Lee (2011) suggested that the government support a part of UB and Nation Pension premium for low-wage workers and employers of small firms to fill the loopholes in the social-insurance coverage and to promote the formalization of informal employment. The Korean government introduced such a program on a small scale in 2012.

Second, the strict eligibility criteria with regard to cause of job separation should be eased. Because voluntary job separators currently account for more than half of the total insured job separators (Figure 2-11), the relaxation of the eligibility criteria is expected to considerably improve the proportion of UB recipients. According to Hasselpflug (2005), with the exception of the Czech Republic, Italy, the Netherlands, Portugal, Spain, and the United States, most countries pay out UB to voluntary separators after a suspension period of 2 to 4 months. In light of the situation, a “long-term unemployment benefit” (tentatively named) is needed to support voluntary job separators who might not have had valid reasons at the time of separation but who end up in a state of prolonged involuntary unemployment despite continued efforts to find a job.

Third, the current earnings-replacement rate is very low compared with other OECD countries (Hwang, 2011; OECD, 2007). A maximum daily job-seeking benefit amount that is too low, frozen since 2005, has contributed to this abnormal situation. This situation renders the Korean UB similar to a flat-rate benefit system. It would be appropriate to adjust the maximum amount according to changes in economy-wide wage levels.

Fourth, with regard to the duration of the UB, measures to reinforce the level of protection for the unemployed should be examined. One

example would be to simplify the prescribed duration of benefits by evaluating the validity of a graded system by age and by insured period. The current prescribed duration is too complex, and the minimum duration, 90 days, is very short compared with other OECD countries (Hwang, 2011; OECD, 2007). Revising the prescribed duration as well as lengthening the minimum duration is necessary to strengthen the role of UB as a safety net for the unemployed.

Finally, a new policy to reduce the gaps in the cash benefits that support the livelihood of the unemployed should be introduced. Korea has a form of minimum income guarantee system called the National Basic Livelihood Security System (NBLS). However, there is a huge gap in coverage between the UB and the NBLS. A new, second-tier safety net to fill the gap between the UB (the first tier) and the NBLS (the third tier as a last resort) would alleviate this problem. The Employment-success-package program for disadvantaged groups, introduced in 2008, may be developed to tackle this issue. The basic goal of the program is to establish individual employment-support plans for disadvantaged workers who experience difficulty obtaining a job and to provide a coordinated employment-support program. Providing cash benefits to low-income participants of the program would make it possible to develop a new second-tier safety net for unemployed workers such as un-employment assistance.

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Chapter 3

Unemployment Insurance in China

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1. Introduction

Background of and Introduction to Unemployment Insurance

Unemployment insurance (UI) is one of the five systems that constitute social insurance in China. It dates from the reform period and the opening of China to the outside world, rather than from the 1950s when the other four systems were first established. In China's planned economy, workers were neither dismissed nor laid off, which ruled out open unemployment. Still, substantial *disguised unemployment* existed in the sense that enterprises employed more labor than they needed.

UI was introduced in 1986 specifically to facilitate the replacement of employment for life, which until then was the prevalent norm for employment on interminable contract. Initially, the system was confined to state-owned enterprises, which then employed most of the workers in urban areas. The contribution rate was set at 1% of wages. Given the small number of the unemployed entitled to UI benefits, the system was in surplus in most cities despite the low contribution rate. Moreover, the UI benefit was not a fixed amount, as it is at present, but was variable, linked to wages.

In the 1990s, the economy underwent a radical change. By the early

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1990s, a substantial and increasing percentage of the urban labor force were employed on terminable contract and thus were susceptible to unemployment. Further, from the mid 1990s on, forced by a worsening financial situation, the state sector began to reduce its labor force on a large scale.

In 1999, when the Regulation on Unemployment Insurance was introduced, the main problem that arose was ensuring that the increasing numbers of unemployed workers and laid-off employees received their subsistence allowance without a long delay. To meet rising demands for UI funds, the contribution rate was raised in 1998 from 1%, entirely payable by employers, to 3%, with 2% paid by employers and 1% by employees. Because the UI fund was not sufficient to cover subsistence allowances for laid off employees, a separate temporary system was established for them, which was financed by joint contributions from employers, the local government, and the UI fund. In 2001, this separate system was merged into the UI System. The merger proceeded at different rates in different provinces and was largely completed by 2004.

Three Phases of the Establishment of China's UI Scheme

In general, since China's UI system was set up in 1986, it has undergone three phases.

Phase 1 (from 1986 to 1993): The basic framework was established. During this period, China entered the stage of economic system reform that focused on the cities. The goal was to boost up the vitality of the state-owned enterprises (SOEs) and reform the labor employment system in these enterprises. Enterprises were closed down, suspended their operations, merged with others, or shifted to different lines of production in line with the principle of survival of the fittest, which required setting up a new employment system to deliver unemployment aid to those who were dismissed by the enterprises. In 1986, the Chinese government enacted Provisional Regulations on the Labor

Contract System in State-run Enterprises (hereinafter referred to as the Provisional Regulations), Provisional Regulations on State-run Enterprises' Recruiting the Workers, and Provisional Regulations on State-run Enterprises' Dismissing the Workers who Violate the Discipline. Meanwhile Provisional Regulations on Benefits of the Employees in State-run Enterprises who are Waiting to be Employed was also promulgated, which marked the official establishment of the UI system in China.

Phase 2 (from 1993 to early 1999): Further adjustments in the unemployment insurance system. To meet the requirements of transforming the operation mechanism of SOEs, on the basis of summarizing past experience, in May 1993, the government enacted Regulations on the Benefits of the Employees in SOEs Who are Waiting to be Employed (hereinafter referred to as the Regulations) which made adjustments and perfections in the coverage and the UI benefit level. During this period, the UI system played an important role in guaranteeing the basic livelihood of the unemployed and promoting their reemployment.

Phase 3 (from early 1999 to present): The gradual perfection of the UI system. In the middle and late 1990s, a large number of the laid-off and unemployed emerged. The UI fund could not afford the payment of UI benefits. In June 1998, the Chinese government launched the program of basic livelihood guarantee for the laid-off workers from SOEs and promoted their reemployment through setting up the Reemployment Service Centers. In the meantime, the contribution mechanism of UI fund and the contribution rate were adjusted. Originally, only employing units were required to contribute to the UI fund and the contribution rate was 1%. After the adjustment, both the employing units and the employees are required to contribute and the total contribution rate rose to 3%. Furthermore, the Reemployment Service Centers can get the support from the UI fund to guarantee a basic livelihood for the laid-off workers. Such unemployment insurance

system with Chinese characteristics is only a transitional measure. In the long run, to implement the market-oriented employment mechanism, it is necessary that the system of basic livelihood guarantee for the laid-off be integrated into the unemployment insurance system. In early 1999, the Chinese government enacted Unemployment Insurance Regulations (hereinafter referred to as Regulations), which are still valid now.

Overview of the Current System

The current UI system in China is mainly conducted through Unemployment Insurance Regulations, which can be divided into six chapters with 33 articles, which can be summarized as follows:

- To guarantee the basic livelihood of the unemployed and promote their reemployment. The will to be employed and the incentives to seek jobs are taken as the prerequisite for receiving UI benefits.
- To expand the coverage from the SOEs and their employees originally to all urban enterprises and public institutions, and to the rural migrant workers who have formed stable labor relations and signed labor contract with the enterprises are also included.
- To require employment units to contribute 2% of their total payroll to the UI fund and to required the employees to contribute 1% of their personal wages. Rural migrant workers need not contribute. The UI fund can be subsidized by the local government when a deficit occurs. The provincial government can adjust the local contribution rate after official approval by the State Council.
- To pool the UI fund at the prefecture-level (i.e., the level of the municipality directly under the Central Government and the cities with districts).
- To have the provincial government determine the UI benefit level in accordance with the principle of being lower than the local minimum wage level and higher than the urban minimum livelihood

guarantee. The duration of receiving UI benefits varies with the duration of the contribution, with the longest term being 24 months. In addition, those receiving UI benefits are entitled to medical subsidies and pensions.

- To use the UI fund to subsidize vocational training and career services for the unemployed to promote reemployment.
- To standardize and rationalize the management and supervision of the UI fund. The fund must be deposited in the special accounts of the state-owned commercial banks. Its expenditures and collections are conducted separately and are subject to fiscal supervision.

Since 2006, in order to further promote the reemployment of the unemployed, some developed regions in China are piloting an expansion of the items for UI fund expenditures. The UI fund is also used for subsidies under the social insurances and the posts of the unemployed when they are reemployed as well as the interest for their micro-credit loans apart from their vocational training and career service. From the beginning of the ten-year practice when the Regulations were enacted, China's UI system has essentially met the requirements of the development of a market-oriented economy. It has also promoted the establishment and perfection of the social security system and a market-oriented employment mechanism.

2. Features of the Labor Market

Labor Market Situation

Trends in the labor market participation rate in China. Employment, unemployment, or being out of the labor force are the three labor market statuses for the working age population. People choose to work or not to work in accordance with their preference between trading their working income for leisure or giving up gainful work. Com-

pared to many developed countries that have seen a drop in labor force participation as a result of a general rise in per capita income (Mincer, 1993, Section 1), the falling trend of labor force participation in China is an emerging phenomenon reflecting the current situation of the urban labor market. Many long-term unemployed workers are getting older, have less education, have been discouraged, and have withdrawn from the labor force, while others who would ordinarily be entering the labor force are not doing so.

During China's economic reform and its opening up to the outside world, there has been a parallel demographic transition that has resulted in an advantageous age structure. China's rapid economic growth during the transition has been supported by relatively high proportions of an economically active population, high labor force participation, a low proportion of a dependent population, and a strong propensity for saving (Cai, 2004). Since the latter half of the 1990s, however, the new stages of state-owned enterprise reform characterized by the breaking up of the "iron rice bowl," industrial adjustments in response to regaining WTO membership, and the downturn of the macro economy jointly caused an increase in urban layoffs and unemployment. In experiencing long unemployment and having difficulty to finding new jobs, some demographic groups have lost faith in reemployment and have withdrawn from the labor force. As a result, in 2010, the urban labor force participation rate declined from 72.9% in 1995 to 60.3%.

Trends of the unemployment rate. The urban registered unemployment rate is an important indicator used in China to reflect the labor market situation. Every year, the target ceiling of the urban registered unemployment rate is set by the Chinese government and is released regularly. In general, the target of controlling this unemployment rate is met every year. From the real data on urban registered unemployment rates in the past ten years, it can easily be noted that it is generally kept at a stable level (see Table 3-1).

Table 3-1. *The Urban Registered Unemployment Rate from 1997 to 2010 in China*

Year	Urban registered unemployment rate	(%)
1997	3.1	
1998	3.1	
1999	3.1	
2000	3.1	
2001	3.6	
2002	4	
2003	4.3	
2004	4.2	
2005	4.2	
2006	4.1	
2007	4	
2008	4.2	
2009	4.3	
2010	4.1	

Note. From *China Statistical Yearbook*, 2011.

In the 1990s, the urban registered unemployment rates were relatively lower than now. These rates began to rise because great numbers of redundant workers in SOEs were laid off since SOE reforms were begun in the late 1990s in China. Many laid-off workers have had difficulty getting reemployed because of their lack of skills and low employability. However, the Chinese government formulated effective labor market policies to help them get reemployed. Therefore, the urban registered unemployment rate is still kept at a reasonable level. In the national Twelfth Five Year Plan (from 2011 to 2015), it has been clearly stipulated that the urban registered unemployment rate should be kept under 5%.

Employment Structure

In general, great achievements have been made in employment and reemployment policies by the Chinese government, yet the overall employment situation is still serious. Generally, the labor market in China faces employment challenges from two groups: the youth and the rural labor force. The number of university graduates reached 6.7 million in 2010. According to the Ministry of Education, the employment rate for graduates in 2010 was around 70%. About 30% of these graduates did not find jobs after finishing their education.

Furthermore, problems still existed involving the transfer of rural surplus laborers and employment for the farmers whose lands were confiscated. The number of rural surplus laborers is estimated to have been about 150 million. The transfer of these laborers was a huge task. In the Twelfth Five Year Plan, the target number for transferring the rural labor force in the next 5 years (from 2011 to 2015) is set at 40 million. Currently, a service system for labor transfer is not good enough. Administrative and management mechanisms are not sufficiently established. The market has high requirements for labor quality while the quality of rural labor is not sufficient. The task of transferring rural laborers is still daunting. In the meantime, farmers who lost their lands face huge pressure in finding jobs. After being dispossessed, they became urban citizens, yet they are in a disadvantaged position in job competition. It is very difficult to find a decent job and their living cannot be guaranteed. Although certain authorities had made arrangements for these laborers, their level of education and technical skills is mostly low and cannot meet the requirements of the market. They have adapted poorly to the surrounding circumstances. Being able to solve employment problems for farmers who lost their lands is a daunting task now and in the near future for China.

Employment structure by urban and rural areas. In the past 15 years, the employment distribution in urban and rural areas in China

Table 3-2. *Number of Employed Persons at Year-end in Urban and Rural Areas*

Year	Total employed persons (10,000 persons)			Composition in percentage (%)		
	Total	Urban areas	Rural areas	Total	Urban areas	Rural areas
1997	69,820	20,781	49,039	100	29.8	70.2
1998	70,637	21,616	49,021	100	30.6	69.4
1999	71,394	22,412	48,982	100	31.4	68.6
2000	72,085	23,151	48,934	100	32.1	67.9
2001	72,797	24,123	48,674	100	33.1	66.9
2002	73,280	25,159	48,121	100	34.3	65.7
2003	73,736	26,230	47,506	100	35.6	64.4
2004	74,264	27,293	46,971	100	36.8	63.2
2005	74,647	28,389	46,258	100	38.0	62.0
2006	74,978	29,630	45,348	100	39.5	60.5
2007	75,321	30,953	44,368	100	41.1	58.9
2008	75,564	32,103	43,461	100	42.5	57.5
2009	75,828	33,322	42,506	100	43.9	56.1
2010	76,105	34,687	41,418	100	45.6	54.4

Note. From *China Statistical Yearbook*, 2011.

changed dramatically. In Table 3-2, we can see that the share of employment in urban areas increased from 29.8% in 1997 to 45.6% in 2010. On the other hand, the share of employment in rural areas greatly declined from 70.2% in 1997 to 54.4% in 2010. In essence, the transition runs parallel to the rise of urbanization in China. In 1990, the urbanization rate nationally was only 26.44% but rose to 36.22% in 2000 and 49.68% in 2010.

Employment structure by industry. It is estimated that there are 150 million surplus rural labor forces in China. In the past decade, the Chinese government attached great importance to transferring this labor force. A series of policies and measures were enacted and implemented to promote the employment of the rural labor force in urban areas. A great number of rural migrant workers began to work in secondary industries like manufacturing and construction. Moreover, there are more and more rural migrant workers working in tertiary industries.

In the past 15 years, the share of employment in the three strata of industry changed very much. From Graph 1, it is obvious that the share of employment in primary industries decreased from 49.9% in 1997 to 36.7% in 2010, while the share of employment in both secondary and

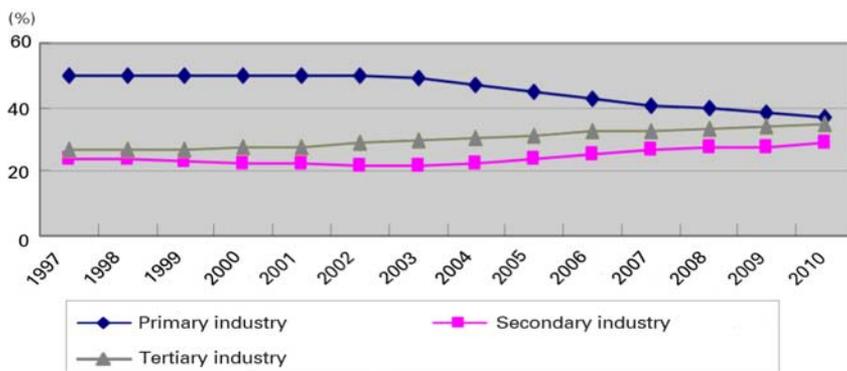


Figure 3-1. Share of employment by industry from 1997 to 2010.

Table 3-3. Number of Employed Persons at Year-end by Three Strata of Industry

Year	Total employed persons (10,000 persons)			Composition in percentage (%)		
	Primary industry	Secondary industry	Tertiary industry	Primary industry	Secondary industry	Tertiary industry
1997	34,840	16,547	18,432	49.9	23.7	26.4
1998	35,177	16,600	18,860	49.8	23.5	26.7
1999	35,768	16,421	19,205	50.1	23.0	26.9
2000	36,043	16,219	19,823	50.0	22.5	27.5
2001	36,399	16,234	20,165	50.0	22.3	27.7
2002	36,640	15,682	20,958	50.0	21.4	28.6
2003	36,204	15,927	21,605	49.1	21.6	29.3
2004	34,830	16,709	22,725	46.9	22.5	30.6
2005	33,442	17,766	23,439	44.8	23.8	31.4
2006	31,941	18,894	24,143	42.6	25.2	32.2
2007	30,731	20,186	24,404	40.8	26.8	32.4
2008	29,923	20,553	25,087	39.6	27.2	33.2
2009	28,890	21,080	25,857	38.1	27.8	34.1
2010	27,931	21,842	26,332	36.7	28.7	34.6

Note. From *China Statistical Yearbook*, 2011.

tertiary industries increased greatly (see Table 3-3).

Employment structure by age. As far as employment by age is concerned, currently, employed persons in China range mostly from 30 to 49. There is only a small share of 20 year olds or 60 year olds among the employed. In 2009, those between 40 and 44 accounted for 14.9% of total employment and those between 35 and 39 made up 14.1%, which are the two major age groups for the employed. Employed people between 16 and 19 only accounted for 3.2% (see Table 3-4).

Table 3-4. *Employed Persons by Age in 2009*

Age	Employed persons (%)
16-19	3.2
20-24	9.2
25-29	9.6
30-34	10.3
35-39	14.1
40-44	14.9
45-49	11.9
50-54	9.8
55-59	8.2
60-64	4.6
65+	4.4

Note. From *China Population and Employment Statistical Yearbook*, 2010.

Employment structure by employment status. In China in 2009, the self-employed and those employed by others comprised the main employment status of all employed persons, accounting for 64.2% and 31.7% respectively. Employers only made up 2.3% of the employed. Among males, the self-employed and those employed by others accounted for 61.8% and 34.3% respectively and among females, 66.9% and 28.7% respectively (see Table 3-5).

Table 3-5. *Employment Structure by Employment Status in 2009*

	(%)			
Age	Employee	Employer	Self-employed	Unpaid familial worker
Total	31.7	2.3	64.2	1.8
Male	34.3	3.1	61.8	0.8
Female	28.7	1.3	66.9	3.1

Note. From *China Population and Employment Statistical Yearbook, 2010*.

Informal Employment in China

In China, informal employment refers to the economic activities of those who work in unstable workplaces in exchange for remuneration; they have no fixed labor relations, no regular income, and are without regular working hours. In China, informal employment mainly exists in three forms. First is part-time employment, second is dispatched employment, and third is employment in microenterprises.

From the mid-1990s to the early 21st century, two factors triggered the development of informal employment in China. The first was the reform of state-owned enterprises (SOEs), leading to 40 million laid-off workers. The majority of these workers got reemployed in the informal sector. The second is rural migrant workers. The number of rural migrant workers increased from 30 million in the 1980s to 150 million, most of whom work in informal employment. Most migrant workers face greater risks for unemployment. In recent years, some college graduates have worked in informal employment because of the difficulty in finding jobs after graduation.

Currently, no official data exist on informal employment in China because of high mobility and the lack of a uniform definition of such employment. According to the statistics released by the State Administration for Industry and Commerce, there were 29.17 million registered individual economic organizations nationwide by the end of 2007.

Domestic workers account for a large share of informal employment. Currently, there are about 600,000 domestic service agencies and 20 million cleaning and care workers, as well as nannies and other domestic services. About 90% of domestic workers are women. The number of dispatched labor is estimated to be 15 million.

Unemployment Structure

Unemployment and unemployment rate by gender. Total unemployment in China has remained almost stable in the past ten years. Generally, male unemployment declined slowly, while female unemployment rose. Regarding the unemployment rate, the male unemployment rate declined slowly and the female rate has been relatively stable (see Table 3-6).

Table 3-6. *Unemployment and Unemployment Rate by Gender from 2001 to 2008*

	(1,000 persons, %)							
	2001	2002	2003	2004	2005	2006	2007	2008
Total unemployment	450	515	503	454	428	411	419	450
Male unemployment	302	348	326	288	259	245	248	271
Female unemployment	148	167	177	166	169	166	171	179
Total unemployment rate	4.6	5.2	5	4.4	4.1	3.9	3.9	4.1
Male unemployment rate	5.2	5.9	5.5	4.8	4.3	4.1	4.1	4.4
Female unemployment rate	3.7	4.1	4.3	3.9	3.9	3.7	3.7	3.8

Note. From *China Labor Statistical Yearbook*, 2010.

Net increase in unemployment by age group. In general, those over 40 years old account for a larger share of the net increase in unemployment. However, those under 30 make up a small part of the net increase (see Table 3-7).

Table 3-7. *Net Increase of Unemployment by Age Group from 2001 to 2008*

Age group	(1,000 persons)							
	2001	2002	2003	2004	2005	2006	2007	2008
Total	14.0	13.7	13.1	11.2	10.3	10.4	9.5	10.1
14-19	1.1	1.2	1.1	1.0	1.1	0.9	1.0	1.0
20-24	1.6	1.6	1.9	1.8	1.5	1.7	1.7	1.8
25-29	1.4	1.2	1.2	1.1	1.0	1.0	0.7	0.8
30-34	1.3	1.2	1.1	1.0	0.7	0.7	0.9	0.5
35-39	2.1	1.9	1.4	1.2	1.1	1.1	0.8	0.9
40-44	2.9	2.6	2.2	1.6	1.4	1.5	1.0	1.2
45-49	2.1	2.1	2.3	1.7	1.7	1.5	1.2	1.5
50-54	1.0	1.0	1.3	1.1	1.1	1.1	1.2	1.5
55-59	0.4	0.6	0.6	0.6	0.6	0.6	0.7	0.6
60-64	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.2

Note. From *China Labor Statistical Yearbook*, 2010.

Unemployment by duration. Recently in China, the duration of the unemployment period is mostly over half a year. Those who have been jobless from 7 to 12 months accounted for 28.8% in 2009, but those out of a job for less than 1 month only make up 4.3% (see Table 3-8).

Table 3-8. *Unemployment Duration of Urban Unemployed Persons in 2009*

						(%)
1 Month	2-3 Months	4-6 Months	7-12 Months	13-24 Months	More than 25 months	
4.3	13.1	16.2	28.8	21.7	15.8	

Note. From *China Population and Employment Statistical Yearbook*, 2010.

Unemployment by reasons for being unemployed. There are different reasons for the unemployment. The reason of “lost job for working unit reasons” ranks first for both the male and female unemployed. “Job-off After Graduated” and “Lost Job for Individual Reasons” ranks second and third, respectively. It is obvious that “Do Housework” is also an important factor contributing to unemployment, especially for women (see Table 3-9).

Table 3-9. *Unemployment by Reasons for Being Unemployed in 2009*

	Retired	Do house-work	Job-off after graduation	Lost job for working unit reasons	Lost job for individual reasons	Land expropriated	Others
Total	2,2	12,9	23,3	27,5	19,9	3,3	10,9
Male	2,1	2,0	28,1	30,3	20,9	3,5	13,0
Female	2,3	23,2	18,8	24,8	18,9	3,0	9,0

Note. From *China Population and Employment Statistical Yearbook*, 2010.

3. Structure of UI

Basic Structure of UI

China's UI system is a kind of employment insurance that integrates active policies as well as unemployment benefits. From the time China's UI system was established, the Chinese government has always been trying to bring it into full play, not only in guaranteeing the basic livelihood of the unemployed, but also in promoting reemployment of the unemployed and preventing unemployment.

Governance and management system. It is clearly stipulated in the Unemployment Insurance Regulations that the Ministry of Labor and Social Security is the governance body for national unemployment insurance work. The Department of Unemployment Insurance in the Ministry is specifically in charge of national unemployment insurance work. The local Department of Labor and Social Security at the county level or above is responsible for their local unemployment insurance work. The social insurance agencies conduct the real work on unemployment insurance, including registering the unemployed, managing the UI fund, verifying UI benefits, and providing free counseling services for the unemployed. The unemployed are entitled to all employment services free of charge provided by social insurance agencies and public employment service agencies.

Financing. UI is financed by a payroll tax split between employers and employees. The current recommended rate by the central government is 3% of earnings, split 2 to 1 between employers and employees. But the actual contribution rate may vary across cities depending upon the pressure of demand on the UI fund. The rise in the recommended UI contribution rate from 1% to 3% in 1998 was prompted by a sharp increase in registered unemployment and layoffs, and reports of widespread default on UI benefits and on living allowances to “laid-off” employees. As well as raising funds, this rise introduced two important principles that have implications for the financial sustainability of the system. First, a relationship between total cost and the contribution rate and second, shifting a part of the cost to employees without compensation. The second has become a norm for social insurance systems, and, in the Chinese context, is equivalent to a personal income tax because it is not shifted back to employers.

Prudential reserves are necessary because of the mismatch between contributions payment (including delayed payments) and benefits disbursement. The financial integrity of the system is far from secure because the budgeting units for UI are cities rather than the whole country or even the provinces. The ratio of expenditures to contributions varies widely from city to city. The financial sustainability of UI as a national system over the medium to long run would depend crucially on raising the level of the territorial government on which the Social Insurance account is balanced and a deficit is financed. The present arrangement in which each city is responsible for covering the deficit on social insurance systems within its jurisdiction is too decentralized for long-term sustainability, for it does not provide for sufficient risk pooling. There is as yet no regular framework for spreading the financial burden of UI and other social security systems across cities, though provincial governments and the central government provide subsidies to cities with high unemployment rates. The central government policy is to raise the level of financing to the provinces, but there is as yet no

national framework for putting that policy into practice. A crucial precondition for the institution of any financial integration of social security systems in a province is to establish a province-wide data base with details of contributions and expenditures crossclassified by various levels of sub-provincial government, which most provinces now lack.

Coverage

In accordance with the Regulations, urban enterprises and public institutions and their staff are required to participate in the UI system and contribute to the UI fund. In other words, State Owned Enterprises (SOEs), Urban Collective Enterprises, Foreign Enterprises, Urban Private Enterprises and Other Urban Enterprises as well as all categories of public institutions such as schools, hospitals, and research institutes are all involved in coverage for the UI system.

Generally in developed market economies, in the EU for example, participation in UI is compulsory for all workers in full-time employment. In reality, all but a small percentage of the labor force participates. “Non-participants” in the UI System consist largely of self-employed and part-time workers. Rules concerning the participation of part-time employees, the self-employed, and apprentices vary across EU countries.

Compared with UI Systems in the EU, the Chinese UI System is selective. It is mandatory for only the urban labor force; added to this requirement the mandate remains far from realized. Its extension to other sections of the labor force, such as rural-to-urban migrants and wage employees in “town and village enterprises” (TVEs) is left to the discretion of cities. As a result, their participation in the UI System varies across localities. Notwithstanding the substantial increase since 2000, in 2006, the total number of participants in 2010 was only 133.8 million, which is 17.5% out of a total of 761 million employed persons for that year.

What explains the low participation rate in the UI System within the urban labor force? The explanation lies in the wide variation in the terms and conditions on which workers supply labor. As currently designed, the UI System works well in the case of workers who are classified as “staff and workers”. These workers are in regular employment on terms that are clear and often backed by a contract. It is comparatively easy to ascertain their numbers and their pay, which is necessary for collecting contributions. Similarly, in the case of such workers, it is comparatively easy to check whether they are employed or unemployed. Most workers included in the category “staff and workers” are in large or medium-size work units, which lowers the cost of collecting contributions. A general problem is that the category “staff and workers” has been shrinking since 1995 both in numbers and relative to the urban labor force: from 149 million in 1995 to 111.6 million in 2006, and as a percentage of the urban labor force from 78% to 39.5%. The implication is that until extended to the informally employed labor force; that is, those not counted in the category “staff and workers”, the UI System will only be applicable to a shrinking minority of the urban labor force.

Urban workers who do not participate in the UI System include the self employed and wage employees in households or small private enterprises. In the case of the former, the distinction between “employment” and “unemployment” is not clear cut; it is doubtful whether UI is appropriate for them. In the case of the latter, the problem lies in the difficulty in ascertaining the number of employees, their hours of work, and their pay. With respect to such workers, the appropriate policy is to promote formalization of the terms and conditions of employment. The Labor Contract Law promulgated in 2008 is intended to achieve this reform. Still, the law is yet to be fully implemented. Apart from penalties as specified in the Labor Contract Law, an alternative way of promoting formalization of the terms and conditions of employment is to reward enterprises for compliance in the form of tax concessions,

for example.

An additional measure for raising the participation rate is to adapt the details of the UI System to the needs of particular sections of the labor force. For example, making the entitlement to UI benefits transferable across cities, which is not the case currently, would make the system more attractive for migrant labor.

Eligibility Criteria

In accordance with the Regulations, the recipients of UI benefits should meet the following requirements:

- Both the unemployed and the organization for which they worked before they were unemployed have contributed to the UI fund for more than one year.
- The reason for their unemployment was not their personal will.
- They have registered as being unemployed and wish to seek jobs.

Duration of Benefit

In accordance with the Regulations, the maximum duration of UI benefits is 24 months, which requires at least 10 years of contribution. The duration is 18 months if the years of contributions amount to over 5 years but less than 10 years. The duration is 12 months for the benefits if the years of contributions amount to over 1 year but are less than 5 years.

The maximum duration of two years is relatively long. There are good arguments for making such continuation of benefits into the second year conditional on age and the length of unemployment, factors that determine the likelihood of finding a job. Specifically the maximum duration, instead of being the same for all, could be longer for older than for younger workers on the grounds that the average spell of unemployment increases with the age of the worker. Similarly, there

are good arguments for varying the allowance with age, the length of unemployment, and especially family circumstances for the recipients. The lack of portability is a serious shortcoming because it impedes labor mobility and reduces the attraction of the UI System for migrant labor. There are strong arguments in favor of promoting, to begin with, the portability of benefits within a province. Such portability also requires a degree of benefit standardization. What is needed is not a complete standardization but a specified minimum benefits package.

Amount of Benefits

UI benefits are determined by local government according to the Unemployment Insurance Regulations while taking into account local price levels and economic conditions; thus, the amount of benefits varies in different localities. In general, the benefits in developed regions are higher than for underdeveloped regions. The amounts of benefits are adjusted and raised regularly. In some cities, the linkage mechanism between the consumer price index (CPI) and the amount of benefits have been set up to ensure the basic livelihood of the unemployed. The average for national benefits has risen greatly in the past ten years (see Table 3-10).

Three features of the UI benefits in China are worth noting:

- The maximum duration for the payment of the UI allowance is two years.
- UI benefits remain the same regardless of age, family circumstances, and other characteristics of the recipient.

Table 3-10. *The National Average Benefit from 2001 to 2010*

	(yuan)							
Year	2001	2002	2005	2006	2007	2008	2009	2010
Benefit	251	242	276	303	349	400	446	495

Note. From Department of Unemployment Insurance, Ministry of Human Resources and Social Security, P. R. China.

- UI benefits are not portable across localities, and the details of the benefit package such as the coverage of medical expenses and provision of training may vary greatly.

Trends of Revenue and Expenditure

In China, the revenue of the UI fund has increased significantly each year. The revenue in 2009 was more than three times the revenue in 2000. The accumulative balance has risen dramatically in the past ten years (see Table 3-11). How to manage and make full use of the enormous amount of UI fund is a pressing task facing the Chinese government.

Table 3-11. *Revenue and Expenditure of the UI Fund from 2000 to 2009*

(100 million yuan)			
Year	Revenue	Expenditure	Accumulative balance
2000	160.4	123.4	195.9
2001	187.3	156.6	226.2
2002	215.6	186.6	253.8
2003	249.5	199.8	303.5
2004	291.0	211.0	386.0
2005	340.3	206.9	519.0
2006	402.4	198.0	724.8
2007	471.7	217.7	979.1
2008	585.1	253.5	1310.1
2009	580.4	366.8	1523.6

Note. From *China Labor Statistical Yearbook*, 2010, and *China's Human Resources and Social Security Yearbook on Work Edition*, 2010.

4. Performance and Evaluation

Trends of Overall Performance

The number of contributors in 2010 rose by 29.2% compared with those in 2001. The number of beneficiaries, however, declined slowly. The benefits expenditure increased steadily (see Table 3-12). The changes in contributors and beneficiaries coincided with a very high UI fund balance.

Table 3-12. *Changes of Contributors and Beneficiaries*

Year	Contributors (10,000 persons)	Beneficiaries of UI benefits (10,000 persons)	Benefits expenditure (10,000 yuan)
2001	10355	312	832563
2002	10182	440	1167736
2003	10372	415	1334448
2004	10584	419	1374983
2005	10648	362	1323767
2006	11187	327	1257582
2007	11645	286	1294405
2008	12400	261	1395349
2009	12715	235	1457592
2010	13376	209	1404000

Note. From *China Labor Statistical Yearbook*, 2010, and Department of Unemployment Insurance, Ministry of Human Resources and Social Security, P. R. China.

Trends of Performance Indicators

Coverage for the UI system in China has been expanding steadily in the past decade. The proportion of contributors to total employment continues to rise slowly, increasing from 14.2% in 2001 to 17.6% in

2010. The proportion of contributors to total employees also increased from 16.3% in 2001 to 21.1% in 2010. Finally, the proportion of contributors to urban employment and the proportion of contributors to urban employees also picked up steadily from 2001 to 2010 (see Table 3-13).

The proportion of benefit recipients to the number of unemployed decreased significantly from 45.8% in 2001 to 25.5% in 2009 (see Table 3-14). In other words, in 2009, nearly 75% of the unemployed did not receive UI benefits. Hidden employment may be one of the reasons for this phenomenon. In addition, the short contribution of less than one year may be an explanation. It is notable that the proportion of benefit recipients to the number of insured separators declined and is much lower than the proportion of benefit recipients to the number of unemployed. The main reason may be that youth unemployment in-

Table 3-13. *Proportion of Contributors to Total Employment, Employees, Urban Employment, and Urban Employees*

Year	Proportion of contributors to total employment	Proportion of contributors to total employees	Proportion of contributors to urban employment	Proportion of contributors to urban employees (%)
2001	14.2	16.3	76.1	79.6
2002	13.9	14.5	76.9	80.1
2003	14.1	15.9	78.4	81.3
2004	14.3	16.4	80.2	82.6
2005	14.3	16.5	80.9	82.8
2006	14.9	17.2	81.3	83.7
2007	15.5	18.1	81.9	84.2
2008	16.4	18.9	82.7	84.9
2009	16.8	19.3	83.8	85.3
2010	17.6	21.1	85.1	86.9

Note. Calculated from the data in *China Labor Statistical Yearbook*, 2011, and *China Statistical Yearbook*, 2011.

Table 3-14. *Proportion of Benefit Recipients to the Number of the Unemployed and Insured Separators*

Year	Proportion of benefit recipients to the number of unemployed*	Proportion of benefit recipients to the number of insured separators*
2001	45.8	37.9
2002	57.1	42.4
2003	51.9	40.6
2004	50.7	40.1
2005	43.1	39.5
2006	38.6	38.6
2007	34.5	36.2
2008	29.5	32.8
2009	25.5	30.7

Note. * The number of unemployed and the number of recipients are monthly average numbers. Calculated from data in *China Labor Statistical Yearbook*, 2010.

creased in recent years and a greater share of the unemployed are not eligible for receiving UI benefits due to their short-term contributions to the UI system.

In Table 3-15, it is clear that the proportion of benefit recipients to total contributors is quite low. Generally, a decreasing tendency in the

Table 3-15. *Proportion of Benefit Recipients to Total Contributors*

Year	Proportion of benefit recipients to total contributors
2001	3.0
2002	4.3
2003	4.0
2004	4.0
2005	3.4
2006	2.9
2007	2.5
2008	2.1
2009	1.8
2010	1.6

Note. Calculated from the data in *China Labor Statistical Yearbook*, 2011, and *China Statistical Yearbook*, 2011.

past decade is shown. The proportion declined from 3% in 2001 to 1.6% in 2010.

Policy Initiatives to Enhance the Effectiveness of UI

Several policy initiatives were initiated by the Chinese government to enhance the effectiveness of the UI system. First, the government is trying to shift the function of the UI system from essentially supporting the livelihood of the unemployed to employment promotion and unemployment prevention while guaranteeing the livelihood of the unemployed. Second, considering the enormous balance of the UI fund, the Chinese government is trying to make full use of this fund to promote employment. The main entry point for this initiative is to add the expenditure items not only for ensuring the basic livelihood of the unemployed, but also for the reemployment of the unemployed. In 2006, a pilot program was launched in seven provinces including Guangdong, Jiangsu, and Zhejiang for expanding the expenditure items of the UI fund and exploring the role of the fund in promoting employment. After obtaining results from the pilot program, plans have been made to expand the program nationwide in the near future.

Third, a series of policies and measures were adopted to expand the coverage of the UI system to protect vulnerable groups with low employability. Currently, in most provinces, the UI fund is pooled at the city level. In order to enhance its protectiveness in a wider range and coverage, the government aims to raise the pooling of the UI fund to the provincial level.

What deserves attention is that the UI fund was brought into full play in the international financial crisis in 2008. The government used UI funds in this crisis to alleviate the burdens of enterprises, helping and supporting these businesses to overcome their difficulties and to stabilize employment. The Chinese government realized that every possible means should be tried to help enterprises to prevail because these

enterprises are key actors in economic activities and employment. Protecting enterprises is the way to ensure growth and to secure employment. Therefore, proper measures have been implemented to ease their burdens. For instance, enterprises in difficult situations are allowed to defer social insurance contributions for a certain period of time. The social insurance contribution rate of basic medical insurance, unemployment insurance, work-related injury insurance, and maternity insurance for urban employees is lowered at different stages. Enterprises experiencing financial difficulties are encouraged not to cut staff or at least to cut fewer employees. Unemployment insurance funds are used to pay social insurance subsidies and job posts subsidies for up to 6 months for the enterprises that do not downsize but instead conduct on-the-job training or work rotation.

The case of Beijing. Under the international financial crisis, Beijing used the UI system to support enterprises that secured jobs. According to Beijing municipality's regulations, enterprises that participate in the unemployment insurance system and fulfill their obligation of paying contributions may apply for social insurance subsidies as well as job posts subsidies of up to 12 months. The latter applies if the enterprises are contributing to employment stability in a time of temporary difficulties in production and operation and adopted measures yet conduct on-the-job training and work rotation to stabilize employment and to prevent downsizing. The calculation of the social insurance subsidies is based on 60% of the monthly average salary of the last year for employees in Beijing. The rate for pension insurance subsidy is 20%, 9% for medical insurance, and 1% for unemployment insurance. Based on the minimum standard of unemployment insurance, the monthly job posts subsidy is 562 yuan per person. Those enterprises are granted social insurance subsidies and job posts subsidies for stabilizing employment and can receive training subsidies for up to 6 months at a monthly rate of 100 yuan for contributing to employment stabilization if they organize skills trainings for workers who are waiting for job or

transferring positions. If workers are able to obtain certificates of vocational qualification after training, other than the above mentioned 100 yuan, each primary-level worker is granted an additional 200 yuan each month as a training subsidy, and 300 yuan each month is granted to medium-level workers. Finally, 400 yuan per month is granted to senior-level workers. Inputs needed for enforcing the abovementioned employment policies are financed by unemployment insurance funds. The first batch of 12 enterprises from the Beijing Development Zone had received job posts subsidy and social insurance subsidies of 77 million yuan for not laying off any workers. Jobs for nearly 10,000 workers have been secured.

Review of the Studies on the Performance of the UI and its Effects on the Labor Market

In developed regions in China, unemployment insurance reduced the labor supply because UI benefits dampen to some extent the enthusiasm of the unemployed in seeking jobs. However, UI has no impacts on the labor supply of the unemployed whose family financial conditions are not good (Wang, 2007). The benefits of unemployment insurance can have negative effects on the reemployment of the unemployed. However, these effects are not statistically significant because the level of UI benefits in China is rather low to have a significant income effect (Appleton, 2002).

UI benefits have raised the possibility for the unemployed of being reemployed because the government tries its best to provide related services to help them to find jobs (Knight & Li Shi, 2001). Yuan Hong (2002) studied the relationship between the amount of UI benefits and the duration of unemployment and concluded that the duration of unemployment will increase by one week if the replacement rate of UI benefits rises by 10%. Cai and Wang (2009) studied the impacts of UI benefits on the labor market and concluded that the benefit recipients

are more likely to withdraw from the labor market compared with the unemployed who do not receive benefits.

Relationship with Other Institutions

The UI benefit is linked to the minimum wage and the Minimum Living Standard Allowance (MLSA), which is means-tested, as follows:

$$\text{Minimum Wage} > \text{UI Allowance} > \text{MLSA}$$

The key element in this ordering is the minimum wage. Broadly, two principles govern it:

1. To preserve incentive to work by ensuring that individuals are better off working than receiving social security benefits.
2. Contributory benefits, such as the UI benefit, should be higher than non-contributory benefits, such as the MLSA allowance.

These principles are common and underlie most of the social security systems. The UI cash allowance was previously linked to wages in previous employment but since 1997 has been set at a flat rate in response to rising claims on UI funds. The rate ranges between 60% and 80% of the local minimum wage; the cities with a high rate of unemployment and strained public finances tend towards the lower end. The power to determine the minimum wage, which is provided for in the 1995 Labor Law, is assigned to the provincial government subject the following considerations:

- The subsistence living expense
- The average wage level
- Local economic conditions

In practice, provinces delegate the power to set wages to city governments. As a result, the minimum wage varies among cities, and may also vary between districts in the same city, as in Shenyang, for example. In monetary terms, UI benefits preserve the incentive to take up employment at the local minimum wage rate, which is generally reckoned to be on the low side.

There are two related problems with the ordering of the minimum wage and benefits. Given that the minimum wage is already set with reference to the local subsistence level, the ordering may result in a poverty level as a result of the MLSA that is too low to meet basic needs. The risk is tangible in localities with a low per capita income and a high unemployment rate. Second, the need to preserve the incentive to work is important and incontrovertible. Strict ordering is not necessary to maintain that incentive, but only if benefit recipients are allowed to engage in remunerated work up to a certain level without having their benefits reduced exactly equal to income from work, as is presently the case with the MLSA benefit. The first is already the case in the sense that the local government ignores casual employment by UI benefit recipients. The second implies a 100% tax rate for MLSA benefit recipients in that they lose one yuan in benefits for every yuan they earn, which creates both poverty and an unemployment trap. Both these traps can be avoided, at least partially if not completely, by reducing benefits to less than the amount earned. This strategy would give benefit recipients the option of making use of the possibilities of a marginal improvement in their living standard by accepting casual work.

The UI benefit is not directly comparable with the MLSA allowance aimed at bringing the recipients just up to the poverty line. It does not take into account the circumstances of recipients' households, which is also true for old age and disability pensions. In contrast, the MLSA allowance is determined with reference to household per capita income rather than individual income. The implication is that the receipt of UI benefits or the living allowance for laid-off workers does not obviate

the need for the MLSA system because the recipients of such benefits may have a below-poverty line household per capita income. In fact, a percentage of the MLSA allowance recipients are pensioners or recipients of UI benefits or laid-off employee allowances.

The two systems are interlinked in that unemployed workers without a requisite contribution record form a potential constituency for the MLSA. The two systems are also related in that UI benefit recipients may in time shift to the MLSA upon the exhaustion their UI entitlement. The numbers of those making this transition depend on the incidence of long-term unemployment. A rise in the proportion of long-term unemployed amongst the unemployed provides a strong reason for a close integration between the two systems.

Currently in China, the two systems are operated separately. While UI is the responsibility of the Labor and Social Security Bureau, the Minimum Living Standard system comes under the Civil Affairs Bureaus. There is, therefore, a need to coordinate the two systems. Such coordination would take the form of interchange of data whenever the situation changes for benefit recipients who might need the other service.

5. Conclusion

Summary of the Study

The falling trend in labor force participation in China is a phenomenon reflecting the current situation of the urban labor market. In the past ten years, the urban registered unemployment rate has been kept at a stable level. The employment distribution in urban and rural areas in China has changed dramatically, with a rising share of employment in urban areas and a decreasing share of employment in rural areas. The share of employment in Primary Industry decreased while the share of

employment in both Secondary and Tertiary Industries increased greatly. The total employment in China has remained almost stable in the past ten years. Generally, male employment rates declined slowly, while female employment rates rose. Regarding unemployment rates, male unemployment rates declined slowly, and female rates kept relatively stable.

The aim of China's UI system is to guarantee the basic livelihood of the unemployed and promote their reemployment. According to Unemployment Insurance Regulations, the coverage was expanded from the original SOEs and their employees to all urban enterprises and public institutions, and the rural migrant workers who have formed stable labor relations and signed labor contracts with enterprises are also included. The employing units are required to contribute 2% of their total payroll to the UI fund, and employees are required to contribute 1% of their personal wages. The rural migrant workers need not contribute. The UI fund is pooled at the prefecture-level (i.e., the level of the municipality directly under the Central Government and the cities with districts). UI benefit levels are determined by the provincial government in accordance with the principle of being lower than the local minimum wage level and higher than the urban minimum livelihood guarantee. The duration of receiving UI benefits varies with the duration of contributions, with the longest term of 24 months. UI benefits remain the same regardless of age, family circumstances, and other recipient characteristics and are not portable across localities. The details of benefit packages such as the coverage of medical expenses and provision of training may vary greatly.

Challenges and Future Direction of the UI

Challenges. Despite significant positive developments in China's unemployment insurance program over the years, the UI system is still facing many major challenges. These issues include limited coverage

and participation in the program; low levels yet long benefit duration; lack of awareness about the system; poor enforcement and leakage (ineligible individuals who continue to receive benefits); weak labor market attachment of those receiving benefits (i.e., those who are receiving benefits become detached from the labor market and become less likely to reenter employment); varying regional financial program performances; and finally, administrative/ systematic problems (e.g., a lack of communication among agents involved in unemployment registers, job agencies, etc).

The low coverage of the UI system. Initially, the main groups participating in unemployment insurance were the employees in SOEs and urban collectively-owned units. Since the 1990s, the number of the employees in SOEs and urban collectively-owned units has been declining dramatically. From 1999 to 2005, the share of the urban workers has dropped from 46.7% to 28.7%, a decline of 18 percentage points, which has resulted in an enormous loss of participants in unemployment insurance. Meanwhile, the new groups who are vulnerable to unemployment are rising greatly; for instance, the laid-off and unemployed who got reemployed and the youth as well as rural migrants are rather vulnerable to unemployment.

The low benefit level and incomplete items for UI fund expenditure. According to current regulations, UI benefits generally account for 60-80% of the minimum wage, without taking into consideration the family situation of the unemployed. Besides, during the duration of receiving UI benefits, what the unemployed are entitled to receive is not medical insurance but medical subsidies. There are also no subsidies for archives management for the unemployed or for transportation for seeking jobs in different cities and moving expenses.

The weak role in promoting reemployment. When current regulations were initially enacted, in light of the great numbers of unemployed, the main function of unemployment insurance was to guarantee the basic livelihood of the unemployed, and the expenditure on the

UI benefits were kept at the level of around 90% of the total expenditure of the UI fund. However, the items for promoting reemployment are confined to subsidies for vocational training and career services for the unemployed when they are UI beneficiaries. Neither the unemployed whose duration of receiving UI benefits expires nor those who never contribute to the UI fund are entitled to the subsidies for vocational training and career service. Because of the rising UI fund, it is fairly feasible to cover expenditures for reemployment promotion. The abovementioned situation is far from what is needed for meeting the requirements of current labor market changes, and it does not conform to the international trend of supporting reemployment through a UI system.

The UI system lacks the role of stabilizing the employment and preventing unemployment. Because of being exposed to fierce competition, some enterprises in various regions or sectors are becoming more vulnerable to unemployment. Both the enterprises and their employees need support to pull through. The current unemployment insurance system, however, lacks items of the expenditure for supporting enterprises to stabilize employment and prevent unemployment. Some enterprises that contribute to the UI fund on time and in full do need financial support for training for shifting their businesses, but there are no relevant regulations on encouraging the enterprises to absorb employment and take more social responsibility in the current UI regulations. There are also no emergency items for UI fund expenditures. Therefore, once regional or industrial economic risks or natural disasters occur, the current unemployment insurance system lacks the capacity to promote and stabilize employment in order to effectively maintain social stability.

The current UI system cannot meet the requirements of regional differences. Under the current system, the same national regulations and fund pooling at the prefecture level have been adopted. Because of unbalanced regional development in China, there is a great

surplus of UI funds in some developed regions and a deficit in some underdeveloped regions. It is not yet permissible for developed regions to allocate some of their own money from the UI fund to support employment according to local realities.

The large balance of the UI fund. Up to the end of 2009, the total national balance reached 152,360 million yuan, which is more than four times the total expenditure in 2009. This surplus is mainly concentrated in the developed regions and large and medium-sized cities. Because a Pay-as-You-Go system has been adopted, it is necessary to keep some of the surplus to guarantee smooth operations and cope with economic fluctuations. However, the large surplus also hints that the UI fund has not played an adequate role. Moreover, the coverage of the target, benefit level, and expenditure items is too narrow, which has led to a situation in which some laborers cannot obtain appropriate unemployment protections.

Future direction. In view of the problems in China's UI system and international experience, the following suggestions may help to perfect China's UI system.

To change the major role of the UI system from a passive livelihood guarantee to active reemployment promotion. Reforming and perfecting the current UI system in China requires taking into account changes in China's social and economic development, and adjusting its goal accordingly. Meanwhile, international experience should also be used for improving its role and function. From the international trend in UI system, a prominent direction would be to change the passive livelihood guarantee to active reemployment promotion. Many countries are not only transferring their work priorities towards this direction, but are also focusing on the role of unemployment insurance in promoting employment through the expenditure arrangements of the UI fund. In theory, China's current UI system was initially also based on the two major roles of guaranteeing the basic livelihood of the unemployed and promoting their reemployment. However, the sys-

tem mainly focuses on the role of guaranteeing the basic livelihood of the unemployed from the view of social stability because the main factor in designing and setting up the system is the reform of SOEs, which determines that such a system is transitional. With economic development and social transformation, adjusting and perfecting the current system is inevitable. The greatest challenge facing the current system is the tremendous employment pressure and diversification of employment patterns. Under such a context, the only way for reforming the system is to enhance its role further in promoting reemployment while raising its function of guaranteeing a basic livelihood for the unemployed. In the meantime, unemployment prevention should also be strengthened to reduce the increment of unemployment and stabilize the current employment situation.

To expand coverage. The aim of setting up a UI system is to pool the social funds, disperse the risk of unemployment, and guarantee the basic livelihood of the laborers who are temporarily unemployed. The unemployment insurance system, in theory, should cover all categories of employing units and all laborers including newly increased labor forces. The real coverage, however, is only part of the picture. Expanding the coverage of the UI system should be one of the main entry points in improving the UI system in China.

To raise the amount of UI benefits. The level of UI benefits should be moderate. It is now temporary and short-term because of the UI system guarantee for the basic livelihood of the unemployed. It cannot afford to take on the responsibility of eliminating poverty. Both overprotection and underprotection should be avoided to encourage the unemployed to seek jobs. Therefore, determining a scientific and reasonable UI benefit level is of vital importance.

In Europe, the replacement rate varies from country to country depending on each philosophy as to whether compensation should be high to help maintain income through brief spells of unemployment or whether the emphasis should be to deter people from relying on bene-

fits for too long a period. For instance, in Denmark, where the amount of job turnover is very high (about 20% of people have some spells of unemployment during the year), the replacement rate can be up to 90% of previous earnings, whereas in France it is about 75%. But in Sweden, the basic benefit is very low and lasts only for 300 days. Nevertheless, this benefit can be topped up by supplementary insurance systems which can provide up to 80% of previous earnings. In the United Kingdom, replacement rates are relatively very low - less than 25% of the minimum wage, but there is a linked non-contributory system which is open-ended. Still, this system has got to be seen against increasingly tougher interventions of active measures and testing of work availability. The level of unemployment insurance benefits in China is also comparatively low. The average unemployment insurance benefit is less than 40% of the per capita disposable income of urban residents. It is well within the affordable scope of currently accumulated UI fund levels to increase the level of unemployment insurance benefits to a point that meets a basic living requirement. This strategy is clearly brought more urgently into focus in the context of the raises in minimum wage levels across many of China's provinces.

Changing the calculation method for unemployment insurance benefits and establishing a system that links the treatment level with premium payments could be considered, linking benefit to a certain proportion of former salary with minimum and maximum levels controlled through regular reviews against local conditions. For example, the level of unemployment insurance benefits for an unemployed person could be 50% of the average salary in a certain period before becoming unemployed, like for six months. In using such a method, the overall level of unemployment insurance benefits can be increased and more appropriately reflect the principle of combining rights and responsibilities.

To raise the pooling level of UI fund. The sustainability of the UI and other social insurance systems in the medium to long run would depend crucially on raising the level of the territorial government at

which the Social Insurance account is balanced and a deficit is financed. The present arrangement in which each city is responsible for covering the deficit on social insurance systems within its jurisdiction is too decentralized for long-term sustainability, for it does not provide for sufficient risk pooling. There is as yet no regular framework for spreading the financial burden of unemployment insurance and other social security systems across cities, though provincial governments and the central government provide subsidies to cities with high unemployment rates. The central government policy is to raise the level of financing to the province, but there is as yet no national framework for putting the policy into practice. A crucial precondition for the institution of any financial integration of social security systems in a province is the establishment of a province-wide data base with details of contributions and expenditures cross-classified by various levels of sub-provincial government, which most provinces lack at present.

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Chapter 4

Unemployment Insurance in Taiwan

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1. Introduction

Two factors in the postwar era led to Taiwan's almost miraculous economic transformation. The first was the rapid economic growth that changed agriculture to industry, poverty to riches, and underdevelopment to development. The second factor was its fairly equal income distribution against the predictions of the Kuznets curve in which inequality is expected to rise with economic growth and subsequently to fall. In 1979, three scholars coauthored a book advocating Taiwan's development as a model of growth with equity (Fei et al., 1979). Nonetheless, this model is now being critically threatened.

Along with increasing income inequality, the requirement of public efforts for a more equal society has become an important source of state legitimacy, especially under the democratization movement after the 1990s. Welfare provision has ever been regarded as an effective way to remedy the negative impacts of inequality induced by market mechanisms, by which an even closer solidarity can be realized. Such an argument underpins the necessity of state intervention into welfare through various social policy instruments ranging from means-tested to contributory / non-contributory benefits. While social spending grew

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remarkably, official statistics revealed rising poverty, unemployment, divorce, mental disease, and child abuse, causing family crises. In particular, Taiwan has experienced the reemergence of poverty issues that were once thought to have disappeared after extraordinary postwar economic growth.

Rising unemployment has been observed as the main reason behind the aforementioned problems; thus, Taiwan established unemployment benefits from 1999 to secure partial income loss for unemployed workers. This paper will look into the situation of the labor market in general and the operation of unemployment benefits specifically, with special regard to the case of Taiwan.

2. Background of Welfare Development in Taiwan

The government introduced many welfare provisions throughout the 1990s. The Constitution in 1949 had imposed a wide range of welfare responsibilities upon the state. In Articles 152 to 157, the Constitution read that the state should maintain full employment, guarantee working conditions, harmonize industrial relations, establish a social security system, protect maternal welfare, and bring to fruition a national health system. Furthermore, revisions in the Constitution in 1997 called for more specific welfare measures such as National Health Insurance (NHI) and protections for women, the handicapped, and minorities. These measures all lay down basic legal contexts for social policy and legislation in Taiwan.

Social security in Taiwan consists of social insurance and social assistance, the former of which has expanded its coverage significantly. The first legislation involving social insurance was the Military Servicemen's Insurance Law enacted in 1953. Although the Labor Insurance Program and the Military Servicemen's Insurance program were enforced

in the same year—1950—the former did not become a statute until 1958. Before 1980, three major social insurance programs had been established for military servicemen, civil servants, and laborers to cover the risks of maternity, injury and sickness, medical care, disability, old age, death, and funeral costs. But since 1995, the benefits for medical care have been transferred to the NHI. Of the three major programs, labor insurance is the largest, covering a workforce of 9.4 million, equivalent to 40.9% of the total population. Finally, a national pension insurance (NPI) was enforced in 2008, especially for those who are not covered by the aforementioned programs.

For those who are poor, social assistance is the way to get cash benefits. The first act in this area was the Social Relief Law 1943, helping those in poverty because of age, youth, pregnancy, disability, or disaster. It was replaced by the Social Assistance Law 1980, with a more progressive development of adopting “income” rather than the causes of poverty as the key criterion. Still, the 1980 act contained no article to regulate a poverty line, which became the first target to improve when the government proposed the Social Assistance Law 1997 that specified a poverty line of 60% of per capita consumption expenditure in the previous year. In a revision in 2010, the poverty line was further redefined as 60% of the median disposable income with an estimated increase of an impoverished population under social assistance to go from 1% to 3.7%.

Apart from social assistance, there are some kinds of allowance specifically for the aged with insufficient incomes. The Living Allowance for Middle-Low Income Elderly People in 1994 and the Welfare Allowance for Aged Farmers in 1995 were set up by the government and together benefited around 816,000 people (figure for 2010). These allowances offer NTD 3,000 to 6,000 per month cash benefit.

In health care, the NHI is a state-run and centralized system and the first universal welfare system with a target of covering everyone in Taiwan. It now covers around 98% of the total population. This figure is

far bigger than in 1995 when the NHI was not yet enforced, and the population covered by at least one kind of social insurance program was only 59.7%.

The Child Welfare Law 1973 is the first act in personal social services, in favor of a particular disadvantaged group of people, which was then followed by the Aged Welfare Law and the Handicapped Welfare Law in 1980, and the Youth Welfare Law in 1989. Nearly all of these acts have been revised in the past two decades. Furthermore, in the 1990s, four brand-new acts were established in response to rising social concerns on abuse and violation cases, especially towards children and women. These include the Regulation Against Child and Adolescence Prostitution in 1995, the Act Against Sexual Violations in 1997, and the Act Against Domestic Violence in 1998, in addition to the Act for Social Worker Qualifications in 1997 to establish a professional social work system addressing the aforementioned problems as well as guaranteeing service quality. In short, it might be said that personal social services in Taiwan have gradually transferred their focus from general welfare to more specific needs cases.

At the beginning of 1999, unemployment seemed to have become more critical with no signs of improving in the near future. This great pressure forced the government to propose policies and measures maintaining and even promoting job opportunities. The Labor Council declared 1999 as “The Year of Employment Security”, through which a more consistent employment security system was established and that had measures that included:

1. From 1 January 1999 the Labor Insurance will have unemployment benefits, particularly for those who have been laid off, as well as integrated employment services and retraining to help workers back to the labor market as soon as possible.
2. The Labor Council would also provide subsidies, up to 1 year, to employers who would hire middle and senior aged workers in or-

der to stop their increase of unemployment.

3. To prevent the aggressive closing down of firms, by which employers avoid their responsibility to employees and transfer capital to other countries, the Labor Council would set up a monitoring system to watch out for and regulate high numbers of layoffs.

In 2002, the preceding efforts were further integrated into the Employment Insurance Act (EIA), offering five kinds of benefit payments, including unemployment payments, early reemployment allowance, vocational training allowance, parental leave allowance, and a national health insurance premium subsidy for unemployed insurants. According to the provisions of Article 11 of the Employment Insurance Act, in which insured persons are dismissed due to closedowns, transplants, shutdowns, disbandments, or bankruptcies of the insured unit, or dismissed under any of the circumstances prescribed in Article 11, proviso of Article 13, Article 14 and Article 21 of the Labor Standards Act, or dismissed due to expiration of contract term, have been unemployed for 1 month, and the contract has been performed for not less than 6 months within 1 year before demission, and the insurants have been covered by the insurance for not less than 1 year within 3 years before canceling the insurance upon being involuntarily unemployed, insurants may receive unemployment benefits if they are able and willing to work, cannot be reemployed or attend vocational training within 14 days after registering at a public vocational service institution to search for a job. These articles grant benefits to the unemployed along with the duty to look for jobs or to receive training. Since its establishment, Taiwan has been stepping in an era of higher insecurity in employment that places great pressure on EIA. The issue is discussed in the next section on the labor market.

3. Features of the Labor Market

The year 2000 was a historic watershed for Taiwanese politics. For the first time, the authoritarian ruling party, the KMT, lost its power in the presidential election and was replaced by the young opposition party, the Democratic Progressive Party (DPP). As the strongest opposition party in the 1990s, the DPP was well known not only for its political argument for Taiwanese independence but also for its pro-welfare ideology, in contrast to the KMT's mainlanders' color and economy-first. This shift was significantly shown in the DPP's white paper on social welfare in 1993, proposing an idealist social democratic welfare state. The dominance of the DPP during 2000-2008 signified a new era of Taiwanese democratization, while it was also raising expectations for social reform. However, there was not a happy ending to this story. The failure of the DPP to deal with worsening unemployment and working conditions brought the KMT back in power in the 2008 presidential election with a 58.45% majority to the DPP candidate's 41.55%. Even so, the new KMT government still needs to face the same challenges imposed by the changing economic climates at the global level.

The export-oriented development strategy adopted by the state has opened up the economy more to the rise and fall of world market and global competition. Since the beginning of the 1990s, there has been a migrant movement of labor-intensive industries, which was the core source of Taiwanese economic growth in the 1970s and the 1980s, to low labor cost areas, such as Southeast Asia and China. This movement raised the unemployment rate and in turn increased pressures on state welfare. If the government pours more public resources into state welfare as a result, then the shortage of money for economic development could be critical and inflict even greater damage on profit-making enterprises. Yet, if the government is unwilling to expand its welfare efforts, it could forfeit its position as the ruling power in the next election.

The pressures of unemployment and low pay aggregate with an increasing flow of capital are a growing problem; therefore, a great difficulty looms:

In the process of globalization, local laborers are not only competing with other laborers in the country, but also competing with foreign laborers for limited job opportunities. Having or having not jobs and the levels of wage will influence employees' subsistence and enterprises' profits directly. However, wage levels are very difficult to raise because of global competition. If the government should raise wages through social programs and statutes, they risk reducing job opportunities. Both high unemployment and low wages will greatly damage the legitimacy of the state...economic crisis will transform into a political crisis (Ku, 1997).

The difficulty did not improve even under a different government, which raises the question: Why is Taiwan's economy so vulnerable under globalization? This issue is closely linked to the transformation of Taiwan's economy in the past several decades. Table 4-1 shows the economic transformation in Taiwan since the 1960s through the 2000s, in which, we may learn, Taiwan has been now a post-industrial economy in which over 77% of the labor forces are employees, implying two typical risks in a capitalist society now also critical in Taiwan: unemployment and retirement.

Figure 4-1 shows a general picture about Taiwanese economic changes since 1991, from which we can observe a radical slump of economic growth rate just after the DPP government came into power. The growth rate in 2002 seemed to be improving, but it was only a reaction to the radical recession in the former year, and it was also far lower than the economic performances before 2000. Along with poor economic growth, Taiwanese wealth, in terms of GNP per capita, was shrinking back to the level of the mid-1990s. Once again, a similar situation happened in the 2008 financial crisis with a radical slump to a

Table 4-1. *Economic Transformation in Taiwan, 1966-2010 (by labor forces)*

Year	Sectors			Occupational status			
	Agriculture	Industry	Services	Employers	Self-employed	Unpaid family workers	Employees
1966	45.0	22.6	32.4	2.3	27.9	24.6	45.3
1971	35.1	29.9	35.0	2.9	25.9	18.5	52.7
1976	29.0	36.4	34.6	2.5	23.9	14.5	59.1
1981	18.8	42.4	38.8	4.5	20.8	10.4	64.3
1982	18.9	41.3	39.8	4.3	21.1	10.5	64.1
1983	18.6	41.2	40.2	4.0	21.1	11.1	63.8
1984	17.6	42.3	40.1	4.1	20.7	10.8	64.4
1985	17.5	41.6	41.0	4.3	20.8	10.8	64.1
1986	17.0	41.6	41.4	4.3	20.2	10.9	64.7
1987	15.3	42.8	42.0	4.3	19.2	9.9	66.7
1988	13.7	42.5	43.8	4.5	18.9	9.5	67.1
1989	12.9	42.1	45.0	4.6	18.8	9.2	67.4
1990	12.9	40.8	46.3	4.8	18.6	9.0	67.6
1991	13.0	39.9	47.1	5.1	18.6	9.1	67.1
1992	12.3	39.6	48.1	5.1	18.2	8.9	67.8
1993	11.5	39.1	49.4	5.2	17.6	8.5	68.7
1994	10.9	39.2	49.9	5.3	17.3	8.6	68.9
1995	10.6	38.7	50.7	5.3	17.0	8.5	69.2
1996	10.1	37.5	52.4	5.4	17.0	8.4	69.3
1997	9.6	38.2	52.3	5.5	16.5	8.0	70.0
1998	8.9	37.9	53.2	5.4	16.3	7.7	70.6
1999	8.3	37.2	54.5	5.5	16.2	7.7	70.6
2000	7.8	37.2	55.0	5.4	16.0	7.5	71.1
2001	7.5	36.0	56.5	5.2	15.8	7.3	71.7
2002	7.5	35.2	57.3	5.2	15.8	7.4	71.6
2003	7.3	34.8	57.9	5.2	15.5	7.3	72.1
2004	6.6	35.2	58.2	5.2	14.9	7.0	72.9
2005	5.9	36.4	57.7	5.1	14.5	6.7	73.8
2006	5.5	36.6	57.9	5.1	13.9	6.4	74.6
2007	5.3	36.8	58.0	5.1	13.6	6.2	75.1
2008	5.1	36.8	58.0	4.9	13.2	6.0	76.0
2009	5.3	35.9	58.9	4.6	13.0	5.7	76.8
2010	5.2	35.9	58.9	4.5	12.7	5.6	77.2

Note. From *Social Indicators in Taiwan*, by DGBAS, various years.

negative level that precisely demonstrated the serious impact of a global market, even when the government had changed to the KMT.

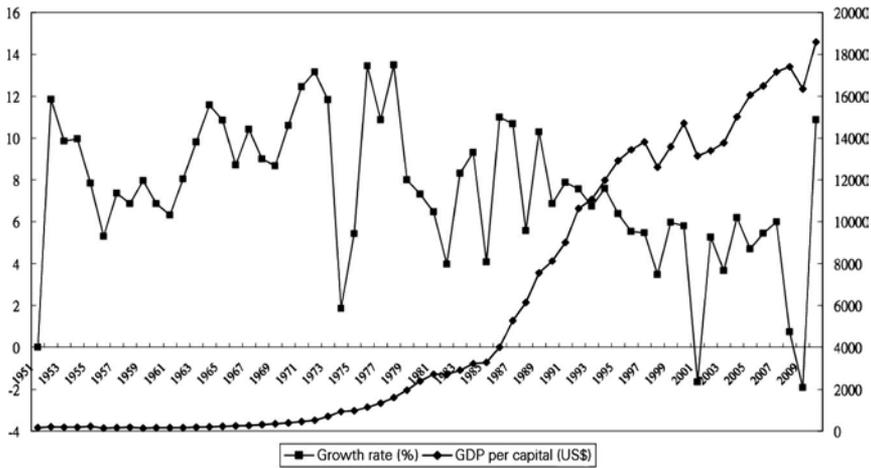


Figure 4-1. Economic changes in Taiwan, 1951-2010.

Moreover, a recession was spreading and job opportunities were under threat, which can be examined in Figure 4-2.

Following the economic recession, unemployment became a serious problem. In the early 1990s, unemployment in Taiwan remained below 2%, but it increased significantly to over 5% in 2002. Since then, unemployment floated between 4 to 5% and never came back to the level of the 1990s. The government was under pressure to initiate related policy measures, in which employment security became an important policy objective. Finally EIA was enforced in 2002. Due to the radical change in the world economy, once again unemployment increased to a historical high in 2009 of 5.85%, implying that there is no possible way back to full employment. It can also be noted that the major reason for unemployment was not seasonal adjustments of the labor market; rather, it was large scale layoffs, from around 16% of unemployment in 1991 to nearly 50% in 2002. Although layoffs did improve in the mid-2000s, they jumped again remarkably from 33.8% to 52.8% in just 1 year between 2008 and 2009, which signified the important impacts made by the migrant movement of businesses at the global level, while

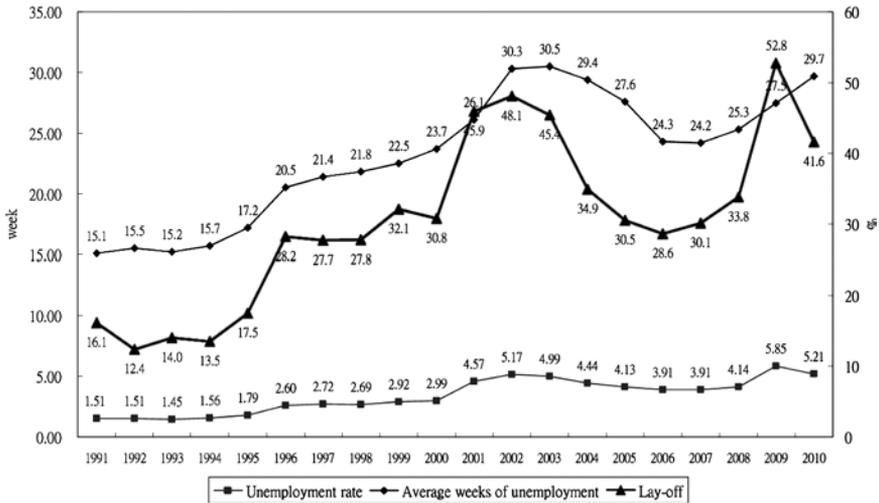


Figure 4-2. Employment changes, 1991-2010.

the degree of difficulty of finding a new job was increasing. In 2002, the average time for an unemployed worker to move to a new job was over 30 weeks, while back in 1991, it was only 15 weeks. The 2008 crisis brought the average unemployment week almost back to the level in 2002 that forced the KMT government to launch many workfare programs, like the Employment Promotion Program (EPP) in 2009 that offered cash subsidies for those workers who would do temporary jobs and for employers who would hire unemployed workers (Chang, 2011).

These harsh conditions stimulated further social instability in Taiwan. Figure 4-3 demonstrates two related indicators. Because of job security and fair wage issues, conflicts between employers and employees increased from 1,810 cases in 1991 to 14,017 cases in 2002, which rose even higher since then. These conditions did not improve after the KMT took over the government; the numbers increased to 30,385 cases in 2009. Interestingly, during the same period, violent crimes did not increase correspondingly. After separate high peaks in 1996 and 2002, the government has learned how to maintain social order not only through police force but also through employment security and a

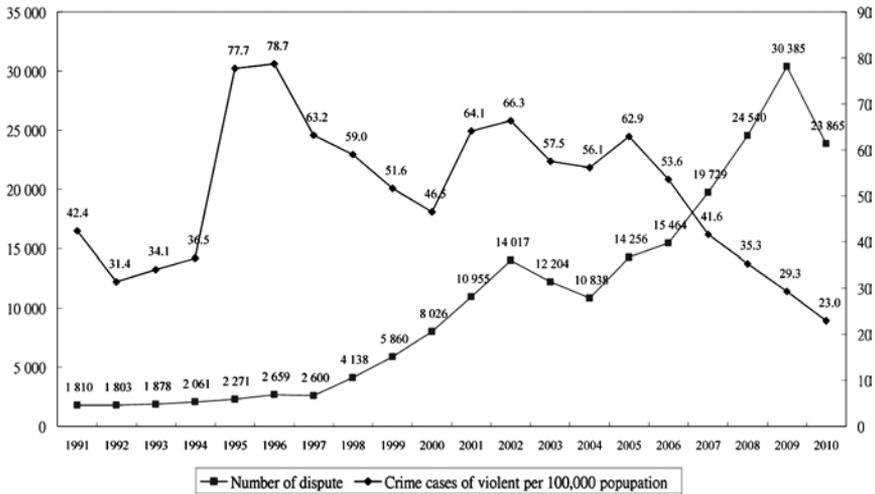


Figure 4-3. Selected indicators of social unrest, 1991-2010.

just quality of living. For example, in response to the financial crisis in 2008, the Executive Yuan (the highest administrative authority) in 2009 launched “Strengthening Social Security Networks”, defining welfare for the disadvantaged, suicide prevention, job opportunities, education and training for the youth, and crime control as five major tasks of governmental policy. These measures somehow controlled the increase of labor disputes without risking an increase in crime that could lead to social unrest.

Because employees currently occupy about 75% of the total labor force, they mostly rely on working wages as their major income. Unemployment and underemployment therefore present risks of income termination. Poverty follows insufficient income not just for the present generation but also for the next, especially if the current generation cannot afford the costs of food, education, and health. A generation with a lower education and lack of skills will suffer most from the unemployment that will be passed down from generation to generation. The fear of unemployment and the poverty cycle is now common in Taiwan. A survey in 2002 showed that the people who regarded them-

selves as impoverished rose to 67%, two times higher than those who did not feel the same previously (Ku, 2008). Why can Taiwan not retain its economic growth with full employment? There are two different interpretations. First, the government is performing poorly in attracting private investment, which is the main reason that businesses are moving out of the country, thereby leading to more requests for public investment in infrastructures as in higher education and economic restructuring. Second, the focus is on global labor and the production division, which argues for a more liberal and deregulated economic policy (Ku, 2004).

The policy statement known as “Challenge 2008: National Development Plan (2002-2007)” published by the DPP government clearly revealed its views on the aforementioned question. In their statement, the DPP government recognized three major challenges:

1. **Global Competition:** A growing intensive global competition for talent and capital that has significantly changed core production elements to quality, creation, and speed, implying a more flexible production and more investment in knowledge.
2. **Mainland China’s Magnetic Effect:** China as an even stronger competitor with cheap labor and land, and a vast market that has attracted many Taiwanese businesses and, in turn, made an impact on increasing unemployment in Taiwan.
3. **Historical Burdens:** Including social problems left over from the period of the authoritarian regime and democratic transition (e.g., black gold politics), rigid administrative and legal systems, and long accumulation of bad debts and financial burdens (CEPD, 2002).

In short, the DPP blamed China and the KMT for its own failure, yet the DPP cannot acquire popular confidence on its ruling that led to its failure in the 2008 presidential election. Nevertheless, some im-

portant changes in the labor market have been recognized in Taiwan. First, Table 4-2 demonstrates the basic profile of labor force participation in the last decade. The total labor participation rate remained at about 58%, decreasing from about 70% in 1951 (also see Figure 4-4), while the labor force participation for men was decreasing and for women was increasing. As is shown in Figure 4-4, it is obvious that the gap between labor force participation for men and women is shrinking remarkably. One explanation is the increasing educational opportunities for women, but an equally important explanation is the transformation of Taiwan's economy from industrial to post-industrial (as shown at Table 4-1), the latter of which offers many jobs in the service sector. This new development also changes the risks of unemployment for men and women. Figure 4-5 shows that unemployment for men has been higher than for women since 1995, from almost the same 1.80% for both to 5.80% for men and 4.45% for women separately in 2010. In short, women have acquired importance in Taiwan's labor market. Even though the male labor force is still the source of most manpower, their higher unemployment risk puts great pressures on the traditional male-breadwinner model.

Second, the 25-44 year age group is the main source of labor force in Taiwan, while those between 15-24 years old are decreasing fast, from 36.3% in 2000 to 28.8% in 2010. The expansion of higher education provides more opportunities for the youth that could explain the decreasing labor force participation for those between 15-24 years old because they are remaining for a much longer time in the educational system than before. However, this change could also affect youth unemployment negatively. From the figures on Education Attainment in Table 4-2, we may conclude that if education attainment is high, the same goes for participation in the labor force. Also implied is the difficulty facing the youth with no college degree. Therefore, the unemployment rate for those between 15-24 years old was 13.09% in 2010, compared to the other two age groups (25-44 and 45-64) at 5.35% and

3.39% respectively.

Many features in Taiwan's labor market can be found from the foregoing discussions:

1. Economic changes at the global level have had a great impact upon the labor market that is somehow beyond democratic politics.
2. Unemployment has been a recognized social problem; therefore, governmental policy follows to restore acceptable living conditions for unemployed workers or bring them back to work as soon as possible.
3. The policy instruments adopted by the government include welfare, training, education, and even social control.
4. Labor market segments impose varied risks upon workers with different genders, ages, and education.

Table 4-2. *Labor Force Participation Rate by Gender, Age and Education Attainment, 2000-2010*

Year	Total	Gender		Age				Education		
		Male	Female	15-24	25-44	45-64	65+	Junior high & below	Senior high & vocational	Junior college & above
2000	57.7	69.4	46.0	36.3	79.6	59.8	7.7	49.4	61.4	67.7
2001	57.2	68.5	46.1	35.5	79.7	59.1	7.4	48.5	61.4	66.4
2002	57.3	68.2	46.6	35.3	80.0	59.0	7.8	48.0	61.9	65.9
2003	57.3	67.7	47.1	33.9	80.3	59.6	7.8	47.2	62.4	65.4
2004	57.7	67.8	47.7	33.5	81.3	60.0	7.4	46.4	63.4	65.8
2005	57.8	67.6	48.1	32.6	81.9	60.2	7.3	45.5	63.5	66.4
2006	57.9	67.4	48.7	31.5	83.0	60.0	7.6	44.3	63.5	67.4
2007	58.3	67.2	49.4	31.1	83.4	60.6	8.1	43.9	64.0	67.6
2008	58.3	67.1	49.7	30.2	83.8	60.8	8.1	42.9	63.6	68.2
2009	57.9	66.4	49.6	28.6	84.2	60.3	8.1	41.7	62.6	68.4
2010	58.1	66.5	49.9	28.8	84.7	60.3	8.1	41.6	62.3	68.4

Note. From Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C.

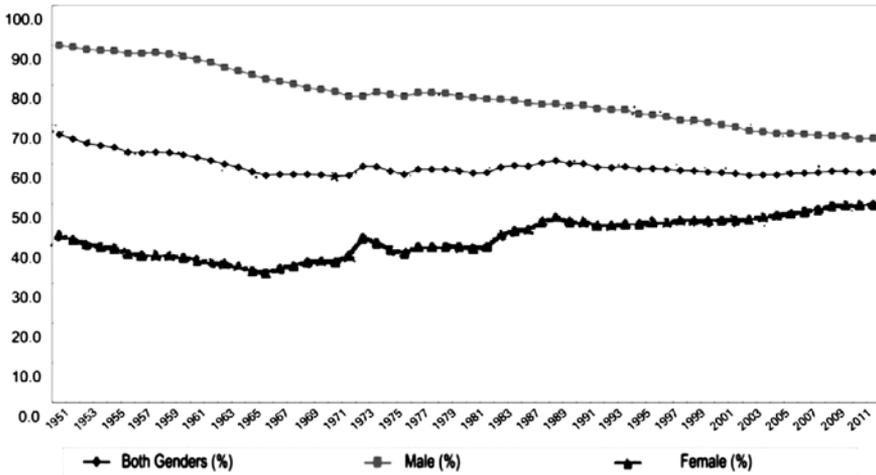


Figure 4-4. Labor force participation rate by gender, 1951-2010.

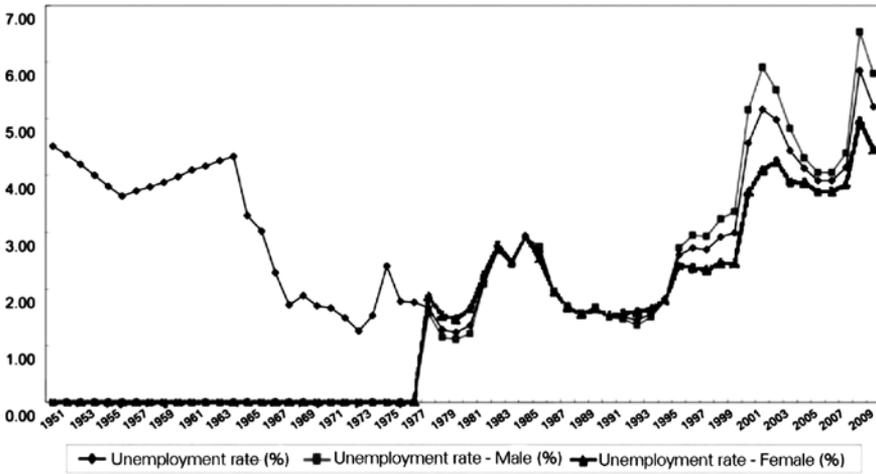


Figure 4-5. Unemployment rate by gender, 1951-2010.

4. Structure of Unemployment Insurance

Although unemployment payments have long been one of the benefits under the labor insurance program, they were not actually enforced

until January 1, 1999. As the government recognized the discontinuity of full employment that Taiwan had enjoyed for a long time in the 1980s and 1990s, as well as the aggressive challenge of legitimacy in the upcoming presidential election in 2000, unemployment payments under labor insurance were finally enforced to guarantee a basic living standard for workers over a limited time period and to integrate unemployment payments, employment services, and vocational training to establish a sound employment safety system. Later on, unemployment insurance was separated from the labor insurance program, and a separate Employment Insurance Act (EIA) was promulgated on May 15, 2002 by the President, and implemented under the approval of the Executive Yuan on January 1, 2003. An independent employment insurance fund was established aside from the labor insurance fund for which labor, employers, and government were liable.

The Insured Workers

Employed workers over 15 and under 65 years of age with one of the following statuses are required to join the employment insurance program as insured people through their employers or the organizations to which they belong:

- They must hold Taiwan citizenship.
- They can also be foreign nationals, Mainland Chinese citizens, Hong Kong citizens, or Macao citizens married to Taiwan citizens who have acquired legal residency in Taiwan.
- Employed workers as described in the preceding paragraph with one of the following statuses shall be ineligible for EIA: (a) those required by law to join the civil servant and teacher insurance program or military personnel insurance; (b) those already covered by labor insurance benefits for the elderly or old-age pensions for civil servants and teachers; (c) those employed by employers or organizations

legally exempt from business registration and business tax or legally exempt from business registration and not required to provide uniform invoices as proof of purchase.

From the aforementioned regulations, almost all workers under labor insurance are eligible to join EIA, except for those who are military service members, civil servants, school teachers, and small business workers like stall keepers and street peddlers. Table 4-3 shows the number of workers under EIA since its establishment. It can be seen that about 50% of the total labor force in Taiwan is covered by EIA, gradually reaching its peak in 2010 when the coverage was up to 53%, equivalent to 5.88 million workers. The question is whether or not such coverage is good enough to include vulnerable workers. Because there are no precise data regarding the number of workers who should be covered by law and are actually covered, the insured workers were taken under labor insurance as a comparative criterion because, theoretically, the labor insurance should cover all labor forces in the private sector and is indeed the largest insurance system in Taiwan. The coverage of EIA can be seen to be about 62% of insured workers under labor in-

Table 4-3. *Coverage of EIA and Its Ratios to Total Labor Force and Labor Insurance, 2003-2010*

Year	Workers under employment insurance (A)	Labor force (B)	Ratio (%) (A/B)	Workers under labor insurance (C)	Ratio (%) (A/C)
2003	5,024,816	10,076,000	49.9	8,102,570	62.0
2004	5,242,310	10,240,000	51.2	8,341,927	62.8
2005	5,369,278	10,371,000	51.8	8,540,755	62.9
2006	5,447,373	10,522,000	51.8	8,681,145	62.7
2007	5,507,865	10,713,000	51.4	8,799,405	62.6
2008	5,420,549	10,853,000	49.9	8,795,248	61.6
2009	5,584,169	10,917,000	51.2	9,029,279	61.8
2010	5,880,500	11,070,000	53.1	9,397,608	62.6

Note. From *Labor Statistics*, by Council of Labor Affairs, varied years.

insurance, implying that many workers could be entitled to EIA but are still out of the insurance system. Mostly, the uncovered workers are in the marginal labor market with higher risks of insecure employment.

Types of Unemployment Benefits

1. Unemployment Payments:

Conditions for applying to claim unemployment payments are given below:

- The insured person has involuntarily left work.
- Within 3 years since the day of withdrawal from EIA, the insured person has accumulated a total of at least 1 full year in the EIA program.
- The insured person has the capacity to work and the desire to continue to work.
- The insured person has registered at a Public Employment Service Institution to seek employment but has not been offered a job placement or vocational training within 14 days of registration.

The applicants are paid monthly unemployment benefits of 60% of their average monthly insurance salary over the 6-month period prior to leaving work and calculated from the fifteenth day of withdrawing from the labor insurance program, for a maximum of 6 months.

2. Early Reemployment Allowance:

The insured meet the conditions to claim unemployment payments, but have found work before the appointed time for claiming unemployment payments has expired, and they have participated in the employment insurance program for at least 3 months. Insured beneficiaries shall be able to claim 50% of unpaid unemployment benefits as a lump sum early reemployment award.

3. Vocational Training Allowance:

Insured recipients have involuntarily left work, have registered at a Public Employment Service Institution for reemployment, and have participated in full-time vocational training organized by the Public Employment Service Institution. The insured may during the training period receive a monthly vocational training living allowance of 60% of the their average monthly salary over the 6-month period prior to leaving work and withdrawing from the EIA program, for a maximum of 6 months.

4. Parental Leave Allowance:

Insured beneficiaries have accumulated at least 1 year of insurance enrollment, have children under 3 years of age, and are on parental leave without pay according to regulations in the Gender Equality in Employment Act.

5. Subsidy on National Health Insurance premium support for unemployed insured persons and dependants enrolled with the insured person:

For insured people who involuntarily leave work, and withdraw from the EIA program, and claim for the unemployment payment or vocational training allowance, the National Health Insurance shall subsidize the dependents' insurance premium to the full amount. The subsidy shall be the same period as the approved unemployment payment or vocational training allowance for a maximum of 6 months.

Table 4-4 demonstrates the basis profile of unemployment benefits under EIA. First can be seen the number of benefit applications increasing from its establishment. The applications in 2009 were especially high due to the global financial crisis. However, the reviewing procedure is quite difficult, so that only about one fifth of applications can

Table 4-4. *Unemployment Benefits under EIA, 2000-2010*

Year	Cases of application	Cases of concluding application the first time	Cases of concluding application the second time	Cases of approval for payment	Cases of concluding approval for payment the first time	Cases of concluding approval for payment the second time	Amount approved and paid (NT\$1000)	Placement	Cases receiving vocational training
2000	107,701	24,991	82,710	105,227	24,018	81,209	1,664,519	360	128
2001	494,396	118,422	375,974	485,851	114,859	370,992	7,825,440	1,653	317
2002	615,157	105,462	509,695	611,640	103,260	508,380	10,204,120	4,849	2,075
2003	336,833	68,680	268,153	325,340	64,537	260,803	5,458,734	6,456	7,004
2004	221,510	49,506	172,004	212,097	46,154	165,943	3,680,158	10,364	5,227
2005	254,582	59,094	195,488	250,600	57,487	193,113	4,406,324	10,237	6,350
2006	278,764	65,319	213,445	276,811	63,494	213,317	4,957,930	12,158	6,006
2007	300,089	70,247	229,842	298,859	68,563	230,296	5,353,019	25,028	8,469
2008	389,472	117,712	271,760	370,190	106,495	263,695	6,645,871	39,149	9,723
2009	1,135,469	217,316	918,153	1,119,303	208,772	910,531	20,824,877	81,612	30,556
2010	492,263	86,786	405,477	494,843	84,016	410,827	9,910,795	64,993	17,338

Note. From *Labor Statistics*, by Council of Labor Affairs, varied years.

be accepted the first time. In the end, the acceptance rate is about 98% of application cases. The reviewing procedure is long, but the result seems quite positive. Meanwhile, the significant growth of those who received placement and vocational training can also be observed, implying the effects of workfare programs attached to EIA, in place of dispatching cash directly.

Procedure for Applying for Unemployment Benefits

After insured employees leave work, they must bring documentation to prove they have left work or their contract has expired, and their national identity card or other documented proof of identity in person to a Public Employment Service Institution to register for seeking employment, applying for an unemployment certificate, and for receiving career guidance. They must also fill out an unemployment certificate and unemployment benefit application forms and claims procedures. After the Public Employment Service Institution processes registration to seek employment, career guidance should be arranged. Job placement or vocational training should be arranged within 14 days of registration for seeking employment. In the case that employment or vocational training cannot be arranged within 14 days, unemployment certification shall be completed on the next day and referred to the insurer (Bureau of Labor Insurance) to issue the unemployment benefits.

5. Performance and Evaluation

First, EIA is evaluated with a perspective of international comparison, and Table 4-5 shows the unemployment insurance programs in other selected countries. It can be found that the contribution ratio to salary of EIA in Taiwan is the lowest one, with only 0.9% in total while 0.2% is paid by employees and 0.7% by employers. Generally, unem-

Table 4-5. *Comparison of Unemployment Insurance in Selected Countries*

Country	Social contribution (ratio to insurance salary)		Benefit payment	
	Employees	Employers	Ratio to insurance salary	Period
Canada	1.95	2.73	55	14-45 weeks
United States	0	5.4	50	26 weeks
France	2.4	4	57.4-75	7, 12 or 23 months
Germany	3.25	3.25	67 (with children) 60 (without children)	6-12, 15 or 18 months
United Kingdom*	11%	12.8%	34.6-57.45 pounds/week	26 weeks
Japan	0.8	1.15	45-80	90-330 days
South Korea	0.45	0.7-1.3	50	90-240 days
Taiwan	0.2	0.7	60	6 months

Note. * The contribution rate in UK is national insurance in which unemployment is just a part. From *Social Security Programs throughout the World 2005*, by Social Security Administration, 2006.

ployment insurance programs in European countries come with a higher contribution rate up to 6%, while the programs in East Asian countries are about 2%. Regarding payment level, Taiwan is also in the top with payments up to 60% of salary, compared to 50%-55% in the other countries. However, the payment period in Taiwan has been the shortest one, of only 6 months, even though the 2009 amendment of EIA extended the payment period up to 9 months, especially for the middle aged or handicapped workers. It may be concluded that EIA in Taiwan seems quite valuable for the money with its modest contributions. But it should be noted that the unemployment rates in Europe and America are significantly higher than in East Asia. If East Asian countries cannot retain their economic competitiveness and thus present more job opportunities, the increasing unemployment will in turn put a heavy burden on their unemployment insurance programs. Taiwan has the same circumstances that can be seen in Table 4-6.

Second, Table 4-6 demonstrates the financial distribution of EIA.

Table 4-6. *Employment Insurance Premium Receivable and Real Benefit Payments*

(Number, NTD 1,000)

Year	Premium receivable	Grand total		Unemployment payment		Early reemployment incentives		Vocational training allowance		Parental leave allowance		National health insurance premium support	
		Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount
2003	16,260,940	558,987	5,972,625	325,340	5,458,734	5,793	195,215	12,768	203,770	—	—	215,086	114,906
2004	17,082,766	474,039	4,457,978	212,097	3,680,158	12,496	447,001	12,340	202,697	—	—	237,106	128,122
2005	17,814,770	538,623	5,423,489	250,600	4,406,324	17,200	656,360	13,050	219,324	—	—	257,773	141,481
2006	18,658,809	612,639	6,151,731	276,811	4,957,930	20,934	808,234	12,207	213,638	—	—	302,687	171,928
2007	19,281,118	800,474	6,837,552	298,859	5,353,019	25,137	953,158	14,792	261,427	—	—	461,686	269,947
2008	19,679,573	947,846	8,243,843	370,190	6,645,871	26,912	1,015,568	14,673	255,053	—	—	536,071	327,351
2009	19,466,889	2,724,682	26,005,177	1,119,303	20,824,877	50,938	1,790,409	42,619	827,170	109,861	1,720,272	1,401,961	842,450
2010	20,475,636	2,035,243	15,896,752	494,843	9,910,795	36,181	1,378,625	31,455	650,982	190,281	3,128,374	1,282,483	827,976

Note. From *Labor Statistics*, by Council of Labor Affairs, varied years.

Essentially, the premium received is higher than the payment, implying healthy financing. But the economic recession induced by the 2008 global financial crisis quickly turned the surplus into a deficit in 2009, while the unemployment rate increased from 4.14% to 5.85% from 2008 to 2009 (also refer to Figure 4-2). It can be estimated that the unemployment rate of 5.50% seems to be the threshold for the financial health of EIA. If the government cannot effectively push unemployment down to 5.50%, then EIA will face great benefit claim pressures. For the five kinds of EIA benefits, unemployment payments occupy the biggest share. In its 2009 amendment, EIA introduced a parental leave allowance that soon became the second largest share as an incentive to low fertility rates. Already witnessed in the increasing importance of female workers in the labor market, the share of parental leave allowance could increase exponentially in the future. Such an allowance must face a challenge regarding whether EIA can keep its present low contribution rate and generous benefit level.

Third, the growth of long-term unemployment is becoming problematic for EIA's performance. Because the benefit period is about 6 months, those who are unemployed over 1 year have exhausted their benefits and therefore are no longer entitled to EIA. Even though they are no longer covered by EIA, they remain a problem, economically and politically, that the government cannot control. Figure 4-6 shows the development of long-term unemployment in Taiwan. Generally, about 14% to 20% of the unemployed will be subjected to long-term unemployment, which means that they need benefits other than EIA. This dilemma raises a discussion on the institutional linkage between EIA and social assistance. Unfortunately, such questions remain unanswered.

Fourth, the results of checking the real number of approval for unemployment payment and its proportion to insured workers and the unemployed are shown in Table 4-7. Note that only the cases with unemployment payments are counted, rather than the total cases of five

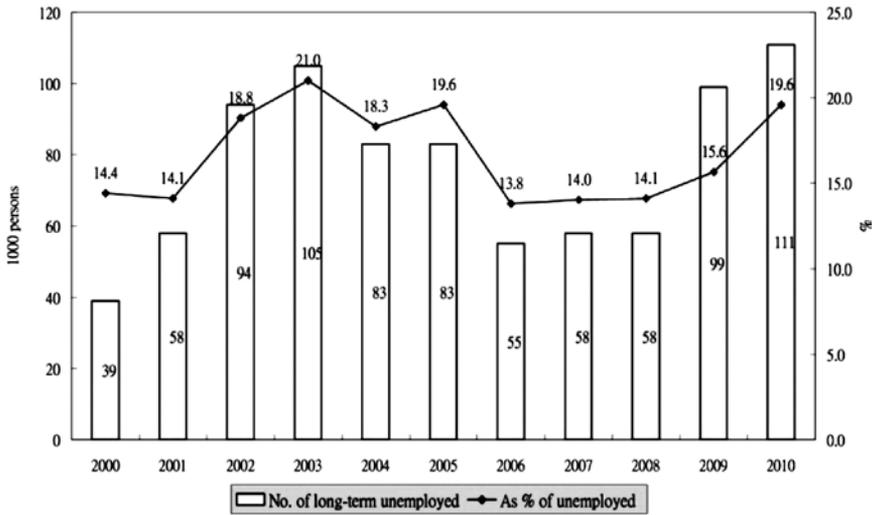


Figure 4-6. Long-term unemployment in Taiwan, 2000-2010.

unemployment benefits, because some claimants could receive two or more benefits that might lead to overcounting. Normally, about 4 to 6% of insured workers receive unemployment payments. However, the number in 2009 radically increased to 20% because of the introduction of some special measures, particularly in response to the global financial crisis, such as extending the payment period to 9 months for workers over 45 years old or handicapped and increasing payment to 80% of the average monthly salary for workers with dependents who attracted more than 184,000 application cases in just 1 year. Most everything returned to normal in 2010, even higher than before. Compared to those unemployed, the approved cases of unemployment payments occupied about 60% of the unemployed, steadily increasing to over 80%. Similarly, a radical jump in 2009 to 175% was because a lot of workers came back to claim their extra payments, due to the amendment of EIA.

Finally, the introduction of EIA did change the job searching behavior of the unemployed. Some studies examined the effects of unemployment benefits on the duration of joblessness. A discrete-time

Table 4-7. *Cases of Unemployment Payment and Its Ratios to Insured Workers under EIA and the Unemployed, 2003-2010*

Year	Cases of approval for unemployment payment (A)	Workers under employment insurance (B)	Ratio (A/B)	Unemployed (C)	Ratio (A/C)
2003	325,340	5,024,816	6.47	503,000	64.7
2004	212,097	5,242,310	4.05	454,000	46.7
2005	250,600	5,369,278	4.67	428,000	58.6
2006	276,811	5,447,373	5.08	411,000	67.4
2007	298,859	5,507,865	5.43	419,000	71.3
2008	370,190	5,420,549	6.83	450,000	82.3
2009	1,119,303	5,584,169	20.04	639,000	175.2
2010	494,843	5,880,500	8.41	577,000	85.8

Note. From *Labor Statistics*, by Council of Labor Affairs, varied years.

hazard model is applied to the survey data of the “Tracing Survey on the Employment of Unemployed Labor”. In addition to personal characteristics and time-varying business cycle indicators, in the regression, the researchers measured the effects of unemployment benefits on search intensities from several dimensions. The empirical results show that the unemployed have a higher reemployment rate during the periods when they receive benefits, which suggests that the unemployed increase their search intensities in response to more resources. The increase in the reemployment rate, though, diminishes with an increase in unemployment duration. Furthermore, raising the replacement ratio and increasing resources helps unemployed workers to search for and find jobs. However, the reemployment hazard does not increase as the individuals get closer to the time when benefits lapse, though new job acceptances increase around the time that the benefits are exhausted (Hung & Lo, 2008). Similarly, in a survey of 517 involuntarily unemployed workers in Kaohsiung City, a determinants model of reemployment was constructed through a Logistic regression model based on 19 variables from four dimensions: demographics, job changes, unemployment insurance, and psychodynamics. The results of the

study indicated that four variables of the job changes had no effect on “reemployment or not”. However, seven variables of demographics, unemployment insurance, and psychodynamics had a significant effect on “reemployment or not” (Han, 2008).

Nonetheless, many studies show that EIA is facing many challenges in its benefit levels, integration with workfare programs, and coping with a more flexible labor market. As for benefit levels, Lee (2007) characterized the workfare and unemployment insurance programs in Taiwan as rigid, less generous, and individualistic-oriented. In comparison to similar measures taken by Nordic and Western European countries, Lee indicated that Taiwanese workers need to have more savings for enduring hardships after losing their regular earnings. Moreover, they could normally receive only 60% payment of their earnings for 6 months at most, yet claimants could receive 70 to 80% of previous earnings up to 1 year or more in the comparative countries. The period of payment was extended only when the government could not effectively lower the unemployment rate at the end of 2010.

Regarding integration with workfare programs, using the results of a questionnaire survey of about 2000 claimants, Fu (2006) found mixed results on the effects of the implementation of EIA and workfare programs. On the positive side, those who could find regular jobs later (32% of the sample) had pay that was mostly better than the allowance received from the program. However, on the negative side, about two thirds of the claimants were still jobless after the program ended. Because most of the claimants are the disadvantaged groups in the labor markets, the middle aged or the less educated, their chances of reemployment did not increase because of the workfare measures. Lee (2010) also argued that not only the relative low unemployment benefits levels and strict job-search regulations of EIA but also tightened suitable job criteria and imbalanced administrative discretion leave the unemployed trapped in a situation of ongoing job searches and unemployment benefit claims, the main reason for unemployment benefit

claimants' low willingness to become reemployed.

In its coping with a more flexible labor market, Wei (2009) noted that the global financial crisis has worsened employment and labor conditions worldwide, forcing Taiwanese businesses to impose unpaid leave on workers as a labor adjustment and therefore causing real salaries to worsen by 13%. Wei suggested four policies: (a) it is necessary to make efforts to lower the unemployment rate by macro-economic measures; (b) the employment security system should be rebuilt through social dialogue among government, employers, and employees; (c) the coming era of temporary and short-term employment contracts must be faced and accepted; and (d) the distance between schools and the workplace must be shortened.

6. Conclusion

This paper offers an overview of labor market changes in Taiwan, especially the impacts induced by global movements, and the EIA as a mechanism for responding to the rising unemployment problem. Taiwan has long been regarded as a model for economic growth with full employment. Given to the development prior to the 1980s, nearly all indicators showed significant improvement of every possible aspect. However, this situation did not last long. After the 1990s especially, economic growth has been slowing down, combined with higher unemployment and stagnating incomes. The main finding is that after significant improvement prior to the 1980s, it is very difficult to resume similar employment levels. The claims for social reform have accelerated huge pressures on the Taiwanese government, whether for the DPP or the KMT.

We also have pointed out the vulnerability of Taiwan's economy under globalization. Full employment and a large number of small and

medium-sized businesses had contributed to wealth and income equality in Taiwan. Both conditions were no longer sustainable after the 1990s. The former is threatened by globalization of capital mobility and international labor division, while the latter is likely to decrease because of the governmental policy towards liberalization that encourages mergers and acquisitions for the sake of competition. It seems that unemployment trends are unstoppable, especially after the 1990s.

The government has tried to establish a just unemployment insurance system that fits Taiwan's unique situation and, so far, its policy mostly focuses on the integration between EIA and workfare programs in the face of concerns about whether EIA can be sustained under the possible challenge of the large scale unemployment that has been noted in an inside report of the Council for Economic Planning and Development (2009). It is recognized that the effectiveness of EIA is restrained by its financial health, on the one hand, and its institutional linkage with other welfare provisions on the other.

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Appendix: Employment Insurance Act

Chapter 1. General Provisions

Article 1 This Law is established to improve the ability of workers to find employment, promote employment, and guarantee worker job training and basic living requirements for workers for a certain period of unemployment. Matters not provided for herein shall be governed by regulations of other laws.

Article 2 The competent authorities of Employment Insurance are: the Council of Labor Affairs, Executive Yuan Taiwan, ROC at the central government level, the municipal government at the centrally administered municipality level, and the county (city) government at the county (city) level.

Article 3 Employment Insurance affairs are supervised by the Supervisory Commission of Labor Insurance.

If the insured person and the insured establishment dispute a case approved by the insurer, an application for review should be first made to the Supervisory Commission of Labor Insurance; if the result of the review is unsatisfactory, a legal appeal and administrative action may be filed.

Chapter 2. The Insurer, the Insured Party and the Insured Establishment

Article 4 The Bureau of Labor Insurance is commissioned by the central competent authority to administer Employment Insurance, and to be the insurer.

Article 5 An employed worker over 15 and under 65 years of age and with one of the following statuses is required to join this employment insurance program as an insured person through his employer or the organization to which he or she belongs.

1. An ROC national.
2. A foreign national, Mainland Chinese citizen, Hong Kong citizen or Macao citizen married to an ROC citizen and having acquired

legal residency in ROC.

An employed worker as described in the preceding paragraph with one of the following statuses shall be ineligible for this insurance program:

1. A person who is required by law to join the civil servant and teacher insurance program or military personnel insurance.
2. A person who is already covered by labor insurance benefits for the elderly or old-age pensions for civil servants and teachers.
3. A person employed by an employer or organization legally exempt from business registration and business tax or legally exempt from business registration and not required to provide uniform invoices as proof of purchase.

People with two or more employers shall join this insurance program through one of the employers.

Article 6 After this Law is enforced, a worker who should participate in the employment insurance program as an insured person pursuant to regulations of the preceding Article, upon the day the insured establishment declares his participation in the labor insurance program is effective, he becomes an insured person in the employment insurance program. Upon the day the insured establishment declares his withdrawal from labor insurance coverage, insurance coverage immediately ceases.

A worker who already participates in the labor insurance program before this Law is enforced will become an insured person from when the Law is enforced. Pursuant to the Labor Insurance Act and regulations on labor insurance unemployment benefit implementation procedures, annual coverage of unemployment benefit insurance premium payments shall be cumulatively calculated with annual employment insurance coverage.

If a worker, who should participate in the employment insurance program as an insured person pursuant to regulations of the preced-

ing Article, is not declared as participating in the labor insurance program by his employer, or group or institution to which he belongs, the insured establishment should declare the worker as participating in the labor insurance program, either on the day Employment Insurance is enforced, or on the day the worker starts work. On the day a worker leaves work, the employer must inform the insurer in writing. The beginning or end of insurance coverage is calculated from the day of declaration or when the insurer is informed that the worker has left work. However, if the insured establishment does not, on the day this Law is enforced or on the day the worker starts work, declare his participation in the labor insurance program, apart from being fined pursuant to Article 28 regulations herein, insurance coverage will begin on the day after the declaration or notification.

Article 7 In order for the competent authority, the insured person and the Public Employment Service Institution to investigate the workers' working conditions, salary, or reasons for leaving work at the insured establishment, when necessary, the employee roster, record of work attendance, annual salary bookkeeping, and other related information may be investigated, which the insured establishment has no right to evade, obstruct or refuse.

Chapter 3. Insurance Financial Affairs

Article 8 The central competent authority will set employment insurance premium rates at one to 2% of the insured person's current monthly insurance salary, and report the situation to the Executive Yuan for approval.

Article 9 Employment insurance premium rates are to be recalculated at least once every 3 years by the insurer, and the central competent authority is to appoint actuaries, insurance finance experts, relevant academics, and impartial observers to form an actuary review team of 9-15 people.

Under one of the following circumstances, the central competent authority shall adjust the employment insurance premium rate within the limits defined in the regulations of the preceding Article:

1. There is a difference of more than a 5% margin of error between the average value of the recalculated insurance premium rate over the previous 3 years and the current year's insurance premium rate.
2. The deposited insurance fund surplus is less than 6 times the average monthly sum of insurance benefit payments over the previous year, or higher than the nine times the average monthly sum of insurance benefit payments over the previous year.
3. The financial situation of the employment insurance program is influenced by items of benefit increases and cuts, benefit contents, benefit standards or benefit limits.

Chapter 4. Insurance Benefits

Article 10 The benefits from this employment insurance program are divided into the five following categories:

1. Unemployment benefits.
2. Early reemployment incentives.
3. Vocational training living allowances.
4. Parental leave allowances.
5. National Health Insurance premium subsidies for unemployed insured persons and dependants enrolled with the insured person.

The regulations for the targets, conditions, criteria, and duration of subsidization prescribed in Item 5 of the preceding paragraph shall be defined by the central competent authority.

Article 11 Application for the various benefits in accordance with this Act is subject to the following conditions:

1. Unemployment benefits: The insured person has accumulated at least one year of insurance enrollment within the 3 years previous to the insured person's involuntary separation from employment and withdrawal from the insurance program while the public em-

ployment agency with which the insured person has registered for job placement has failed to find work or arrange vocational training for the insured person within 14 days in spite of the insured person's ability as well as willingness to work .

2. The early reemployment incentive: The insured person meets the criteria for claiming unemployment benefits, finds work before the stipulated period of unemployment benefit claim expires, and has been enrolled in the employment insurance program for at least 3 months.

3. The vocational training living allowance: The insured person has left work involuntarily, registered with a public employment agency for job placement, and accepted the arrangement of the public employment agency to participate in full-time vocational training.

4. The parental leave allowance: The insured person has accumulated at least one year of insurance enrollment, has children under 3 years of age, and is on parental leave without pay according to the regulation of the Gender Equality in Employment Act.

An insured person separated from employment at the termination of his or her fixed-term contract, unable to find employment for over 1 month, and having been under the said contract for at least 6 months within the year before employment separation is regarded as having left work involuntarily and the regulations in the preceding paragraph shall apply.

The so-called involuntarily separation from employment prescribed in this Act refers to separation from employment because the insured unit has closed down, relocated, suspended business, dissolved, or filed bankruptcy, or separation from employment due to one of the causes prescribed in Article 11, the proviso of Article 13, Article 14 and Article 20 of the Labor Standards Act.

Article 12 In order to help unemployed insured persons find work, public employment agencies shall offer employment counseling and make

arrangements for job placement or vocational training.

The competent authority or public employment agencies may delegate or commission other agencies (organizations), schools, groups or incorporated institutions to conduct the operations referred to in the preceding paragraph.

The central competent authority is required to appropriate up to 10% of the total annual employment insurance premiums receivable and the budget balance from over the years to conduct the following:

1. On-the-job training for the insured.
2. Vocational training, business start-up assistance and other measures for helping unemployed insured persons find work.
3. Employment stability measures for the insured.
4. Incentives for employers hiring unemployed workers.

The targets, job types, qualifications, items, approaches, durations, benefit standards and limitations, budget management and use, as well as other related regulations for the particulars prescribed in the preceding paragraph shall be defined by the central competent authority.

The employment counseling described in Paragraph 1 refers to offering of information and services regarding choice of employment, career change or vocational training, workshops for employment promotion, or counseling from job adaptation specialists.

Article 13 An insured person who has not accepted job placement from a public employment agency due to one of the following reasons may still apply unemployment benefits:

1. The wages are lower than the unemployment benefits the said insured person may receive.
2. The workplace is over 30 kilometers from the said insured person's home.

Article 14 An applicant who does not accept career counseling or vocational

training from a Public Employment Service Institution for any one of the following reasons may still claim unemployment benefits if:

1.He is receiving medical treatment for injury or illness, and can prove he is unfit to attend.

2.He satisfies the Public Employment Service Institution that in order to participate in vocational training, he must move from his current abode.

Pursuant to regulations in any of the items of the preceding paragraph, if the applicant is unable to attend career counseling or vocational training organized by the Public Employment Service Institution, when he applies for unemployment benefits, the Public Employment Service Institution must still arrange a time for payment.

Article 15 If an insured person commits any of the following, the Public Employment Service Institution shall refuse to accept application for unemployment benefits:

1.He refuses a job placement organized by the Public Employment Service Institution, in violation of regulations in Article 13.

2.He refuses to participate in Public Employment Service Institution arranged career counseling or vocational training, in violation of the regulations in the preceding Article.

Article 16 The unemployment benefits shall be 60% of an applicant's average insured monthly salary in the 6-month period right before employment separation and withdrawal from this insurance program, paid for up to 6 months.

In the event that the applicant is 45 years old or older when separated from employment and withdrawn from this insurance program or has proof of mental or physical impairment issued by the competent authority, payment of unemployment benefits may be extended to a maximum of 9 months.

Considering the unemployment rate and other circumstances in conjunction with the economic downturn or emergencies of various

natures, the central competent authority may extend the benefit payment period prescribed in Paragraph 1 to a maximum of 9 months, or longer if deemed necessary but no more than twelve months. The extension shall not apply to the regulations in Article 13 and Article 18.

The criteria, targets, conditions, period of implementation, length of extension and other related regulations in regard to the unemployment benefit payment extension described in the preceding paragraph shall be defined by the central competent authority and presented to the Executive Yuan for approval.

People rejoining this insurance program before the end of the unemployment benefit payment period as prescribed in the three preceding paragraphs and involuntarily leaving work again may still apply for unemployment benefits according to regulations. However, the combination of already claimed unemployment benefits as well as the early reemployment incentive received according to Article 18 shall be deducted from further unemployment benefit payments.

The unemployment benefits for people reapplying within 2 years after receiving unemployment benefits throughout the period prescribed in the four preceding paragraphs shall be no more than half of the normal benefits.

The length of insurance enrollment for people having received unemployment benefits throughout the period prescribed in the five preceding paragraphs shall be calculated anew.

- Article 17 An insured person who while unemployed has other work, which provides a monthly income exceeding the minimum wage, is ineligible for unemployment benefits. If the monthly income does not exceed the minimum wage, he may claim unemployment benefits in addition to the monthly income. If the combined total exceeds 80% of the average monthly insurance salary, the additional

amount will be deducted from the unemployment benefit. But if the combined amount is less than the minimum wage, no deductions will be made.

A person claiming labor insurance injury and illness benefits, vocational training living allowance, temporary work allowance, or other related employment development awards, may not claim unemployment benefits while receiving the related award.

Article 18 A person eligible to claim unemployment benefits who finds work before the maximum unemployment benefit claim period has expired, and according to the regulations has participated in the employment insurance program as an insured person for at least 3 months, should apply to the insurer to claim 50% of unpaid unemployment benefits as a lump sum early reemployment award.

Article 19 An insured person who involuntarily leaves work, registers at a Public Employment Service Institution to seek employment, and participates in full-time vocational training arranged by the Public Employment Service Institution, may during the training period receive a monthly vocational training living allowance of 60% of the applicant's average monthly salary over the 6-month period prior to leaving work and withdrawing from the labor insurance program, for a maximum of 6 months.

When the applicant receives training, the vocational training establishment should instruct the insurer to pay his vocational training living allowance.

Article 19-1 During the period when an insured person involuntarily separated from employment and withdrew from employment insurance is receiving unemployment benefits or the vocational training living allowance, an extra 10% of the insured person's average insured monthly salary in the 6 months right before employment separation and withdrawal from this insurance program shall be added as the benefits or allowance for each one of the insured person's depend-

ents. The said extra benefits or allowance shall be given for up to two dependents.

The "dependents" described in the preceding paragraph refers to the insured person's non-working spouse, minor children or children with mental or physical impairment.

Article 19-2 The parental leave allowance shall be 60% of the insured person's average insured monthly salary in the 6 months right before the parental leave without pay takes effect. An insured person on parental leave without pay shall be given an allowance for up to 6 months per child.

In the event that there are two or more children requiring care at the same time, the allowance prescribed in the preceding paragraph shall be granted for one child only.

When both parents are covered by employment insurance, they shall apply for the parental leave allowance separately and not at the same time.

Article 20 Unemployment benefits are calculated from the 15th day after registering to seek employment at a Public Employment Service Institution. Vocational training living allowance is calculated from the first day of training.

Article 21 If the insured establishment deliberately carries out procedures for an ineligible person to join the labor insurance program, the recipient of insurance benefits shall be informed by the insurer to return the amount within a prescribed period of time. If the amount is not returned before the appointed time, the case may be referred to court for compulsory execution.

Article 22 An insured person who claims any insurance benefits must not cede his rights to someone else, rescind, seize, or offer security.

Article 23 If there is a labor-management dispute between the applicant and former employer due to the applicant leaving work, unemployment benefits may still be claimed.

If the ruling on the preceding paragraph finds the applicant ineligible to claim unemployment benefits, then the applicant must return already claimed unemployment benefits within 15 days of the judgment. If the amount has not been returned by the appointed time, the case may be referred to court for compulsory execution.

Article 24 A person loses the right to claim an insurance benefit if no action has been taken 2 years after the day the claim is available.

Chapter 5. Application and Assessment

Article 25 Within 2 years after employment separation and withdrawal from employment insurance, the insured person is required to submit proof of employment separation or fixed-term contract, national ID or other proof of identity to a public employment agency in person to register for job placement, apply for unemployment confirmation, accept employment counseling, as well as fill out the unemployment confirmation statement, unemployment benefit application form and benefit receipt.

After accepting registration for job placement, the public employment agency shall conduct employment counseling and make arrangements for job placement or vocational training. When failing to make job placement or vocational training arrangements within 14 days, the public employment agency shall issue a letter of unemployment confirmation the next day and request the insurer to issue unemployment benefits.

The proof of employment separation described in Paragraph 1 refers to a certificate issued by the insured unit or the competent authority of the direct city or county/city. In the event that acquisition of the said certificate proves difficult, at the consent of the public employment agency, a written statement may be accepted.

The certificate or written statement described in the preceding paragraph shall carry the name of the applicant, the title of the insured unit, and the reason of employment separation

An applicant failing to produce the document prescribed in Paragraph 1 shall turn in the required document within 7 days. Otherwise, the application shall be deemed invalid.

- Article 26 In order to meet the requirements of organizing job placement and vocational training, the Public Employment Service Institution requires the applicant to produce the following documentation:
1. Copies of the highest attained educational diploma and documented work experience.
 2. Copies of specialist vocational or technical skill certificates.
 3. Copies of certificates from previously completed vocational training programs.
- Article 27 Within 7 days of the day the Public Employment Service Institution organizes a job placement, the applicant should submit the employment and non-return cards to the Public Employment Service Institution.
- If an applicant does not administer the above, the Public Employment Service Institution shall stop processing the current unemployment certificate. If the certificate has already been processed, it shall be cancelled.
- Article 28 In the event that a person receives no job placement after vocational training is completed, the vocational training institution shall request the public employment agency to issue a letter of unemployment confirmation. If the said person has not made the unemployment benefit claim or has not yet claimed unemployment benefits for the maximum period allowed, the vocational training institution shall also request the insurer to issue the remaining unemployment benefits the said person is entitled to according to the benefit payment period regulation of Article 16.
- Article 29 An individual reapplying for unemployment benefits is required to go to a public employment agency in person every month for reconfirmation of the unemployment status within the 2 years starting

on the day after the end of the first unemployment benefit payment period. People currently under medical treatment and unable to attend in person may submit a certificate from a medical institution as well as a written statement and delegate someone else to process the above procedure.

An individual without employment status confirmation by a public employment agency shall have his unemployment benefits revoked.

Article 30 When a person claiming unemployment benefits applies for unemployment re-certification, he must produce at least two records of seeking work before he can continue to claim. A person who cannot produce a record of seeking employment must produce complete and correct documents within 7 days. If the documents are not properly revised before the prescribed period, his unemployment benefits will be stopped.

Article 31 If a person has other additional income while he is unemployed or claiming unemployment benefits, he should inform the Public Employment Service Institution when applying for an unemployment certificate or processing unemployment re-certification.

Article 32 A person claiming unemployment benefits should inform the Public Employment Service Institution within 3 days of becoming reemployed.

Chapter 6. Fund and Administrative Budget

Article 33 The Employment Insurance Fund comes from the following sources:

1. The special fund appropriated from the Labor Insurance Fund by the central competent authority.
2. Surplus of insurance premiums and interest after deduction of insurance benefit payments.
3. Insurance premium payment overdue fines.
4. Income from use of the Fund.
5. Other related revenue.

The special fund described in Item 1 shall be returned to the Labor Insurance Fund in one lump sum.

Article 34 With the approval of the Labor Insurance Supervisory Commission, the Employment Insurance Fund may be used in the following ways:

1. Investment in government bonds, treasury bills and corporate bonds.
2. Deposited with government-run banks, or deposited with financial institutions or invested in short-term stock trading specified by the central competent authority.
3. Other investments approved by the central competent authority as to the benefits of the Fund.

The "other investments" prescribed in Item 3 of the preceding paragraph as to the benefits of the Fund shall not be investment in equity securities or derivative financial products. In addition to the use and insurance benefit payment prescribed in Paragraph 1 and the appropriation defined in Paragraph 3 of Article 12, the Employment Insurance Fund shall never be used or transferred for other purposes. The insurer is required to present the use and balance of the Fund to the central competent authority on an annual basis for public announcement.

Article 35 The central competent authority shall determine and appropriate the funds needed for operating this insurance program, which shall be no more than 3.5% of the total projected annual premium revenue.

Chapter 7. Penal Provisions

Article 36 A person making fraudulent or other improper insurance benefit claims, or making false certification, reports, and representations, other than being fined a sum of double the claimed insurance benefits, will also be liable to the insurer for compensation and damages. If criminally liable, the case may be referred to court for compulsory execution.

Article 37 A worker in contravention of the provisions herein, who does not participate in the employment insurance program and administer employment insurance procedures, will be fined between NT\$1,500 to NT\$7,500.

Article 38 An insured unit failing to enroll its employees for employment insurance in accordance with this Act shall be subject to a fine ten times of the insurance premiums for the period from the date of hire to the date before the actual enrolment or the date of termination of employment. The loss that the employees incurred due to the employer's failure to enroll them for insurance shall be compensated by the insured unit according to the payment standard defined in this Act.

When an insured has paid insurance premiums as a result of an insured unit in violation of the regulation of this Act having failed to pay the premiums for the insured, the insured unit shall be subject to a fine two times the amount of the premiums that the insured has paid. The insured unit shall further refund such premiums to the insured.

An insured unit failing to pay the premiums of the insured in violation of the regulation of this Act by over-declaration or under-declaration of insured salaries shall be subject to a fine four times the amount over-declared or under-declared starting from the onset of the violation.

In the event that the excess benefits received due to the above violation are not returned to the insurer within the time period specified, the insurer shall transfer the case for compulsory execution to retrieve the amount thus claimed in excess. The insured unit shall compensate the employees for the loss thus incurred.

An insured unit in violation of the regulation of Article 7 shall be subject to a fine of more than NT\$10,000 but less than NT\$50,000. In the event that an overdue fine up to the maximum premiums

payable has been imposed on an insured unit in accordance with relevant regulations but the insured unit has not paid the premiums payable to the insurer before the amendment to this article takes effect on March 31, 2009, and the insurer has not imposed a penalty or has imposed a penalty without enforcement, there shall be no further arbitration or execution.

Article 39 If a fine imposed herein is not paid within the appointed time announced by the insurer, the case may be referred to court for compulsory execution.

Chapter 8. Supplementary Provisions

Article 40 Matters not provided herein regarding the beginning and end of insurance coverage, monthly insurance salary, insurance salary adjustment, the burden of responsibility for insurance premium, insurance premium payment, administering the extension of time limits and collection of penalties on insurance premiums, and investing and managing the fund, may be governed by the Labor Insurance Act and other relevant provisions.

Article 41 The regulations in Paragraph 1 of Article 2 regarding ordinary accident insurance unemployment benefits and Article 74 of the Labor Insurance Act shall no longer apply starting from the date this Act takes effect.

Starting from the date this Act takes effect, the labor insurance ordinary accident insurance premium rate shall be reduced by 1% of the monthly insured salary of the month the accident takes place. The regulation of Paragraph 2 of Article 13 of the Labor Insurance Act shall not apply.

Article 42 All account books, receipts and administrative balance herein are exempt from taxes and duties.

Article 43 The enforcement rules hereof shall be determined by the central competent authority.

Article 44 The Executive Yuan will decide the date on which this Law shall

be enforced

The Executive Yuan shall determine the effective date of this Act.

Article 35 of this Act amended on April 21 2009 takes effect on January 1, 2010.

Chapter 5

Unemployment Insurance in Japan

Shinichi Oka*

Remarks

This report was written in 2011 based on resources issued before 2011. Japan has suffered a disastrous earthquake and tsunami in March of 2011, which had tremendous effects on Japanese society. So many persons died, so many enterprises disappeared, and so many who survived lost everything including their jobs and even their families. Nonetheless, this paper cannot dwell on the crisis. The situation has greatly changed, and the Government has started new measures in 2011. Plenty of time will be necessary to illustrate their influence after the tragedy. This paper addresses the situation before the disaster.

1. Introduction

Background

In comparison with other advanced countries, Japan's unemployment protection seems to have very different characteristics. Life-long employment, a seniority-based wage system, a lump sum retirement allowance, and the other traditional Japanese management customs play an

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important role for the unemployed.

First, Japanese companies try to maintain employees as long as possible, even in the face of a business crisis. On the other hand, American companies easily lay off employees whenever they wish to cut costs. For Japanese companies, dismissal is the last measure for management. These customs indicate, in a sense, protection against unemployment. While many multinational enterprises operate businesses in Japan, and Japanese companies are starting to change their management style, most Japanese core employees are still employed for many years in the same company, a traditional custom that can be a barrier to unemployment.

Second, retirement allowances amount to a high standard and are fixed by seniority. The retirement allowance in Japan plays a role in income security after retirement. This allowance is normally a lump sum payment, but the amount is in many cases is higher than that of an unemployment allowance. In general, the allowance is diffused even to small enterprises, including public organizations.

Third, the employment situation has been going well for a long period since the last world war. Japan marked recently its highest unemployment rate of around 5%. Nonetheless, this standard still seems lower than that in many other countries, which is also one of the reasons that Japan has not needed a complete unemployment protection system. Finding a job has never been such a serious issue for the majority of Japanese workers.

The aforementioned factors contribute to preventing unemployment and even in unemployment to protecting unemployed individuals. In other words, the Japanese do not have to depend very much on Employment Insurance (EI). In fact, on the contrary, Japanese EI is relatively modest. Consent among the nation's citizens to promote EI seems very low. In particular, younger people can easily find a job even when they are just as easily lost.

Overview of the Current System

Unemployment Insurance (UI) only has been the system used for protecting jobless people in Japan. Neither unemployment assistance nor social aids for the unemployed have been provided. EI is a compulsory insurance system administered by the government. EI has a strong relationship with Job Placement Service and Vocational Training. For instance, searching for a job is one of the conditions for receiving unemployment benefits. Some unemployment benefits are applicable in supporting participation in some kind of vocational training. EI is a comprehensive system that includes various functions that are all related to employment.

EI has so many benefits and services to support the unemployed as well as enterprises that prevent unemployment. In Figure 5-1 is an outline of EI in Japan. First of all, EI in Japan consists of two actions: one is managing unemployment benefits for the unemployed and the other is practicing Employment Promotion Programs for enterprises. Under the latter are two additional programs: the Program for Stable Employment and the Program for Career Development. Both programs have many organized benefits, subsidies, and services to encourage and assist employers to prevent unemployment and create new jobs.

On the other hand, unemployment benefits can be classified into four different types of benefits: Job Applicant Benefits, Employment Promotion Benefits, Benefits for Educational & Vocational Training, and Benefits for Continuous Employment. Then, every benefit has its own benefits or allowances organized for specific purposes. Among these benefits are Job Applicant Benefits, the most basic benefit to guarantee quality of life for unemployed people that, again, includes different benefits according to different purposes and categories.

Job Applicant Benefits can be by themselves classified into four independent benefits under personal categories: general employee, aged employee, short-term employee, and day laborer. Because of the differ-

ences in working hours, wage systems, et cetera, different benefits are prepared individually. In addition, each personal category has its own benefits and allowances. For instance, the Job Applicant Benefits for general employees consist of different allowances including the Basic Allowance, Allowance for Moving Expenses, Wide-area Job Applicant Allowance, Boarding Allowance, Career Development Allowance, and Sickness & Injury Allowance, all of which will be touched on later.

2. Features of the Labor Market

Labor Market Situation: Trends of Labor Market Participation Rate, Unemployment Rate, and Employment Rate

The active population rate in 2010 was 71.6% for men and 48.5% for women, and 59.6% in total. During the last 11 years, this rate decreased slightly both for men and women. In particular, the decrease in the active population rate has been somewhat bigger for men, from 76.4% in 2000 to 71.6% in 2010. Among Japanese women ages 15 to 65, about half of population is active. It has been understood as one characteristic of the Japanese is that the active population rate for young Japanese women rose and then dropped after marriage or childbirth, thereafter increasing after the children were grown. That is to say, the rate drastically changes according to the life stages for Japanese women. Table 5-1 also confirms this tendency.

The employment rate means the proportion of the number of employed people in the total population. Table 5-2 shows the employment rate from 2000 to 2010 in Japan. Almost the exact situation with the active population rate can be confirmed here. The employment rate also decreased as a whole gradually. One of the remarkable points is the increase in the employment rate from ages 55 to 64, which might

be the effect of the new employment policy in 2004 to prolong employment for the aging population.

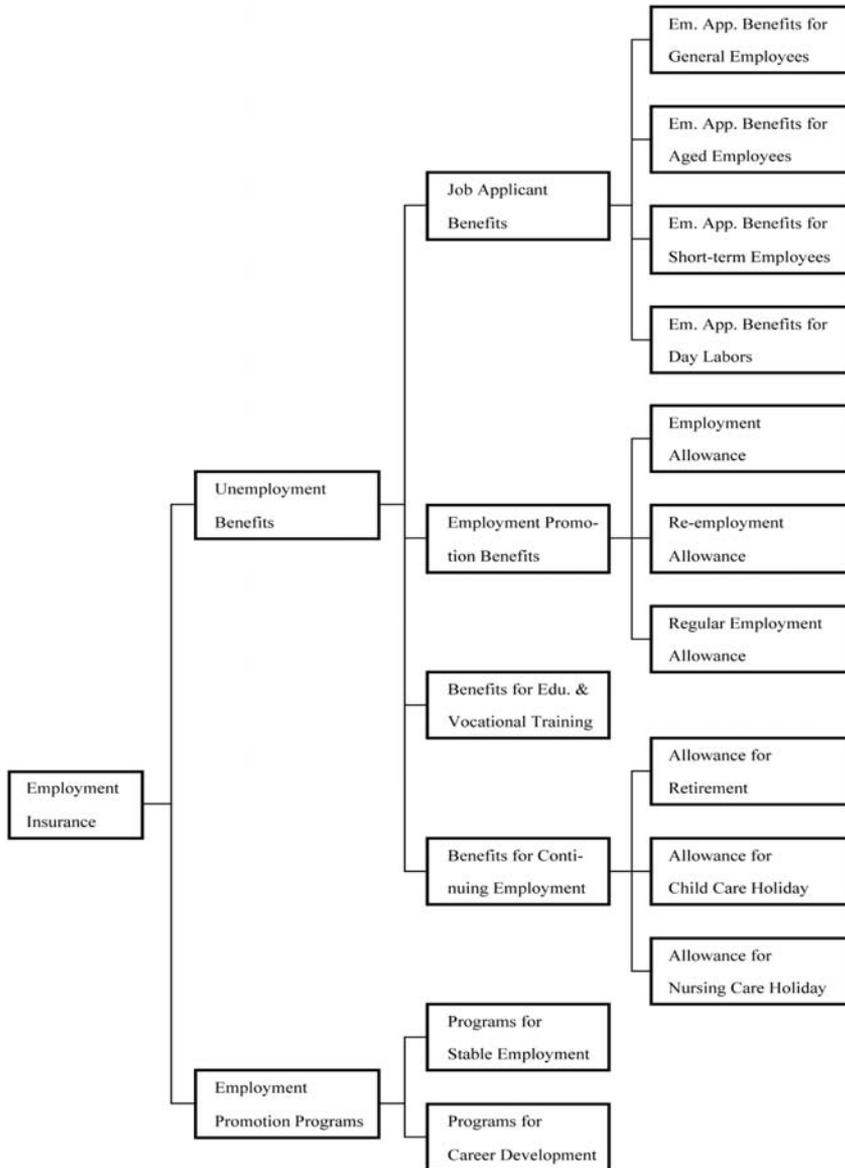


Figure 5- 1. Outline of employment insurance.

Table 5-1. *Active Population Rate by Age Group*

Year	(%)															
	Total		Men							Women						
	All ages	15-64	All ages	15-24	25-34	35-44	45-54	55-64	65 +	All ages	15-24	25-34	35-44	45-54	55-64	65 +
2000	62.4	72.5	76.4	47.3	96.6	98.0	97.1	84.0	34.1	49.3	46.8	63.9	65.3	69.9	49.6	14.4
2001	62.0	72.6	75.7	46.5	96.4	97.7	96.7	83.4	32.9	49.2	46.4	65.2	66.2	70.1	49.2	13.8
2002	61.2	72.3	74.7	46.0	95.7	97.3	96.6	82.9	31.1	48.5	44.9	66.0	66.0	69.8	48.9	13.2
2003	60.8	72.4	74.1	45.2	95.6	97.2	96.6	83.0	29.9	48.3	44.5	66.6	66.5	70.1	49.4	13.0
2004	60.4	72.3	73.4	44.0	95.4	97.0	96.3	82.6	29.2	48.3	44.3	67.5	66.2	70.4	50.2	12.9
2005	60.4	72.6	73.3	44.4	95.1	97.0	96.1	83.0	29.4	48.4	45.0	68.3	66.7	71.2	50.8	12.7
2006	60.4	73.1	73.2	44.7	95.4	96.9	96.3	83.7	29.2	48.5	45.2	68.7	67.3	72.2	51.5	13.0
2007	60.4	73.6	73.1	45.1	95.5	96.9	96.3	84.8	29.8	48.6	44.8	69.3	67.9	73.2	52.5	12.9
2008	60.2	73.8	72.8	44.5	95.4	96.8	96.3	85.0	29.7	48.4	44.8	70.1	67.9	73.5	53.1	13.1
2009	59.9	73.9	72.0	42.8	95.2	96.7	96.1	84.6	29.4	48.5	44.9	71.9	68.3	73.9	53.5	13.1
2010	59.6	74.0	71.6	42.4	95.1	96.8	96.4	83.9	28.8	48.5	44.0	72.3	68.6	74.2	53.9	13.3

Note. From *Survey on Active Population*, by Ministry of General Affairs.

Employment Structure by Industry, Age, Gender, Employment Status, Firm Size, etc.

Table 5-2 shows the employment rate by gender. The male employment rate has been decreasing from 72.7% in 2000 to 67.7% in 2010. The female employment rate has not changed very much and has kept stable. As for age group, among young people, the employment rates have been decreasing for both men and women according to the detail data by age group. On the contrary, among the 60-64 age group, employment rates have been increasing for both genders, which seems to be the result of new labor laws to encourage employment of the aged.

Table 5-3 shows the number of employees by industry from 2001 to 2010. Small businesses with 1 to 29 employees have the largest number of employees. However, the number has been decreasing in small businesses during the last 10 years. On the other hand, big businesses with 500 or more employees tend to hold onto more employees.

Table 5-2. *Employment Rate*

Year	Total	Men	Women
2000	59.5	72.7	47.1
2001	58.9	71.7	46.8
2002	57.9	70.6	46.1
2003	57.6	70.1	45.9
2004	57.6	69.8	46.1
2005	57.7	69.9	46.3
2006	57.9	70.0	46.6
2007	58.1	70.3	46.6
2008	57.8	69.8	46.5
2009	56.9	68.2	46.2
2010	56.6	67.7	46.3

Note. From *Survey on Active Population*, by Ministry of General Affairs.

Table 5-3. *Number of Employees by Scale of Company*

Year	Total	Under 29	30-99	100-499	500-999	Over 1000	Public organizations
2000	5322	1726	859	889	1274	974	543
2001	5331	1729	868	916	1248	945	541
2002	5292	1735	862	931	1184	877	545
2003	5296	1716	862	925	1204	897	554
2004	5319	1679	861	944	1233	921	566
2005	5356	1656	866	971	1271	946	553
2006	5430	1685	890	985	1289	958	541
2007	5478	1672	887	1004	1336	999	534
2008	5478	1644	869	1009	1417	1070	495
2009	5410	1615	849	992	1418	1077	497
2010	5410	1583	851	1020	1429	1083	489

Note. From *Survey on Active Population*, by Ministry of General Affairs.

Table 5-4 shows the number of employees by industry. Among the non-agriculture-fishing-forestry industry the employees of the manufacturing industry have the highest number with 10,490 thousand peo-

Table 5-4. *Number of Employees by Industry*

(1,000 persons)								
Year	Agriculture/ fishing	Construction	Manufacturing	Information/ communication	Transport	Wholesale/ retail	Finance/ insurance	Real estate
2007	251	552	1165	192	330	1077	155	113
2008	245	537	1144	189	342	1067	164	111
2009	242	517	1073	193	348	1055	165	110
2010	234	498	1049	196	350	1057	163	110
Year	Research/ technology	Hotel/ restaurant	Life service/ leisure	Education	Health/ welfare	Complex services	Other services	Public admin- istration
2007	198	380	233	279	579	71	478	227
2008	200	373	236	283	598	56	485	223
2009	195	380	241	287	621	52	463	222
2010	198	387	239	288	653	45	456	220

Note. From *Survey on Active Population*, by Ministry of General Affairs.

ple. Still, the number of employees in manufacturing has tended to decrease in recent years. On the other hand, the number of employees in the medical and welfare industry keeps increasing. Because of the recent economic recession, many industries have a decreasing number of employees.

Informal Sector: Size, Distribution by Industry, Gender, Etc.

The public administration is well organized in Japan, even in local towns. Put simply, the informal sector in Japan may be quite small. Normally, the construction industry, harbors, transportation, and so on could have unstable employment. However, most of their employees are also included in a formal sector and controlled by public administration that includes social security.

In principle all of the employed are covered by EI in Japan. Still, as shown later, the regulations for exemption are provided such as short term employment, part time employment, employment in small enter-

prises in the agriculture, fishing, and forestry industries. Those employees out of EI are exempted by law, so that they are in a formal sector under the public administration. Because of these exceptional regulations, it becomes hard to calculate the number of persons who should have applied to EI. For instance, the companies do not have to report the details of employment conditions. Then the application remains voluntary in the agriculture, fishing and forestry industries.

Most unstable employees do not want in practice to be covered by EI. In the case of the temporarily employed, employment contract are not always certain as for the period of employment so that they can easily be out of applications. Typically many of them are housewives. Unemployment is not so big concern for them.

Unemployment Structure by Gender, Age, Unemployment, and Duration

Table 5-5 shows the unemployment rate from 2000 to 2011 in Japan. In the last 11 years, Japan had a relatively high unemployment rate in

Table 5-5. *Unemployment Rate*

Year	Total	Men	Women
2000	4.7	4.9	4.5
2001	5.0	5.2	4.7
2002	5.4	5.5	5.1
2003	5.3	5.5	4.9
2004	4.7	4.9	4.4
2005	4.4	4.6	4.2
2006	4.1	4.3	3.9
2007	3.9	3.9	3.7
2008	4.0	4.1	3.8
2009	5.1	5.3	4.8
2010	5.1	5.4	4.6

Note. From *Survey on Active Population*, by Ministry of General Affairs.

the world-wide economic recession. The rate changed from 4.9% to 5.4% for men and from 4.5% to 4.6% for women in this period. According to the detail data by age group the unemployment rate was highest in the 15-24 age category for both men and women. In particular, the relatively high unemployment rate of about 10% in men is regarded as one of the more serious problems.

Table 5-6 shows for 2010-2011 the number of unemployed by period of unemployment and also by age group. It can be concluded here that the older the unemployed, the longer the unemployment period becomes. 2010 was a significant year of economic recession so that the number of unemployed increased, and the period of unemployment became longer in general. Among the total number of 3340 thousand unemployed people, those unemployed for more than 1 year comprised 1210 thousand people in 2010; therefore, there was a 260 thousand increase in unemployed from the year before. To compare age group, for 25 to 34 year olds, their unemployment was relatively higher.

Table 5-6. *Number of Unemployed by Length of Unemployment*

(10,000 persons)					
Age	Fully unemployed	Less than 3 months	3 to 6 months	6 months to 1 year	1 year and more
Total	334	94	51	58	121
15-24	52	17	8	9	14
25-34	82	24	11	13	32
35-44	70	20	11	11	27
45-54	52	14	8	9	19
55-	78	19	13	15	30

Note. From *Survey on Active Population*, by Ministry of General Affairs.

Basic Labor Policy in Japan

Japan has enjoyed prosperous economic success for a long period after the war. The government did not have to intervene in the labor market actively. Although the situation is changing, the traditional atti-

tude of the Government has not changed very much. Here, two characteristics of Japanese labor policy must be made clear. First, the Japanese government is quite conservative about using various juridical obligations. In many fields, the government respects the voluntary efforts of companies and hardly obliges them to follow some regulations that would involve hard punishment. Many labor law regulations contain little to no punishment. Second, the Japanese Ministry provides so many benefits, subsidies, and services to support companies for certain purposes. The government encourages them to follow government policy along with these benefits.

3. Structure of Employment Insurance

Issues Arising when UI was under Discussion

After the Second World War, when many soldiers came back home, industries had broken down. The government hastened to establish UI to solve massive unemployment and social disorder. At the same time, the government established the Job Security Office under the Job Security Act and at the same time began to establish public vocational training facilities.

Basic Structure of EI

First of all, EI in Japan consists of two different activities; one provides benefits for the unemployed and the other offers services for employers to promote jobs. The latter was added in the reforms of 1975.

Purposes. Two purposes of EI can be noted: In case insured people become unemployed, guaranteeing quality of life, giving them the chance to get vocational training, introducing and allocating jobs, and

finally stabilizing employment compose the primary purpose of EI. In addition, EI contributes to preventing unemployment, developing employment opportunities and careers, and improving the welfare of insured people, which constitutes the secondary purpose.

Financial resources. EI is financed mainly by contributions from employers and employees and by the National Budget in certain proportions.

Cost sharing principle. Regarding the costs necessary for the Job Application Allowance for general insured persons, one fourth is provided by the national treasury, and the remainder is shared by the employer and the insured person. However, the share of the national treasury may be raised to the maximum of one-third in case of deficits. As for the costs necessary for the remote-area extended allowance, the national treasury provides one-third. In addition to the aforementioned contributions, the national treasury shares the costs necessary for executing the administration of EI Programs.

General insurance contribution. The amount of the general insurance contribution for EI is obtained by multiplying the total wage paid by the employer to the insured person by an EI rate of 14.5/1000 (16.5/1000 for the agricultural, forestry, and fishing industries and 17.5/1000 for the construction industry). The employer contributes 9/1000 (10/1000 for the agricultural, forestry, and fishing industries) and the insured person contributes 5.5/1000 (6.5/1000 for the same industries). However, regarding the general insurance contribution for EI of the aged 65 or older, the shares of employer and insured people are exempted. The part of 3.5% out of 9.0% of contribution by employer is transferred into the resources for the Employment Promotion Programs for employers.

Benefits for the Unemployed

The basic system guaranteeing quality of life for the unemployed is

the Job Applicant Benefit, which plays the most important role in the framework of EI. In detail, Job Applicant Benefits are designed separately for four different categories: general employees, day labor, aged employees, and short-term employees. Here, this paper focuses on the case of general employees. So many benefits and allowances are provided in the framework of EI. To begin with, the benefits are classified into two categories: benefits for unemployed people and that for employers. Then, benefits for unemployed people can be divided into four benefits according to certain aims and roles: the Job Applicant Benefit, the Employment Promotion Benefit, the Vocational Training Benefit, and the Continuing Employment Benefit. Then each Benefit has its own Allowances for specific purposes.

Job applicant benefit for general employees. The Job Applicant Benefits for General Employees consists of four benefits: the Basic Allowance, Allowance for Skill Training, Boarding Allowance, and Sickness & Injury Allowance. The Basic Allowance means security of life for the unemployed and is the most important part of this insurance. In addition, the other allowances are provided when they are needed.

Basic allowance. In 1947, the first Unemployment Insurance Law was enacted in Japan. Those enterprises employing more than five employees became obligatory application enterprises, and all employees were included in the coverage. Those enterprises with fewer than five employees could be covered as a voluntary application in EI if more than half of the employees agreed. However, seamen organized their own social insurance including UI. In addition, the self-employed and public employees were excluded from this system.

In 1974, the Employment Insurance Law was enacted and succeeded the former Unemployment Insurance Law. The coverage was enlarged to all enterprises employing at least one employee, in which all of the employees became covered under an obligatory application. Those insured under EI are classified into four categories: general insured peo-

ple, short-term employed people, continuously insured aged people, and insured day labors. The conditions of benefits are fixed respectively by the category. Regulations concerning the application have changed several times. Present law regulated the exemption from obligatory application as follows. In principle, all those who are employed are covered by EI in Japan. However, the regulations for exemption are provided.

First, small enterprises of fewer than five employees in the agriculture, fishing, and forestry industries are excluded from obligatory application and they can be covered on a voluntary basis. Second, those age 65 and over are excluded from the application of EI. They can receive their pensions if they desire. Third, those seasonal employees who are recruited for employment within a 4-month period are also admitted as an exemption from the obligatory application as seasonal employees. Fourth, seamen, public employees, and certain categories may also be excluded.

In addition, part time employees who work less than 20 hours per week are excluded. Then those who were prospected for employment for less than 6 months have been excluded from applying for benefits. This regulation was modified in 2010, and the period of prospected employment became 31 days instead of 6 months. As a result, coverage was enlarged among those in unstable employment.

Eligibility criteria. Those who are motivated to find jobs and have the ability to work have the right to unemployment benefits. In case of general employees, those unemployed affiliated at least 12 months in the last 2 years become eligible for EI benefits. Here individuals can be regarded as insured when they have worked more than 11 days in a month. In case of unemployment because of bankruptcy, layoffs, or restructuring, those with an affiliation of 6 months in the last year can satisfy eligibility requirements. Those with working abilities and a good work ethic can demand unemployment benefits under the guidance and introduction of the Public Employment Security Office. Further, fol-

lowing job placement services is one of the conditions for receiving benefits.

Duration of benefits. To put it simply, the duration of benefits is shorter in Japan compared with that in other advanced countries. The duration is fixed individually according to the age and period of affiliation. Previously, there existed a single criterion for duration of benefits between 90 days and 300 days . However, under the continuous economic recession, the criteria have changed into three different categories: (1) general unemployment, (2) unemployment of older or handicapped workers with difficulty to be employed and (3) unemployment in case of bankruptcy, and in restructuring or business reconstruction.

First, in the case of general unemployment, the benefit duration is fixed simply by the years of affiliation. Those unemployed with more than 1 year of employment but less than 10 years can receive 90 days of unemployment benefits. Those with 10 years and more but less than 20 years can have 120 days. Those with 20 years and more can have 150 days, which becomes the maximum. Second, in the case of those who are having difficulty finding jobs because of handicaps and so on, and those with less than 1 year's affiliation receive 150 days of benefits. Then, those with 1 year and more have 300 days for those aged less than 45 or 360 days if they are between age 45 and 65. Third, in the case of bankruptcy, business restructuring, and so on, the duration of

Table 5-7. *Length of Benefits*

Age category	Membership years					(Days)
	Less than 1 year	1-4 years	5-9 years	10-19 years	20 years and more	
less than 30	90	90	120	180	—	
30-34	90	90	180	210	240	
35-44	90	90	180	240	270	
45-59	90	180	240	270	330	
60 and more	90	150	180	210	240	

benefits are fixed according to age and years of coverage from 90 to 330 days, as shown in Table 5-7. In general, the older or the longer the membership, the longer the jobless can receive the benefits, while those age 60 or more may be excepted.

Amount of benefits. The amounts of unemployment benefits are fixed respectively by the wage standard between 50% and 80 % of the last wage standard. The lower final wage causes a relatively higher replacement ratio. The amounts of benefits are fixed phase by phase according to the wage category. The income replacement rate is not applied automatically, but certain amounts of benefits are given for each specific wage category.

Benefits for moving expenses. When qualified recipients change their domicile or address to take employment arranged by the Public Employment Security Office, or if they take a course in public vocational training, moving expenses are granted. The amount is fixed, taking into account the expenses normally required for removal of qualified recipients, and the relatives who live with and are supported by them. Moving expenses are comprised of train fares, ship fares, vehicle costs, benefits after arrival, and so on.

Wide-area job applicants allowance. The wide-job benefit is paid under specified conditions to an eligible recipient, who, under the guidance of the Public Employment Security Office, is engaged in job-seeking activities outside the district of jurisdiction of the Office. The amount of benefits is the equivalent to actual transportation expenses, which includes train fares, ship fares, vehicle costs and lodging, depending upon the specific situation. The accommodation expenses are fixed per night.

Boarding allowance. For those lodging apart from families supported by the insured person, to attend the public vocational training designed by the Director of Public Employment Security Office, the Boarding Allowance is paid. The amount is fixed at a modest standard.

Career development allowance. When unemployed insured people

follow a training course, the tuition is subsidized by EI, and traffic costs are also subsidized for the duration of the course. The amounts of this allowance are a fixed rate per day and per month.

Sickness and injury allowance. Because unemployed people are cut off from application of health insurance, the sickness and injury allowance replaces the functions of social security for an inability to begin work due to sickness or injury for more than 15 consecutive days after the insured person has applied for a job to the Public Employment Security Office.

Job applicant benefit for aged employees. The benefit for older employees was created to support aged workers who have difficulties finding jobs because of their age. For the continuously insured aged people who have been insured for over 6 months during 1 year before retirement, the Job Applicant Benefit is applicable. The benefit is paid in a lump sum and depends on the period of insurance. When the insured period is less than 1 year, the benefit amounts to the equivalent of 30 days' basic allowance and to 50 days' allowance for a period of 1 year or more.

Job applicant benefit for short-term employees. Short-term employees are also provided specific Job Applicant Benefits for their own purpose. Here, short-term employees are somewhat like seasonal workers. They tend to be excluded from EI in general, which is why specific independent benefits were created for them. The requirement is the affiliation to EI for more than 6 months during 1 year before retirement. The benefit amounts to 30 days' daily allowance. In case the recipient follows a public vocational training for more than 50 days, the basic allowance for general employees would be applicable instead to the short-term benefit.

Job applicant benefit for day laborers. The wage and labor contract of the day laborer is special and different from normal employment in that the government provided an independent insurance for their unemployment. For unemployment of insured day-laborers who

have paid the revenue stamp insurance contribution for more than 26 days in the previous 2 months, an ordinary allowance is payable. This allowance amounts to 7,500 Yen for First Class, 6,200 Yen for Second Class, and 4,100 Yen for Third Class in accordance with their wage standards. The number of days for providing the allowance is fixed depending on the number of days for which the insurance contribution has been paid.

Other Benefits in EI

The aforementioned benefits are just the part of Job Applicant Benefits. As illustrated in Figure 5-1, three other benefits are enforced to prevent unemployment and to promote employment in the framework of EI. Three benefits provide different benefits, allowances, and services for specific purposes. However, these systems do not aim directly at guaranteeing quality of life for the unemployed; therefore, this paper does not touch on the details. (See attached supplementary Documents.)

Employment Promotion Programs for Employers

EI also includes two programs for employers to prevent joblessness. At the introduction of the present Employment Law in 1974, four programs were regulated for employers. However, due to financial challenges, only two programs remain: programs for stable employment and programs for career development. Here again this paper omits an explanation.

Employment security administration. The purpose of the employment security administration is to contribute to the fulfillment of manpower needs for industries, to stabilize employment by providing opportunities for all to obtain jobs best suited to their abilities, and to promote economic development. The employment security agencies are the administrative organs working toward this end. In the Ministry

of Labor and Social Affairs are the Employment Security Bureau and locally Public Employment Security Office, which are commonly known as “Hello Work”. Employment placement services are still enforced as a public service in Japan. However, the privatization of employment service has come under recent discussion.

Vocational training. Vocational training is also one of the important employment services not only for the unemployed but for everyone. The Government organizes many facilities and schools for vocational training. However, in Japan, private facilities are more common and popular in general for that purpose. Therefore, the unemployed also tend to follow in practice the training programs in a private school or training facility.

Trends of financial situation (revenue and expenditure), rate setting system, and actuarial assessment mechanism. In the few decades after the last world war, financial situations have been kept stable because of lower unemployment rates, in which EI had always marked a surplus and the contribution rate had remained the same. However, the situation has been greatly changed in the last two decades. The unemployment rate increased and caused financial deficits for EI. The contribution rate has increased often and required government subsidies. Table 5-8 shows the transition of the financial situation of EI. Even in these last 7 years, EI is facing financial challenges. While

Table 5-8. *Financial Situation of EI*

	2004	2005	2006	2007	2008	2009
Revenue total	3,057,094	3,423,188	3,416,525	2,738,118	2,812,603	3,317,875
Contribution	2,557,462	2,910,817	2,992,870	2,428,198	2,460,654	1,760,494
National treasury	427,559	347,039	196,130	119,870	161,189	589,514
Expenditure total	1,985,514	1,898,680	1,878,195	1,829,870	2,028,744	3,127,292
Unemployment benefits	1,467,187	1,377,171	1,280,278	1,259,780	1,349,592	1,980,506
Balance	1,071,580	1,524,509	1,538,330	908,248	783,859	190,583

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare.

the revenue from contribution has been dropping, expenditures have been rising rapidly. Now it is getting more difficult to raise the contribution rate higher.

4. Performance and Evaluation

Coverage

Regarding EI coverage in Japan, Table 5-9 shows the situation in the last 6 years. Recently, the coverage indicates a stable number with small changes. The number of enterprises applied to EI was 2001 thousand in 2005 and 2034 thousand in 2010. The number of insured individuals also slightly increased from 35,234 thousand to 38,239 thousand in the same 6 years.

Table 5-10 shows also the coverage of EI but this time by age classification. First, the number of male insured people was 22,826 thousand and that of female insured people were 15,413 thousand people in 2010. About 70 % of the total insured individuals are included in the

Table 5-9. *Coverage of EI*

	(1,000)					
	2005	2006	2007	2008	2009	2010
No. of enterprises	2,001	2,012	2,025	2,021	2,023	2,034
No. of insured persons	35,234	36,151	37,249	37,304	37,507	38,239

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare.

Table 5-10. *Coverage of EI by Age Group*

	(1,000)				
	Less than 30	30-44	45-59	60 or more	Total
Men	3,910	9,352	6,973	2,591	22,826
Women	3,489	5,831	4,716	1,377	15,413
Total	7,399	15,183	11,689	3,967	38,239

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare.

30 to 59 age range. Those less than 30 years old comprise only 19.4% of total insured, and those 60 years or more comprise 10.4%.

Next, Table 5-11 shows the coverage in accordance with industry. As for the number of insured enterprises, the wholesale and retail industry shows the highest proportion at 19.3%, successively 15.3% in the manufacturing industry, and 14.7% in the construction industry. On the other hand, the number of insured people are the highest in the manufacturing industry with 23.1%, and after that the wholesale and retail industry with 18.3%. It can be noted that the medical and welfare service industry of 10.2 % in the number of enterprises and 10.9% in the number of insured persons has recently increased.

Finally, Table 5-12 shows coverage by scale of enterprise. From this view, for insured enterprises, the small enterprises of fewer than five occupy the highest with 60.2%, 1,223,645 enterprises. However, this

Table 5-11. *Coverage of EI by Industry*

	Agriculture/ forestry	Fishing	Mining	Construc- tion	Manufac- turing	Electric/ gas/water, etc.	Information/ communi- cation
Enterprises (%)	16,287 (0.8)	3,350 (0.2)	2,784 (0.1)	299,713 (14.7)	310,904 (15.3)	1,952 (0.1)	54,244 (2.7)
Insured persons(%)	113,510 (0.3)	24,908 (0.1)	32,161 (0.1)	2,126,202 (5.6)	8,825,749 (23.1)	212,581 (0.6)	1,547,787 (4.0)
	Wholesale/ retail	Finance / insurance	Real estate	Transport	Research / technology	Hotel/ restaurant	Life service/ leisure
Enterprises (%)	393,483 (19.3)	24,339 (1.2)	52,889 (2.6)	77,549 (3.8)	150,400 (7.4)	94,079 (4.6)	81,945 (4.0)
Insured persons(%)	6,985,782 (18.3)	1,405,745 (3.7)	652,398 (1.7)	2,866,349 (7.5)	1,624,765 (4.2)	1,119,797 (2.9)	930,469 (2.4)
	Education	Health & welfare	Complex services	Other services	Public adminis- tration	Others	Total
Enterprises (%)	32,278 (1.6)	208,203 (10.2)	34,730 (1.7)	176,862 (8.7)	15,316 (0.8)	2,385 (0.1)	2,033,692 (100.0)
Insured persons(%)	865,487 (2.3)	4,165,321 (10.9)	629,624 (1.6)	3,375,660 (8.8)	698,518 (1.8)	35,914 (0.1)	38,238,727 (100.0)

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare.

Table 5-12. *Coverage of EI by Scale of Enterprises*

	Fewer than 4	5-29	30-99	100-499	500 or more	Total
No. of enterprises	1,223,645	621,207	127,873	51,872	9,095	2,033,692
(%)	(60.2)	(30.5)	(6.3)	(2.6)	(0.4)	(100.0)
No. of insured persons	2,068,103	6,903,118	6,706,697	10,446,437	12,114,372	38,238,727
(%)	(5.4)	(18.1)	(17.5)	(27.3)	(31.7)	(100.0)

(1,000)

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare.

category shows only 5.4% in the number of insured people with 2,068,103. On the other hand, the biggest enterprises of 500 employees or more show only 0.4% in the number of enterprises but 31.7 % in the number of insured individuals. At any rate, for Japan, it can be concluded that EI has been diffused even in small businesses.

Trends of performance indicators (since the introduction of EI and during the most recent 10 years) with a brief evaluation for each indicator is proportion of insured workers to total employment, proportion of insured workers to total employees, proportion of insured workers to legally covered workers, proportion of benefit recipients to total insured separators, proportion of benefit recipients to the number of unemployed, replacement ratio of unemployment benefits, and actual duration of benefit.

Recipients

The number of recipients of EI in the last 6 years is shown in Table 5-13. The total number of recipients changed from 628 thousand persons to 654 thousand persons, a small increase. In detail, the number of recipients increased more for men than for women. That is to say, the number of male recipients increased in this period by 32,000, but the number of female recipients decreased by 7000. However, it must be mentioned that the number of recipients is higher for women than

for men in every year except 2009. Women tend to be unemployed easily compared with men, which can also be confirmed in many other countries.

Table 5-14 shows the number of recipients according to age. As can be imagined, those ages 45 to 59 have the highest benefits at 32.8%, and those ages 30 to 44 have the second highest at 29.8%. The category of recipients that have the most difficulty becoming employed is only at 4.4%.

The number of recipients classified by industry is illustrated in Table 5-15. The manufacturing industry has 144,003 persons as recipients or 22.0%. Then, the wholesale and retailing industry is second with 129,752 recipients or 19.9%. Finally, the service industry and the medical and welfare service industry also show a rather high number of recipients.

Finally, Table 5-16 shows the number of recipients in the period of

Table 5-13. *Number of Recipients of EI*

	2005	2006	2007	2008	2009	2010
Men	281	253	245	282	441	313
Women	347	331	322	324	413	340
Total	628	583	567	607	855	654

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare.

Table 5-14. *Number of Recipients by Age Group*

Age	Recipients	%
Total	653,553	100
Less than 30	105,039	16.1
30-44	194,507	29.8
45-59	214,078	32.8
60-64	110,936	17.0
Difficulty	28,992	4.4

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare.

Table 5-15. *Number of Recipients by Industry*

	Agriculture/forestry	Fishery	Mining	Construction	Manufacturing	Elect. gas, water, etc.	Information/communication
Recipients	1,848.0	345.0	697.0	42,424.0	144,003.0	1,120.0	26,892.0
(%)	(0.3)	(0.1)	(0.1)	(6.5)	(22.0)	(0.2)	(4.1)
	Wholesale/retail	Finance/insurance	Real estate	Transport	Research/technology	Hotel/restaurant	Life service/leisure
Recipients	129,752.0	22,808.0	12,656.0	40,834.0	32,847.0	21,267.0	17,964.0
(%)	(19.9)	(3.5)	(1.9)	(6.2)	(5.0)	(3.3)	(2.7)
	Education	Health & welfare	Complex services	Other services	Public administration	Others	Total
Recipients	10,524.0	53,348.0	7,732.0	72,198.0	13,738.0	557.0	653,553.0
(%)	(1.6)	(8.2)	(1.2)	(11.0)	(2.1)	(0.1)	(100.0)

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare.

basic allowance. Forty one percent of recipients received the allowance for only 90 days, the minimum period. They received benefits for more than 300 days marked respectively at 1.6%, 8.3%, and 2.8%. Here it can be confirmed that Japanese EI designed rather a short period of benefits and also in practice payments endeduals. The young employees with such short benefit periods tend to become reemployed quickly and easily, which is why the length of benefits is designed to be longer for older employees.

Table 5-17 shows the proportion of insured employees to the total number of employees. This proportion has been increasing gradually during the past 10 years from 63.0% to 70.7%. Specifically, while the number of employees has not changed very much, the number of insured employees has marked a stable increase. Here, the difference between the number of insured employees and total number of employees means the number of those excluded from the application of EI. However, they were legally exempted from obligatorily applying by EI.

Table 5-16. *Number of Recipients by Length of Benefits*

Length of benefits (Days)	Recipients	%
90	267,746	41.0
120	51,142	7.8
150	71,760	11.0
180	67,986	10.4
210	15,518	2.4
240	65,847	10.1
270	30,744	4.7
300	10,144	1.6
330	54,534	8.3
360	18,133	2.8
Total	653,553	100.0

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare.

Table 5-17. *Proportion of Insured to Total Employees*

	(10,000, %)									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
No. of employees (a)	5,331	5,292	5,296	5,319	5,356	5,430	5,478	5,478	5,410	5,410
No. of insured (b)	3,361	3,362	3,394	3,460	3,523	3,615	3,725	3,730	3,751	3,824
(b)/(a)	(63.0)	(63.5)	(64.1)	(65.0)	(65.8)	(66.6)	(68.0)	(68.1)	(69.3)	(70.7)

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare; *Survey on Active Population*, by Ministry of General Affairs.

Table 5-18 shows the proportion of recipients of EI to the number of total unemployed individuals. Here, the respective numbers mean the average for the year. The proportion has been decreasing in turn from 76.1% to 50.0%. While the number of unemployed has not changed very much, the number of recipients has decreased considerably. It is difficult to figure out the reasons. One possibility is the increasing number of insured individuals not being able to satisfy the qualifications due to atypical employment conditions. Regarding the proportions of recipients to the total number of employees and to the

Table 5-18. *Proportion of Recipients to Unemployed, Employees, Insured*

	(10,000, %)								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
No. of unemployed (a)	138	138	124	111	104	97	95	134	130
No. of recipients (b)	105	84	63	63	58	57	61	86	65
(b)/(a)	(76.1)	(60.9)	(50.8)	(56.8)	(55.8)	(58.8)	(63.9)	(64.2)	(50.0)
No. of employees (c)	5292	5296	5319	5356	5430	5478	5478	5410	5410
(b)/(c)	(2.0)	(1.6)	(1.2)	(1.2)	(1.1)	(1.0)	(1.1)	(1.6)	(1.2)
No. of insured (d)	3362	3394	3460	3523	3615	3725	3730	3751	3824
(b)/(d)	(3.1)	(2.5)	(1.8)	(1.6)	(1.6)	(1.5)	(1.6)	(2.3)	(1.7)

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare; *Survey on Active Population*, by Ministry of General Affairs.

number of insured individuals, no clear tendency can be found, as indicated in Table 5-18. On average, only one or two employees or insured individuals among 100 receive EI benefits.

Table 5-19 indicates the transition of the number of insured separators by category. This data base is different from that of the Employment Insurance Agency and the others, so insured employees may be included. This table illustrates only the case of regular employees and not the non-regular ones. The number of insured separators includes not only unemployed individuals but voluntary retired, retired aged,

Table 5-19. *Number of Separators*

	(10,000 persons)								
Category of separators	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total No. of separators	701	682	662	685	704	756	680	659	724
Men	352	340	324	336	335	367	332	322	359
Women	349	342	338	349	369	388	348	337	365
No. full time employees separated	482	472	436	442	442	461	409	406	427
Men	291	285	263	258	258	267	248	240	258
Women	191	187	173	182	184	194	161	166	169
No. of part time employees separated	219	210	227	245	262	294	271	253	297
Men	60	56	62	78	77	100	84	82	101
Women	158	154	165	167	185	195	187	171	195

disability retired, et cetera. Thus, it is not certain whether the insured separators were covered by EI or not. In particular, part time employee separators were possibly out of the application even under a regular employment contract. The total number of insured separators has had a rather stable movement among regular employees. On the other hand, the part-time insured separators increased the numbers both for men and women, while the full time employees showed a slight decrease.

Expenditures

Among many kinds of benefits in the framework of EI, Job Applicants Benefits shows the following expenditure, as seen in Table 5-20. The total expenditure of Job Applicant Benefits amounts to 1,104,598,626 thousand Yen in 2010, 74.6% of that in the year 2009. For the total expenditure, the basic allowance is at 87.9%.

Table 5-20 shows the details of EI expenditure in 2010. The expenditure for basic allowance comprised 98.6% of the total expenditure for Job Applicants' Benefits. The other benefits were used in quite limited ways. It is clear that total revenue has been rather stable with no increase while the total expenditure has continuously increased. Financial difficulties for the fund are quite certain, even in the future.

Table 5-20. *Expenditure of Job Applicant Benefits*

	(1,000 yen)						
	2004	2005	2006	2007	2008	2009	2010
Basic allowance	1,087,286,948	978,191,407	891,000,900	858,604,040	912,187,626	1,462,058,654	1,089,097,278
Training allowance	12,375,760	12,739,504	11,746,519	10,066,213	8,856,397	13,393,701	11,595,761
Boarding allowance	3,627	3,449	2,457	3,164	4,532	4,847	3,435
Sickness & injury allowance	4,039,792	3,457,638	3,239,160	3,515,411	3,682,387	4,683,880	3,902,153
Total	1,103,706,127	994,391,998	905,989,036	872,248,828	924,730,942	1,480,141,081	1,104,598,626

Note. From *Annual Report on Employment Insurance*, by Ministry of Labor and Social Welfare.

Policy Initiatives to Enhance UI Effectiveness

The Ministry of Labor and Social Affairs always take the initiative to design and operate employment policy, including EI. The Ministry organizes the Council of Employment with the three parties of employer, employee, and public as a consultative body. But in reality, the Ministry always keeps the strongest initiative. Essentially, the Job Applicant Benefits maintain a stable performance, and the other benefits remain under the discretion of public control. Therefore, according to the financial situation of EI and social needs, the different benefits, allowances, and services other than Job Applicant Benefits have a changed performance.

In practice, the Ministry tends to modify often the benefits and allowance other than Job Applicant Benefits. They think much of the financial conditions rather than the effectiveness of EI benefits. As long as some financial surplus exists, they try to keep the benefits and allowances even while being criticized on the effectiveness of these benefits.

Review of Studies on UI Performance

The academic studies on the performance of employment insurance are actually quite rare. Existing reviews tend to focus on a political perspective. For long period after the War, Japan enjoyed an economic growth in which the unemployment rate had been between 1 and 3%. Employment insurance always marked a financial surplus. However, the contribution rate had never decreased at all, and the Ministry always tried to create new benefits, subsidies, and allowance at the same time that they constructed several facilities.

After the economic recession, a heated discussion began, and these measures of big government were criticized. Consequently, the Ministry changed the basic policy. In the current economic recession, the

financial situation of employment insurance is suddenly faced with difficulties, and the government has to balance the finances. That is to say, they tried to focus on income guarantees for the unemployed and cut off any unnecessary benefits.

Review of Studies Regarding the UI Effect on the Labor Market and the Behavior of Benefits Recipients

Job Applicant Benefits are important income security for the jobless. The conditions of benefits are generally modest and are rarely discussed. The real discussion continues to focus on the other benefits and allowances. The benefits for educational and vocational training have become the target of critics who claim that even when the unemployed follow a training course, reemployment is still difficult for them. In addition, because of financial challenges, the amount of benefits for educational and vocational training has been reduced twice from a maximum amount of 300,000 Yen to 200,000 Yen and again to 100,000 Yen.

The other examples, benefits to employers employing many aged workers or handicapped workers had doubtful purposes. The Ministry wishes to support such companies to employ these workers. However, in practice, the ones that do are typically small, minor companies that cannot adopt easily young, skilled workers. It is said that such benefits from EI just mean protection for small business.

Relationship with Other Institutions for Helping the Unemployed

EI is an independent social insurance but is managed together with industrial accident insurance as the same Labor Insurance with no social assistance for the unemployed. Japanese public aid is designed for economically poor persons but not necessarily for the unemployed. On

the other hand, the two service programs for the employers in EI play a role as part of active employment policies.

5. Conclusion

Summary of the Study

The Japanese have a tendency to neglect EI. Stable economic growth has been one of the reasons for such neglect. Because the contribution rate is low and the benefits are somewhat modest, Japanese workers in general are uninterested in EI. In addition, even if younger individuals are unemployed, they can easily get reemployed. The retirement allowance also plays an important role for guaranteeing quality of life for the unemployed in Japan. As a result, Japanese EI remains a very modest system that pays benefits for a relatively short period.

On the other hand, Japanese EI provides many benefits, allowances, and services for creating new jobs and promoting employment. These are in a sense the outcomes of bureaucracy. Every year new allowances are born and older allowances are abolished, while core benefits were maintained for a long period. The control and management of public administrators are very strong and influential in labor policy decision making.

Vocational Training is practiced commonly on a company basis, OJT. The government also provides different training facilities, institutions, or schools but most of them are not very popular, particularly among young employees. Large companies in general practice their own vocational training in house. It is commonly estimated that skills vary from company to company. For instance, the skills required in Company A are different from those in Company B, even in the same industry. Therefore, EI does not have to organize vocational training directly but just support the costs of training practiced in any organization.

Challenges and Future Direction of UI

Because of financial difficulties, few can imagine a challenge to EI in Japan. One future direction commonly raised is the privatization of public organizations. The Public Job Placement Office called “Hello Work” was sometimes discussed in the National Diet for privatization. As well known, the office concerned had been privatized in many advanced countries and the Japanese Government has been considering doing the same.

Compared with the other social security benefits, EI has been neglected in Japan. Even if the risk of unemployment becomes more serious in the near future, people will never wish to pay more into EI. In other words, the Japanese must pay much more in old age pensions, medical services, and social care services, so little revenue is left to pay for the others. It can be speculated that EI may focus on protecting those with employment challenges like middle and elderly people, handicapped people, non-skilled people, and so on. The basic allowance of Job Applicant Benefits was designed originally to give special protection to the jobless. Certainly, the Japanese Government can follow the same basic attitude.

The privatization of the “Hello Work” has been discussed recently and repeatedly. Privatization will create a new business and contribute to an active economy. Thereafter, the government can focus on employment protection services for those with jobless challenges.

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Appendix: Supplemental Documents

1. Employment Promotion Benefit

Apart from the guarantee of life of the unemployed, EI organizes Employment Promotion Benefits to encourage actively the employment of the unemployed. In general, the employed need some financial responsibility. The Employment Promotion Benefit aims to create an employment incentive. The following three allowances are provided under the framework of employment promotion: Employment Allowance, Reemployment Allowance, and Regular Employment Allowance.

(1) Employment allowance

The Employment Allowance is payable when one is not a regular employee but is newly employed with an unstable labor contract. The requirement is that the recipient of Employment Insurance Benefit still keeps the right to unemployment benefits more than 2/3 of total period of payment and for more than 45 days. The Employment Allowance amounts to the equivalent to 30% of the basic allowance. The period of payment is equal to the period of employment.

(2) Reemployment allowance

The Reemployment Allowance is applied in case the unemployed person was newly employed as a regular employee. Here the requirement is that the remaining period of basic allowance is more than 1/3 of the total period of Employment Insurance. This allowance amounts to the equivalent to 30% of the basic allowance.

(3) Regular employment allowance

The outfit benefit for regular employment is payable to those having specific difficulties in finding employment. Beneficiaries are classified into qualified recipients, specially qualified recipients (including a per-

son who has received the special lump-sum payment and for whom 6 months have not elapsed from the day following the date of separation from employment with respect to the special recipient qualification) or day-laborer qualified recipient (meaning a person who is qualified to receive the job applicant benefit for a day laborer), who satisfies one of following conditions:

1. Physically handicapped people
2. Specifically mentally retarded people
3. People 45 years of age or more at the time of employment
4. Workers employed by those granted full year employment subsidies
5. Day-laborers specifically treated as targets of emergent unemployment relief measures or who were regular day-laborers age 45 or more
6. Those with other specific conditions

The certainty of being employed for more than one year also has to be confirmed to receive this benefit. The amount is equally fixed at the equivalent of a 30-day basic allowance.

2. Benefits for Educational and Vocational Training

To develop and further promote the career of workers, subsidies and grants are offered for activities and services such as vocational training conducted by employers, consolidation of public vocational training, paid leave for educational and vocational training courses, assistance for the evaluation of skills and techniques, and other activities necessary for the development and promotion of workers' abilities.

The Government may implement the following services as an skill development program to promote the development and improvement of the ability of insured people throughout their working life.

1. Subsidy and assistance for vocational training conducted by employers

2. Establishment and management of public vocational training facilities
3. Implementation of vocational training and workplace adaptation training
4. Diffusion and encouragement of paid educational training leave
5. Encouragement of attendance for public vocational training
6. Subsidy for the implementation of skill examinations
7. Other activities for career development

The Government shall entrust a part of the services listed in the aforementioned items to the Employment Promotion Corporation in accordance with Employment Promotion Project Corporation Law and the Orders issued thereunder.

The Allowance for Educational and Vocational Training grants subsidies as a part of training costs. The qualification is the insured period of 3 years or more. The allowance amounts to the equivalent of 20% of the costs of training under the maximum limit of 100,000 Yen, which is granted at the end of the training course.

3. Benefits for Continuing Employment

Apart from general employment, Benefits for Continuing Employment were introduced for those in certain circumstances. The allowances of three different benefits are operated now as the Benefits for continuing Employment for retired employees, child care holidays, and nursing care holidays.

(1) Allowance for continuing employment after retirement

According to Japanese management customs, employees typically retire at 60. However, the pensionable age has become 65. Consequently, most Japanese employees now face with an income loss between 60 and 65, so the Government encourages the employment of older employees. This allowance was designed to promote their employment by

giving them an incentive to continue work.

Those aged 60 or above that have had their wages decreased to less than 75% of the wage before 60 can apply for this allowance. Another condition is the insured period of 5 years, which amounts to the equivalent to 15% of present wages. The maximum amount is fixed, and the total amount of wages and allowance cannot exceed the maximum. The Allowance is payable up to age 65 but the maximum period is also fixed at 2 years according to the period remaining in Employment Insurance Benefits.

(2) Allowance for child care leave

The Allowance for Child Care Leave was organized in Japan as part of the Employment Insurance system. Those insured persons with the affiliation of more than 12 months during their last 2 years can apply for this Allowance when they take a child care leave. One of the requirements is that the child be under 1 year and 2 months old.

The Allowance amounts to the equivalent of 40% of the previous wage standard. In case the company continuously pays some wages during the leave, the total amount of wage and allowance cannot exceed 80% of previous wages. The period of the allowance is fixed at 1 year, the maximum child care leave in Japan. Not only the mother but the father can apply for this allowance, though in reality, it is rare in Japan for men to use this allowance.

(3) Allowance for nursing care leave

In parallel with the Allowance for Child Care Leave, the Allowance for Nursing Care Leave was also introduced. The requirement is the same as with the former, an insured period of 12 months in the last 2 years. The amount of the allowance is also 40% of previous wages with a limit of payments at 80% of previous wages. The period of payment is limited to only 3 months and a family can apply for the benefit only once.

4. Employment Promotion Programs for Employers

(1) Program for stable employment

The Government may conduct the following for insured people as part of the stable employment program to prevent unemployment, to increase employment opportunities, and to promote employment stabilization when businesses are forced to reduce their activities due to economic changes, industrial structure, and related economic motivations:

- Subsidy and assistance to those employers who suspend their business operations or conduct education and training: employment adjustment subsidy and subsidy for industry employment stability
- Improvement of employment structure for the aged:
 - Incentive for employing ageing people
 - Subsidy for the employment security of the aged
 - Subsidy for employment promotion for retirees at retirement age
 - Special incentives for the employment of the aged
 - Subsidy for reemployment aid promotion for the retiree-to-be

(2) Program for career development

The Government conducts the following as the Career Development Program to promote development and improvement of the careers of insured people throughout their working lives:

- Subsidies and assistance for vocational training conducted by employers
- Establishment and management of public vocational training facilities
- Implementation of vocational training and work place adaptation training

- Diffusion and encouragement of paid educational and training leave
- Encouragement of attendance for public vocational training
- Subsidy for implementing skill examinations
- Other career development programs

Chapter 6

Unemployment Insurance in Thailand

Sopin Jirakiattikul*

1. Introduction

In the past two decades, many Asian countries have experienced rapid economic development, associated with significant changes in the labor market and increased competition. Development has also brought in many other challenges such as increasing income gaps, decreasing but still persisting poverty, increasing informal economy workers, which all have necessitated the upgrading of skills and productivity of workers. Sustaining economic growth and guaranteeing social stability are major concerns of many countries, including Thailand.

Though social assistance for the poor (including the unemployed) had long existed in Thailand, Thailand's unemployment insurance (hereafter, UI) was announced in 1990 as part of Social Security Act. Nonetheless, it came into effective after the 1997 economic crisis due to the pressure of business for an effective social safety net to prop up the economy. In 2001, during the International Labor Conference (ILC), tripartite constituents reached a new consensus on social security as an important tool to reduce poverty and to promote social and economic development. The ILC considered that the highest priority should be given to policies and initiatives that can bring social security

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to those who are not covered by existing systems because like most countries in Asia, there is narrow coverage of social security for the formal economy and a general lack of any social protection for the informal economy. Consequently, Thailand established a UI system that took effect in July 2004.¹

This study attempts to explore UI in the Thai context as follows. In the second section is an overview of labor market patterns. The third section provides the designs and the transformations since the introduction of UI. The fourth section contains an evaluation of the performance of the existing system and its impact on the labor market. Finally, the fifth section provides some policy recommendations with a prospective based on the evaluation.

2. Features of the Labor Market

Labor Market Situation: Trends of Labor Market Participation Rate, Unemployment Rate, and Employment Rate

According to a survey of the National Statistics Office for the first half of 2010, of a population of 63.8 million, 38.64 million or 60.6% of the total population would be in the labor force. Labor force participation of males is higher than for females in both sectors.² By 2010, there were 20 million male workers in the entire labor force.

As for the population within the labor force, 38.6 million or 98.5% of the total labor force would be employed, 0.4 million or 1.04% unemployed, and 0.2 million or 0.5% seasonally unemployed.

Data from the Thailand National Statistics Office noticeably demonstrated that the employment rate in Thailand has been steady over dec-

1 The Thai cabinet approved a UI system on April 28, 2003. Royal Decree No. 120 Section 80 A on August 26, 2003 formed the legal basis of system implementation.

2 The labor force participation rate is the percentage of people aged 15 + who are employed or registered as unemployed people aged 15+ who do not attend school.

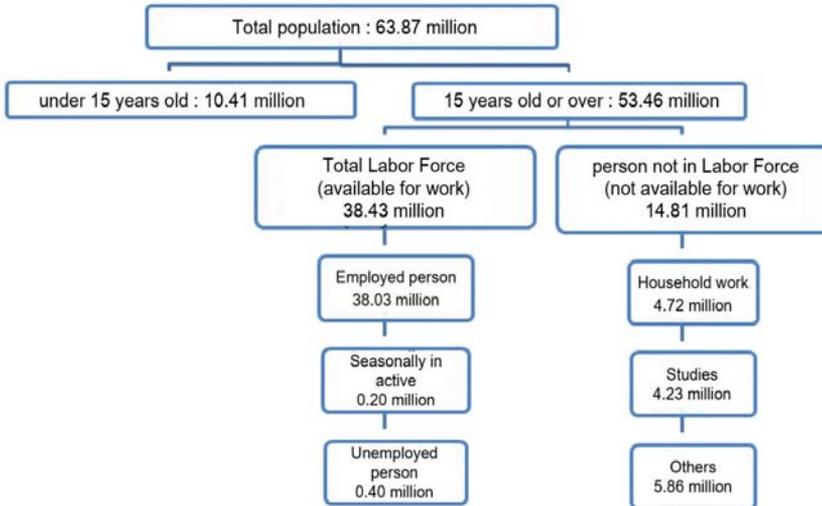


Figure 6-1. Thailand's labor market structure. From National Statistical Office (NSO), Thailand, 2010.

Table 6-1. *Employment Rate for Population Aged 15-59 from 1998-2010*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Ages 15-59	66	65	66	66	66	66	67	67	67	67	67	55	60

Note. From National Statistical Office, Thailand.

ades. The labor participation rate (% of total population ages 15+) in Thailand, was 60% as of 2010. Its highest value over the decades was 67% during 2005-2008, while its lowest value was 55% in 2009.

Regarding the unemployment situation, Thailand experienced quite low unemployment rates in the past few decades. The unemployment rate declined dramatically; except during the crisis in 1998-2001, it went up to 3.8%. For the period of 2002-2010, the unemployment rate was around 1.6%.

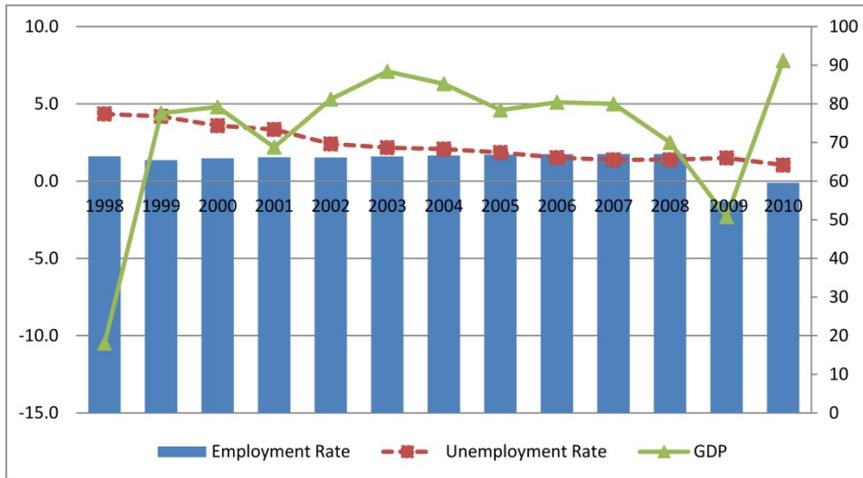


Figure 6-2. Economic cycle and labor market trends, 1998-2010. From National Statistical Office, Thailand.

Employment Structure by Industry, Sex, Employment Status

With the number of employed at 38.6 million in 2010, the number of workers in the agricultural sector was 14.5 million or 36.3%, the nonagricultural sector 23.4 million or 63.7% (manufacturing 5.3 million or 23%; wholesale and retail sales, vehicle repair, and personal and household belongings 6.2 million or 26.4%, construction 2.3 million or 9.8%, the hotel and restaurant industry 2.6 million or 8.5 % and the remainder in other industries).

Concerning the level of education attainment of employees, after 1998, the expansion in the number of university degrees and improvement of accessibility to the educational system has meant that the number of workers with a university degree has more than doubled from 1.3 million in 1995 to 3.4 million in 2010. The situation in 2010 demonstrates that the majority of workers in the formal sector have a primary education. The second largest group consists of workers with a lower- secondary education. (Nearly 70% have less than a lower secondary school education, less than elementary 10.79 million or 28.3%, ele-

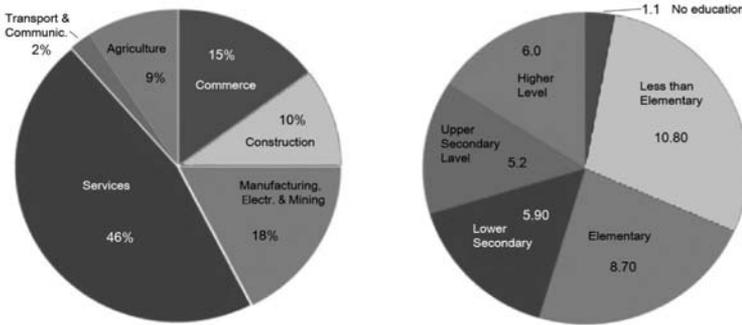


Figure 6-3. Distribution of employment by education and sectors (million persons, %). From National Statistical Office, Thailand (2010).

mentary 8.7 million or 22%, lower secondary 5.9 million or 15%, and no education 1.1 million or 2.9%. The rest have an upper secondary or higher level of education in an increasing proportion). This labor force structure may make it more difficult for Thailand to develop into an advanced economy in the near future.

Based on employment status, farm employment has decreased. The majority of workers are in the agricultural sector at 38%, followed by the wholesale and retail trade sector at 24%. Social and personal service

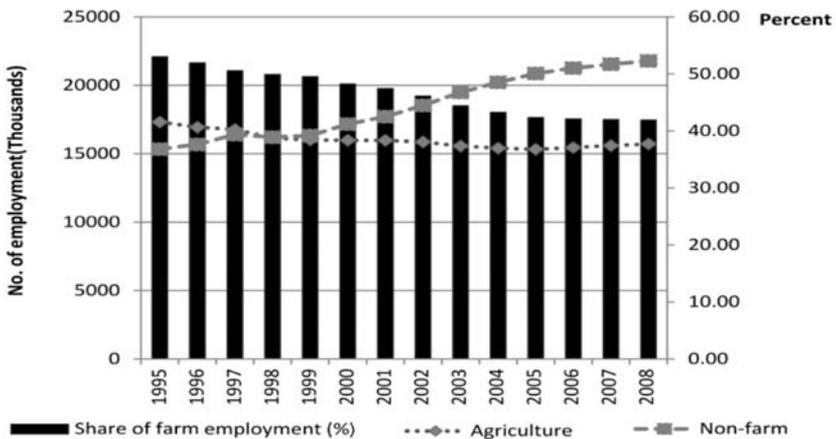


Figure 6-4. Distribution of employment by sector. From Center of Education and Labor Studies (CELS) based on NSO data.



Figure 6-5. Distribution of employment by status. From Center of Education and Labor Studies (CELS) based on NSO data.

activities are at the same rate as the manufacturing sector at 14%, whereas business services are only at 3%.

Most employed workers live in the northeastern and central parts of the country, which implies that more economic activities have extended to the regions whereas the share of employment from Bangkok and surrounding provinces have been declining, while that of the regions has expanded.

Informal Sector

The definition of the informal sector is not uniform across nations. It is usually estimated as a residual (i.e., whatever is not included in the formal sector). The term formal sector is sometimes used interchangeably with the organized sector (i.e. the sector to which formal labor laws apply). Therefore, estimates of the informal sector vary widely among different sources.

In Thailand, formal-sector workers are those who work as government employees, state-enterprise employees, and private-sector employees and employers in the nonagricultural sectors. Workers in the formal market work in the nonagricultural sector, earn higher wages,

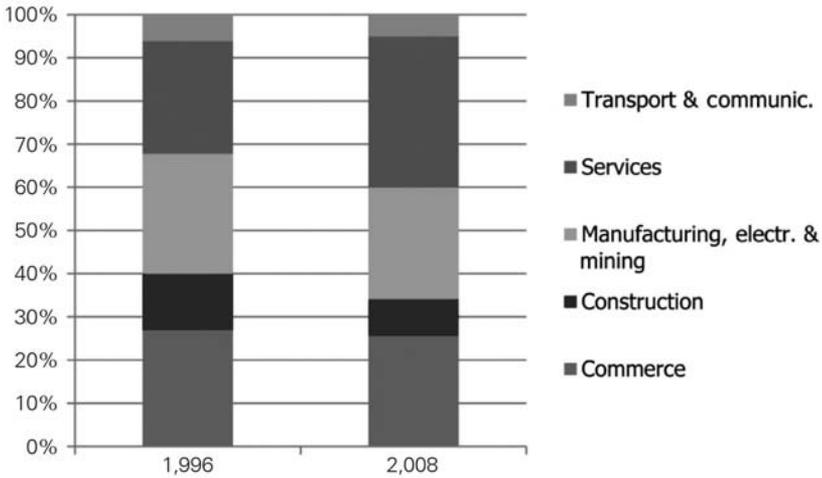


Figure 6-6. Comparison of employment by status of non-farm sector. From Center of Education and Labor Studies (CELS) based on NSO data.

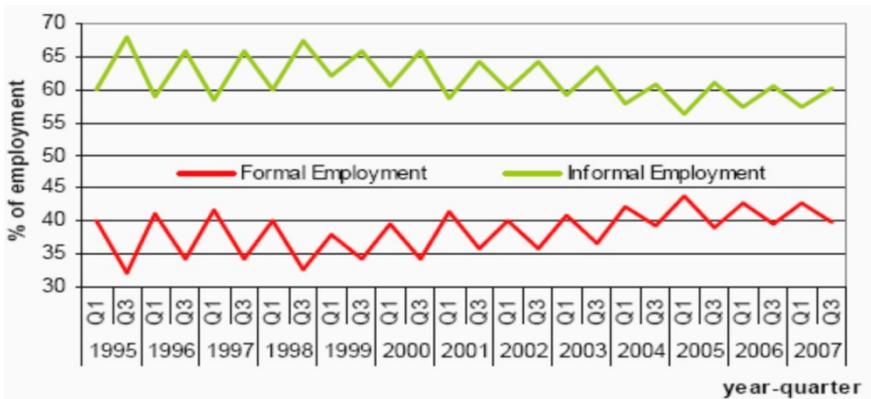


Figure 6-7. Employment rate by work status. From ILO, 2008.

and are protected by not only the Labor Protection Act but also by various social security systems.

Civil servants, whether military or nonmilitary, are seen as having the most job security. Although their salary is not as high as those working in the private sector, welfare support is better and they enjoy high social

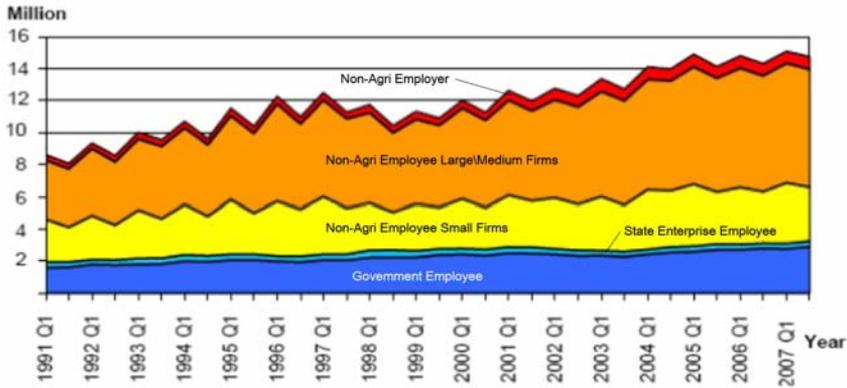


Figure 6-8. Workers in the formal sector. From ILO, 2008.

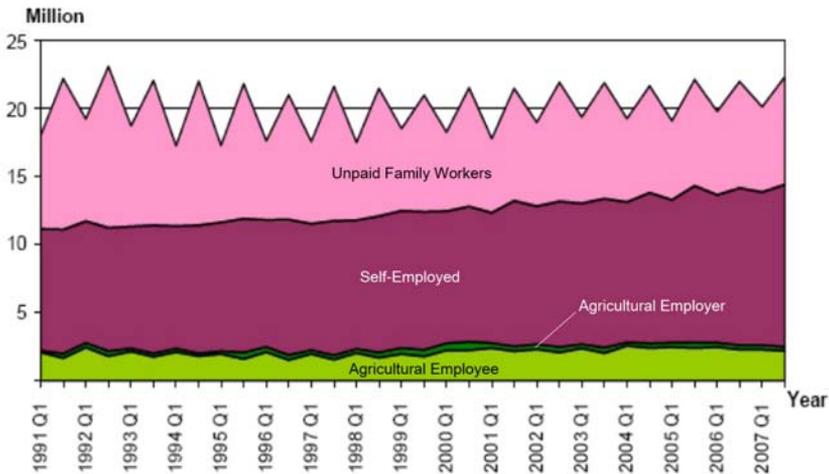


Figure 6-9. Workers in the informal sector. From ILO, 2008.

status. Still, while they do not have the legal right to organize and engage in collective bargaining, they are well taken care of by the state. They are treated as befits the status of those who are servants of the king, as the term *civil servant* is called in Thai, and the occupation is viewed as honorable. There is also the fact is that the civil service has a clearly defined salary structure; the implication here is that they as a

group are under less financial pressure than those working in the private and informal sectors. The case is different for employees of the state, classed as permanent and nonpermanent, who are under more pressure because of their lower salary and lack of welfare benefits and job security as well as not being allowed under the law to engage in collective bargaining. Their social status is also lower than for other workers. The government in its drive to limit the total number of civil servants has of late hired more employees of the state instead of civil servants to cut total salary and welfare costs.

The group of state enterprise workers can be said to have very good wages and welfare, and the hiring system has evolved. They fall under the framework of the State Enterprise Labor Relations Act of 2001, which gives them the right to organize and collectively bargain (but not to strike). Their labor unions are very strong. About 180,000 state enterprise workers are union members, and this number comprises over 90% of all state enterprise workers (Sakdina, 2011).

Employees in private enterprises number around 9 million persons; this group falls under the protection of the Labor Relations Act, whereas other labor protection laws are covered by the social security system. Although supported by the law in terms of guaranteeing their rights to organize and collectively bargain, only 3.7% of such workers have organized themselves into unions. Therefore, in general, their position is weak, even though they are covered by the minimum wage law. Moreover, given the current trend towards flexible hiring for mainly subcontracting work and contract labor, their bargaining position is becoming even more unprotected than before. At the national level, their collective bargaining power to obtain a higher minimum wage is weak because the labor movement is still small (as indicated previously) and also lacks unity. In Thailand, there are only 350,000 private sector workers who are members of trade unions out of the almost 9 million workers who are given the right to organize. However, there are 1269 labor unions in existence, and there are as many as 13 labor union

councils, thereby substantiating the point made about lack of unity. Fragmentation in formulating demands is another characteristic. Often, union demands conflict with those of other unions.

Thailand's informal economy is very large. Figures from the National Statistical Office (NSO) in 2010 indicated that an estimated 24.1 million workers (62% of the total workforce) are in the informal sectors. The proportion of male and female workers is almost identical. Approximately 60% of the informal workforce are in the agricultural sector and almost 23% are in the trade and services sectors. The workers are mostly in the northeastern parts of Thailand, following by the northern, central, southern and Bangkok regions, respectively. The majority of workers have a primary education.

Three informal sector labor groups can be identified:

1. Those working outside the formal production system, that is, those working from the home, and there are many of these people scattered around narrow streets and lanes, in urban slums, and in rural communities where people cannot earn enough income by agriculture. This group can be further broken down into subcontracted home workers and self-employed piece workers.

2. Informal sector service workers include those working in restaurants, selling from stalls, hawking, scavenging, buying discarded objects, working as Thai masseuses, driving both motorcycle and automobile taxis, and engaging in domestic work.

3. Informal sector agricultural workers are those working for hire in agriculture and as contract farmers. More than half of the total informal sector workers in the economy, or 60%, are in agriculture, and they number up to 14.5 million people. The second highest number of informal sector workers work in trades and services (23%), and third in rank are those working in the production sector (4%).

People and enterprises in the informal economy are currently outside

the mandates of, or receive insufficient attention from government agencies responsible for programs to develop small enterprises, improve access to credit, and upgrade occupational safety and health. One result is poor compliance with legislation on minimum wages, severance pay, and labor protection like compensation for work-related accidents and paid maternity leave as well as legislation on social insurance, where applicable.

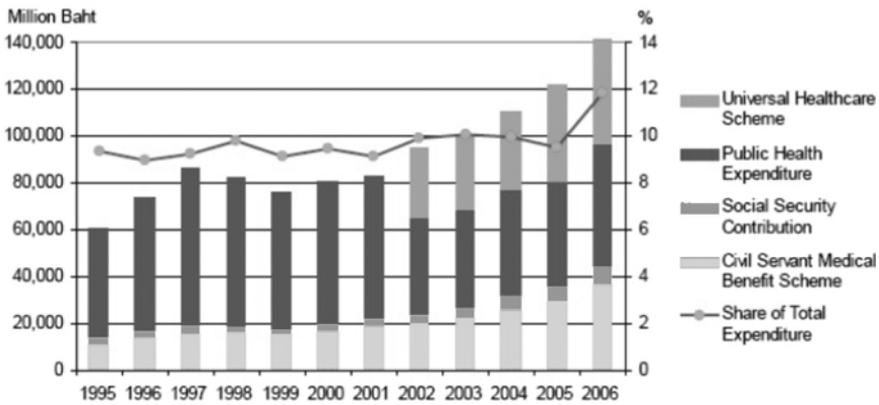


Figure 6-10. Government expenditure on health care and social costs. From ILO, 2008.

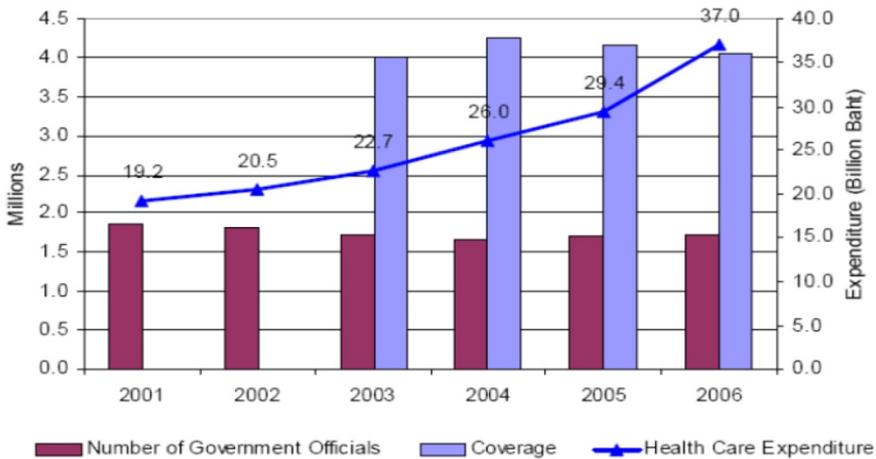


Figure 6-11. Health care expenditure for government officials. From ILO, 2008.

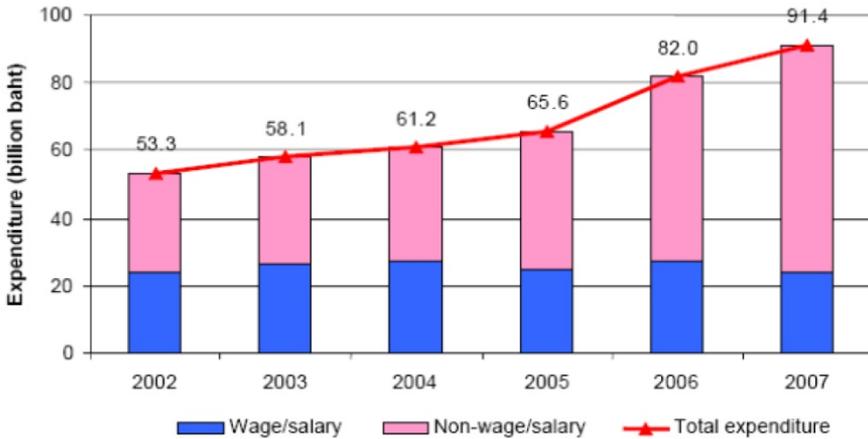


Figure 6-12. Government expenditure on UC. From ILO, 2008.

The majority of informal economy workers work to survive, with incomes barely enough to cover daily expenses. Although they are not covered by formal social security, they sometimes benefit from informal protection in the form of credit societies and funeral clubs as well as their dependence on traditional solidarity.

Recent Trends in the Labor Market

The crisis in Thailand has created problems for all groups of workers. However, workers in the export industry sector have been the most affected. Due to high competition, Thailand focuses on the development of export-oriented industries, and their major market is North America and Europe. Thus, when the economic crisis occurred, it led to worker dismissals.

The dismissal from the Ministry of Labor in fiscal year 2008, and the insured registration of the unemployed numbered 384,629 during the period from January 1, 2008 until February 20, 2009. The layoffs affected 106,196 workers, and the top five terminations were in the following sectors:

1. The production of knitted fabrics and custom leather and shoes.

2. The production of electronic devices and components.
3. Computer maintenance, hardware consulting services, and book-keeping.
4. The production of furniture, jewelry, and furniture.
5. The manufacture of non-metallic and metal products

Thailand was affected by the hamburger crisis in 2010. Even the overall economy and Thai exports improved significantly. It should be noted that situation has been resolved to stimulate the local economy and to find new markets in Asia or Africa.

Nevertheless, unemployed workers have not seen much change. Since the crisis, about 750,000 workers are unemployed. Only 500,000 people could come back to work and the status of another 250,000 people has not been determined. Still, the number of workers employed in the agriculture sector has increased.

Moreover, Thailand has been facing an economic crisis since the Japanese tsunami in March 2011 and Thailand's relatively high investment in that country. The dismissal of workers number about 100,000 people, mostly migrant workers in the construction and automotive sectors. Some labor organizations have argued that dismissals are too hasty and the government does not employ sufficient measures to protect the workers (Thai Labor Solidarity Committee and Help Center for Crisis Worker Management, 2011).

3. Structure of UI

Background of the Introduction of UI

The economic crisis of 1997 necessitated an industrial restructuring policy in the sense of trying to enhance productivity and uplift the ability to compete in the world market. This policy changed industry to become even more export oriented, to capture world market opportu-

nities.

At present, Thai exports comprise 68% of GDP, and the aforementioned shift in strategy has meant some industries have grown more in response to foreign demand, such as garments and electronic circuits, with the result of more female laborers entering the market. Hiring became more flexible, increasing the lack of job security for workers. As aptly stated by a Thai academic, Dr. Vorawit Jaroenlert, “Thai labor usage can be characterized by 3 Ls: low wages, low productivity, long working hours, all which has led to Thai labor having a low quality of life, with insufficient pay, forcing them to work overtime to cover expenses” (Sakdina, 2011).

UI in Thailand has emerged as the last contingency of the Social Security system. The pull factor for unemployment assistance occurred during the economic crisis in 1997 to assist workers. The “Feasibility Study and Preparation of the UI System in Thailand” was a collaboration of the ILO and Thailand committee through a study on the CDP-SP project before its final design and launch. The Thai cabinet had approved a UI system on April 28, 2003. The Royal Decree No. 120 Section 80 A dated August 26, 2003 forms the legal basis to implement the system.

The UI system was implemented in 2004 under strong support from the Labor Ministry under the Haskin Administration. At that time, there was weak support from business leaders, but the political bonus the system provided was one reason for its introduction.

When Thailand first introduced an UI system in 2004, its GDP per capita was US\$2,479, considerably lower than other APEC countries at the times that they had introduced their own UI systems (Asami, 2010).

Governance and Management System, Employment Service for the Unemployed, Financing, and Benefits

The job placement and skill development are embedded in Thai-

land's UI scheme. Those recipients who receive unemployment benefits required to report at least once a month to the Government Employment Service Office. Employees receive these benefits through the Labor Welfare Fund which is governed by the social security office.

There are many organizations involved in the UI process since the registration to the providing of skill development for the claimant. Responsibilities of each organization are as follows:

Department of employment

- To register of eligible unemployed workers
- To distribute benefits claim forms
- To interview, to provide counseling, and to place people in jobs according to qualifications
- To seek recruitment opportunities
- To coordinate with DSD in cases in which insured persons need skills training
- To distribute announcements of the Department of Employment on criteria for registration and presentation of unemployed insured persons
- To distribute announcements of the Department of Employment on the definition of suitable job refusal of insured persons under UI
- To distribute announcements of the Department of Employment on criteria for consideration on the ability and readiness of unemployed insured persons to work
- To distribute announcements of the Department of Employment on criteria for consideration on the training referral and job training refusal of unemployed insured persons
- To distribute regulations of the Department of Employment on services provided to insured persons under UI B.E.2547 (2004)

Department of skills development

- To check notifications of job training for insured persons according to conditions and qualifications
- To train insured persons as needed
- To monitor training progress
- To distribute announcement of the Department of Skill Development on criteria and conditions for acceptance or refusal to provide skills development training courses for insured persons under UI

Department of labor protection and welfare

- To distribute announcement of Department of Labor Protection and Welfare on how to provide information on situation of laid off employees to the Social Security Office

Social security office

- To collect contributions and maintain contribution data
- To verify qualifications of the beneficiaries
- To check contribution history
- To verify reasons for employment termination
- To order/not order benefit payments to individual bank accounts of insured persons
- To distribute announcement of the Social Security office on criteria for adjudication of UI benefits
- To use the practical guidelines of the Social Security Office according to (2) in cases in which the name of insured persons do not appear in the SSO database

Regarding UI services, the Employment Service Office in brings a limited administrative capacity to provide quality job placement and develop skill development, for Thailand has only one office in each province, or a total of 76 offices. Moreover, there are roughly 727 staff

members in the whole country, in which only 75% are only responsible for UI services (Ministry of Labor and Welfare, 2011).

Qualifying conditions. Under the Social Security Act (B.E. 2533), insured people are eligible for UI benefits if they have paid in contributions for at least six months in a 15-month period before becoming unemployed. Additional requirements to qualify as a UI claimant are as follows:

1. Claimants must be employable, ready and willing to work, and cannot refuse to participate in any skills development or job training program. Moreover, they must register with a government employment agency and report their work status at least once a month.
2. An interruption of employment must not be a consequence of (a) a job violation, (b) a planned or intentional criminal act by the insured person against the employer, (c) a serious illegal act, (d) serious damage to the employer caused by the insured person when absenting from work without notice for seven consecutive days or when violating company safety rules, or (e) being imprisoned under court order, except for minor offenses.
3. A claimant must not be receiving the Old Age Pension benefit simultaneously.

According to Article 79 of the Social Security Act (B.E. 2533), the waiting period for receiving UI benefits is seven days following interruption of employment.

Duration and amount of benefits, including changes since the introduction of the UI. Unemployment compensation benefits are given to those who leave voluntarily and receive benefits as compensation for lost revenue at a rate less than those who were laid off as follows:

1. If involuntarily unemployed, the monthly benefit is equal to 50%

of the insured's average monthly salary in the highest paid 3 months in the 9 months before unemployment and period of benefit received not more than 180 days within one year from the date of the right to receive benefits.

2. If voluntarily employed, the monthly benefit is equal to 30% of the average salary and period of benefits received not more than 90 days within one year from the date of the right to receive benefits.

After the latest financial crisis in 2008, the Thai government extended the unemployment compensation period for laid-off workers from 6 months (180 days) to 8 months (240 days) for those who were unemployed in 2009 (Boon-Arj, 2010; ILO, 2008).

Considering financial trends (revenue and expenditure), the rate setting system, and the actuarial assessment mechanism, insured workers are required to pay 0.5% of their monthly salary as a contribution to UI, and employers also contribute 0.5% of their employees' salaries to UI, while the government contributes 0.25 % of workers' salaries. The maximum monthly earnings for contributions are set at 15,000 baht. Therefore, the amount of workers' monthly contributions does not exceed 75 baht, no matter if their salary is higher than 15,000 baht.

One of the interesting features of Thailand's system is that it was sustainable, and even profitable. The benefit itself was not enough to survive on, which kept costs low and ensured that people did not rely solely on unemployment benefits. Under the present UI system in Thailand, as previously stated, both employee and employer are required to contribute 0.5% of the employee's salary, while the government contributes 0.25% of the salary. The amount of unemployment benefits is set at only 50% of salary (not exceeding 15,000 baht per month) even for involuntarily laid-off workers, and they can get it only for the first six months. Thus, even if the unemployment rate becomes unprecedentedly high, it is unlikely for the Thai UI system to run a deficit.

Table 6-2. *Basic Information of Unemployment Benefit and UI Management System*

Qualifying conditions for benefit	Cash benefits	Responsibilities of organizations
<ul style="list-style-type: none"> ▪ 6 month contribution within 15 months before unemployment ▪ Registered with the Government Employment Service Office 	<ul style="list-style-type: none"> ▪ The laid-off receive 50% of wages up to 180 days within 1 year ▪ The voluntary unemployed receive 30% of wages up to 90 days within 1 year ▪ The highest three-month average wages in the last nine months is used in calculating benefits 	<u>Department of employment</u> <ul style="list-style-type: none"> ▪ Registration of the eligible unemployed workers ▪ Receive benefits claim form ▪ Interview, provide counseling and job placement according to qualification ▪ Seek for recruitment ▪ Coordinate with DSD in the case where the insured person needs skill training
		<u>Department of Skill Development (DSD)</u> <ul style="list-style-type: none"> ▪ Check notification of job training of the insured person according to condition and qualification ▪ Train the insured persons as needed ▪ Monitor training progress
		<u>Department of labor protection and welfare</u> <ul style="list-style-type: none"> ▪ Announcement of Department of Labor Protection and Welfare on how to provide information on situation of laid off employees to the Social Security Office
		<u>SSO</u> <ul style="list-style-type: none"> ▪ Collect contributions and maintain contribution data ▪ Verify qualification of the beneficiaries ▪ Check contribution history ▪ Verify reason of employment termination ▪ Order / not order benefit payment to individual bank account of insured person

Note. From ILO, 2010. After the latest financial crisis in 2008, the Thai government initiated an extension of the unemployment compensation period for laid-off workers from 6 months (180 days) to 8 months (240 days) for those who became unemployed in 2009 (ILO, p. 44).

4. Performance and Evaluation

Trend of Overall Performance

Since the UI system was launched in Thailand in 2004, it has covered those who work formally other than the informal sectors and irregular workers whose income is generally less than that of regular workers in

Table 6-3. *Extended Number of Covered Firms*

Year	1991	1993	2002 – present
Size of business enterprises (for the formal sectors)	>20	10 or >	<10

Note. From personal communication with Social Security Officer.

the formal sectors.

The significant expansion of Thailand's social security coverage make UI more feasible and justifiable as small and large enterprise workers will all be coming within the scope of the same UI system, which is in line with the requirements of the 1990 Social Security Act calling for the establishment of a UI system.

Trends of insured workers were augmented gradually as a result of the rise in workers. In Table 6-4, statistics from SSO show that from 2006 to 2010 insured workers have increased from 8.8 to 9.7 million. Meanwhile, the numbers of benefit recipients from 2006 to 2010 have also increased progressively from 16,226 people to 1.3 million people, nearly 82 times. From 2006 to 2010, benefit expenditures have increased 3.5 times from 1,207 to 4,295 million baht. Remarkably, the covered firms were virtually constant from 2006 to 2010.

Regarding to the number of Unemployment Benefit (UB) recipients, the trends of the first four years are mainly attributable to a growing familiarity of workers with UI. It can be noted that in the first few years of the implementation of UI, a number of qualified unemployed workers failed to receive UB because they were not familiar with the procedures they had to go through to get it (Sukwasana, 2008). However, the political turmoil of pro-Thaksin red-shirt protesters in the first half of 2010 seems to have surged because workers in the formal sectors have been familiar with UI regulations.

About one-third of benefit recipients in Thailand were involuntarily laid off. However, the Social Security Office does not entitle those who quit their job voluntarily to any unemployment benefits. Some Thai

academics claim that the state should have the burden for those large shares of voluntarily unemployed workers. Moreover, the classification as “voluntarily” unemployed by the Social Security Office are, in fact, laid off involuntarily (Satitniramai, 2006). Some of the arguments on the criteria used by the Social Security Office staff to distinguish involuntary from voluntary lay-off are sometimes not so transparent. One of the contradictory examples is that the demonstrations in July 2009 of the 200 former NMB Minibea Thai employees from the Angthong Branch have had disputes with the SSO about their unemployment status. Those 200 workers were classified as voluntarily resigned and given only 30% of their salary for three months. Conversely, the other dis-

Table 6-4. *Number of Insured Workers, Benefit of Recipients, Benefit Expenditure, and Covered Firms*

Year	Insured workers (persons): Million*	Benefit recipients (persons)*	Benefit expenditure (Baht): Million*	Covered firms (firms)*
2006	8,8	16,226	1,207,6	375,705
2007	9,1	587,413	1,879,5	381,506
2008	9,2	782,459	2,420,4	382,170
2009	9,4	1,787,911	5,199,4	389,953
2010	9,7	1,334,737	4,295,3	395,924

Note. * Daily workers are included in the number of insured workers. From personal communication with Social Security Officer.

Table 6-5. *Number of UB Recipients Classified by the Benefit Claims*

	Laid off	%	Voluntary resignation	%	End of employment contact	%	Total
Dec. 2004	5,432	34.6	8,102	51.5	2,188	13.9	15,722
Dec. 2005	9,074	32.4	14,821	52.9	4,126	14.7	28,021
Dec. 2006	14,767	37.0	22,427	56.2	2,708	6.8	39,902
Dec. 2007	20,470	36.2	33,573	59.3	2,538	4.5	56,581
Dec. 2008	21,926	30.5	45,545	63.0	4,480	6.7	71,951

Note. From *Unemployment Insurance in Thailand: Rationales for the Early Introduction in a Second-tier Newly Industrializing Economy*, by Y. Asami, 2010.

missed workers who went to register at the other NMB Minibea branch of the SSO were classified as involuntarily laid off, and received 50% of the salary for six months (Asami, 2010).³

Trends of Performance Indicators

The duration and amount of UI benefits in Thailand remain short and low compared to those in developed countries. But under this constraint, UI benefits in Thailand could alleviate the plights of unemployed workers since Thailand's economy was hit hard by a worldwide downturn in the economy in 2009 (Asami, 2010). Considering Table 6-6, the proportion of insured workers to total employment is nearly constant at a ratio of 25% because only regular workers in the formal sectors are covered by UI.

As in Table 6-5, the number of people receiving unemployment benefits in Thailand has fluctuated greatly. About one-fifth of employees have registered for the UI system (see proportion of insured workers to employment). Unemployment trends are decreasing while benefit

Table 6-6. *Proportions of Insured Workers to Employment and the Labor Force and the Proportion of Benefits Recipients to Unemployment*

Year	(1) employ- ment (million persons)	(2) Unem- ployment (million persons)	(3) Insured workers (million persons)	(4) Job separators (million times)	(5) Benefit recipients (million persons)	(3)/(1) Proportion of insured workers to employ- ment	(5)/(4) Proportion of benefit recipients to job sepa- rators
2006	35.9	0.48	8.8	0.040	0.016	0.246	0.40
2007	36.5	0.41	9.2	0.057	0.587	0.251	10.37
2008	37.2	0.51	9.3	0.072	0.782	0.25	10.87
2009	38.0	0.380	9.4	0.139	1.788	0.248	12.85
2010	38.3	0.33	9.7	0.090	1.334	0.253	14.83

Note. From National Statistical Office and Social Security Office, Thailand.

3 See "Panakngan Minebea Ji So Po So Anghthong Jai Chotchoei Wang-ngan 50%" Krungthep Turakit, July 2, 2009.

recipients have risen. The size of this contradictory data shows significant evidence of a moral hazard problem in job searches of benefit recipients. The proportions of the benefit recipients compared to the job separators are approximately ten times per person per year (see proportion of benefit recipients to job separators). This trend reflects as those unemployed can consume and enjoy the benefit at an average of one time per month in 2010.

5. Conclusion

Summary of the Study

The influence of the UI system in Thailand has remained quite modest. The coverage is much more limited than for other countries, and those covered already have the advantage of working in the formal sector. Although the coverage has been expanded during the past few years to cover workers in smaller firms, it has only modestly increased.

Thailand's UI system has generated healthy surpluses since its initiation in 2004. The duration and amount of UI benefits in Thailand are kept low and shorter than those in most of the developed countries. The UI system is unlikely to function well because of being faced by the informal sectors, weak administrative capacity, large political risks, and a corrupt environment (Voldopivec, 2009). There is no effective mechanism to distinguish genuinely unemployed workers from those falsely claiming to be so.

The unemployment benefit is designed not to cover all expenses during periods of unemployment, but only to alleviate partially individual plights. Thus, insured workers cannot expect to survive solely on unemployment benefits in the first period after their job loss. The short duration of UB is not only for financial reasons, but also for social fairness. Positively, the short duration of UB give unemployed a strong

incentive to look serious for new jobs.

Skill development programs run by the Thai government have been ineffective. Government agencies in Thailand do not seem to have a comparative advantage to the private sector in the field of skill development. Improving efficiency and transparency in contributing to skills development would be a better direction to take.

Thailand's UI scheme excludes those who are in the informal sector. More than one-third of their labor forces are in the agricultural sector. Using conservative fiscal constraints of the government and abusing effective monitoring mechanisms would be harmful to employees and obstruct successful operations. The lack of social protection for a benevolent UB in the informal sector upon job loss would create an oversupply of labor forces. Moreover, it would be a waste of skills for the first period of unemployment unless provided the public provision of UI necessities to upgrade skills and productivity of workers and provided self-protection as the dominant strategy in dealing with the risk of unemployment.

Taking into consideration the contribution rate, even if 0.5% of employee salaries are contributed by employer is low, certainly, it puts the burden on employers. Therefore, not surprisingly, all of the business shows their dissatisfaction with some provisions in the UI regulations and leaders in Thailand lobbied against the introduction of UI. However, through lessons learned from the financial crisis in 1997 and the unprecedented economic slump, many employers in Thailand came to realize the value of a social safety net for workers.

Labor organizations, civil society organizations, and some scholars have argued that the government should emphasize financial or fiscal measures. To stimulate economic and employment growth as the key component, current measures or policies may be insufficient because the government has no concrete policy measures to prevent problems or ameliorate the sufferings for those people that have been affected by the crisis unless they complain, march in rallies, or prosecute either un-

successfully or successfully. Regarding their great burdens, modifying the framework to develop the country's economy or proactive measures are needed. Lessons learned from the crisis should be to find a solution to prevent problems that involve the sustainability of labor involved in policy formulation.

Challenges and Future Directions of UI

The law in Thailand is considered weak, particularly regarding labor protection. Thailand has been governed by a dictatorial political system for so long that its political culture of authoritarianism and its attendant patronage philosophy is deeply rooted; therefore, most people in Thai society still accept the idea of inequality and nonegalitarianism. This way of thought filters down to the system of labor relations in which nonacceptance of equal rights between employees and employers is still prevalent. Thus, the power to decide on production processes, conditions of hiring, wages, and welfare are in still in the hands of employers, and workers are not accepted as legitimate participatory members in the deliberations (Sakdina, 2011).

To account for specific conditions, Thailand should move ahead with UI and might be invested in the challenging task of building Thailand's administrative capacities and the synergies amongst existing institutions to run an effective UI system that is a result of general public consensus. Therefore, the policy recommendations are centered on the system of UI facilities: UI benefits payment, employment services, and skills development for the insured unemployed, which should be as one unit.

Thailand's ten-year experience (since 2004) with UI shows that its implementation, if properly designed, is not only feasible but also desirable. The UI program could produce several undesirable outcomes: long durations of benefit receipt, double dipping (UI recipients working in the informal sector and receiving earnings on top of UI benefits),

and a high prevalence of bribes. For effective implementation of this system, it is essential that its administration be institutionalized (e.g., through the setting up of a UI commission). In addition, at least the following have to be spelled out in the Social Security Act:

1. Eligibility requirements,
2. types of insurable employment and the minimum/maximum number of work hours,
3. types of insurable earnings and maximum insurable earnings,
4. the contribution or premium rate for each of the three parties,
5. the benefit period and replacement rate (i.e., the proportion of the worker's lost earnings replaced by UI benefits), and
6. penalties for misuse or abuse of the system. (Chandoevmit, 2000)

Regarding UI in Thailand, employers are also obliged to pay contributions. Though the contribution rate is as low as 0.5% of employees' salaries, it puts some burden on employers, for certain. Though employers showed their dissatisfaction with some provisions in the UI regulations, they did not deny the societal needs of UI, and did not oppose the implementation of UI so strongly. The biggest reason for their weak resistance was the low rate of contribution, which was set at 0.5% of employees' salary with the maximum monthly ceiling amount at 75 baht (about US\$2.5) per employee. With this small amount, its adverse impact on the profitability of their businesses is limited.

The benefits themselves are not enough to survive on, which keeps costs low and ensures that people did not rely solely on unemployment benefits. Under the present UI system in Thailand, the employee and employer are required to contribute 0.5% of their employees' salaries, while the government contributes 0.25% of their salaries. The amount of unemployment benefits is set at only 50% of salaries (not exceeding 15,000 baht per month) even for involuntarily laid-off workers, and they can get benefits only for the first six months. So even if the un-

employment rate becomes unprecedentedly high, it is unlikely for the Thai UI system to run a deficit. Thus, UI should be designed on the more realistic assumption that many of UB recipients will do a part-time job in the informal sector while they look for a new job. If the amount of UB is set at 50% of salaries, those workers whose income was just a little above the subsistence level would not be able to survive by solely relying on UB.

A UI program for Thailand should guarantee benefits through formal and informal forms. As mentioned, presently, the amount of unemployment benefits is set at only 50% of salary (not exceeding 15,000 baht per month) even for involuntarily laid-off workers, and they can get benefits only for the first six months.

For formal provisions, the duration of received benefits should be extended longer and the amount of benefits should be increased. The enforcement of self-insurance (personal saving) rates for the employees should relate to salary with paying or contribution at a progressive rate. The possibility of protecting workers from uncertainty is that the industries should guarantee UI by saving a certain amount of unemployment funding. Moreover, the common funding of UI should invest professionally in secure funds in order to receive more returns, which could increase and extend benefits for workers. Under the present UI system in Thailand, the employee and employer are required to contribute 0.5% of employees' salary, while the government contributes 0.25% of their salary. Therefore, the amount of the contribution should be changed to an equal rate for tripartite. In addition, the improvement of legal retractions for insured employees should be switched to voluntary insured workers immediately after they quit a job. The administrative system could be monitored to continued benefit eligibility for workers. Furthermore, the structure of the institutionalized administration should become more efficient, as previously mentioned.

The other informal provision which could help workers during their

short term of unemployment is individual savings in informal forms; for instance, saving funds or cooperation among laborers (this system exists in Thailand and is organized by employees).

Consequently, the suggest adaptations of the standard UI program for Thailand should develop both resources and institutions to protect insecure workers. UI should function as social protection for those under a state of uncertainty. Hence, it is time for Thailand to launch good UI standards now, with no delay.

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Chapter 7

Unemployment Insurance in Vietnam

Quang Tuan Luu *

1. Introduction

Ever since the adoption of the Renovation Policy, Vietnam has had a number of achievements. The annual average economic growth rate reached above 7% per year from 2000 to 2010; the per capita income has surpassed the middle income country threshold of 1,000 USD since 2008, reaching 1,168 USD in 2010; and the poverty rate has fallen sharply, from 18.1 per cent in 2004 to 10.7 per cent in 2010.¹

Nonetheless, Vietnam has faced many challenges during its economic transition process. One of them is the pressure to create jobs for a large labor force. Both unemployment and worker redundancy are two issues that have emerged in Vietnam since the late 1980s under the context of industrialization, reforms, and equitization of state-owned enterprises (SOE). Moreover, since late 2008, the country has been affected by the global economic recession. Many firms scaled back production, resulting in a contraction in working time or job losses. It is estimated that thousands of workers were retrenched in the context of

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¹ GSO (2009, 2011), Statistical yearbook, Statistical Publishing House; GSO (2011), Vietnam Household Living Standards Survey 2004, 2010. The rate of poverty is based on the poverty line for 2006-2010 and is indexed in accordance with changes of CPI. According to data from 2006-2010, the rural poverty line is 200 thousand VND/person/month, and urban poverty line is 260 thousand VND/person/month.

the economic downturn, which reduced the generation of employment and increased the rate of unemployment in Vietnam.

Preventing and controlling the unemployment situation has gotten the Vietnamese government's attention, which is revealed in many different legal documents. In general, regulations in the legal documents have constituted legal grounds for implementing social policies to support the unemployed, to help them to settle down, and to create more jobs. These policies mainly focus on the redundant workers who lost jobs through SOE restructuring and corporate procedures to compensate them. Nevertheless, in general, the regulations have many shortcomings and are only unsustainable temporary measures. Therefore, the policy for formulating and promulgating unemployment insurance (UI) schemes has been identified and implemented via the Social Insurance Law, under which UI has been in effect since January 1, 2009.²

The goal of UI is to ensure the living standards of workers and assist their participation in vocational training and job searches. More specifically, the policy will compensate unemployment benefits for workers in case they find themselves jobless. These beneficiaries are also eligible for health insurance during the time of unemployment. In addition, job counseling, promotions, and vocational training are provided free of charge to the unemployed in order to support reentry into the labor market.

At present, Vietnam has only one UI system administrated by the State. The target group is: (a) workers with labor contracts of at least 12 months and work for business production establishments with a labor size of at least 10 workers; and (b) civil servants known as *Vien chuc*. It should be noted that there are two types of civil servants in Vietnam: *Cong chuc* and *Vien chuc*. *Cong chuc* are civil servants who

² The Social Insurance Law was approved by the Vietnamese National Assembly – the 11th, the 9th session, on June 29, 2006. On December 12, 2008, the Vietnamese Government promulgated Decree No. 127/2008/NĐ-CP on detailed articles in the Social Insurance Law.

work for a sector of the administration. Cong chuc's employment status is guaranteed by the law on Cong chuc, hence they are not affected by the UI law.

Unemployment insurance policies have been instituted by several public institutions in Vietnam. The Social Insurance Agency is in charge of collecting UI fees and paying unemployment benefits, while Employment Services Centers, managed by the Provincial Department of Labor, Invalids and Social Affairs (DoLISAs) are responsible for receiving unemployment application forms and records, considering and assessing the records, consulting, introducing jobs, and receiving vocational training applications. DoLISA's directors are responsible for making decisions on payments of UI benefits and vocational training for the unemployed. Vocational training centers and schools are responsible for vocational training for these workers.

2. Features of the Labor Market

Trend of Labor Market Participation

The population in Vietnam reached 86.93 million people in 2010, and the country is now in the period of a population bonus with those of the working age accounting for two thirds of the total population. This upswing is the consequence of a high fertility rate in the past that has caused a quite a high number of people reaching working age each year. From 2000 through 2010, the scale of the labor force³ rapidly increased from 39.3 million in 2000 to 50.5 million in 2010, an increase of 2.6% per annum on average.

The labor force participation rate (LFPR)⁴ is really high in Vietnam,

³ The labor force includes people aged 15 and over who are employed and unemployed.

and it has tended to increase over time. In 2007, Vietnam became an official member of the World Trade Organization (WTO), which has brought new opportunities for economic growth as well as employment creation for the country. As a result, the LFPR increased quite a lot in 2007 compared to 2006. On the other hand, in the context of the global economic recession since 2008, the Vietnamese economy has also grown at a lower rate, inflation has increased, and the living standards of a large number of workers have been affected, so employment become more important for the labor force. In a period of economic downturn, the LFPR steeply increased and reached a peak of 77.3% in 2010.

The LFPR of male and female workers is on the increase, though at a higher rate for men than for women. In 2000, the participation rate of male workers was 76.1%, while the rate of female ones was 68.8%. In 2010, the figures were 82.7 and 72.1% respectively. These patterns reflect the work allocations between men and women inside households. Some women participate in non-economic activities such as housework instead of economic activities. Moreover, there is a trend for females to postpone participating in the labor market in order to

Table 7-1. *Labor Force Participation Rate by Gender, Urban and Rural Areas*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	72.3	73.0	72.5	72.0	71.4	71.1	70.3	74.5	75.6	76.5	77.3
Male	76.1	76.8	76.2	75.8	75.5	75.5	74.7	79.1	80.4	81.8	82.7
Female	68.8	69.6	69	68.5	67.6	67.0	66.1	70.3	71.3	71.5	72.1
Rural	75.1	76.0	75.4	74.9	74.5	73.9	73.3	77.7	78.4	80.6	81.7
Urban	64.1	64.8	64.4	64.3	63.2	63.8	62.7	66.2	68.8	67.1	67.6

Note. From *Labor and Employment Surveys (various years)*, by MoLISA, 2000-2007; *Labor-Employment /Unemployment Statistics in Vietnam*, by GSO, 2008-2010; and *Population and Housing Census in Vietnam*, by GSO, 2009.

4 The labor force participation rate is the percentage of the labor force out of the total working age population.

further their education and professional training both in rural and urban areas.

In rural areas, the labor force participation rate is always higher than that in urban areas due to the characteristics of the rural labor market and low labor productivity in agriculture, forestry, and fishing. In 2000, this rate was 75.1% in rural as compared with 64.1% in urban areas. In 2010, those figures were 81.7 and 67.6% respectively.

The ratio of employed workers in the labor force in Vietnam is quite high, fluctuating from 96 to 98% from 2000 to 2010.⁵ The global economic crisis and domestic economic downturn have affected job security for workers. Before 2008, the annual increase in employment was quite high, from 1.01 to 1.16 million jobs. In 2008, the economic crisis caused a decrease in job creation with only 882,000 new jobs nationwide. In response to the economic downturn, the Government provided a number of economic-stimulated packages to support enterprises and workers to overcome their difficulties. As a result, though the Vietnamese economic growth in 2009 was not as high as it was in previous years, the economy has still created a large number of new jobs. In 2009, employed workers reached 47.74 million persons, and in 2010 this figure increased to 49.08 million,⁶ a 1.34 million increase compared to that in 2009.

Even with the high rate of employed workers in the labor force, the unemployment rate is still rather low in Vietnam. In 2000, the unemployment rate was 2.26%, but it has increased slightly in recent years, affecting 1.5 million workers, which accounts for 3.1% of the labor force in the early second quarter of 2009, the peak of the economic downturn. Due to typical circumstances in Vietnam with its low level of economic development and the social protection system being insufficient to ensure a minimum living standard for unemployed workers,

5 Various sources include MOLISA, Labor and Employment surveys (various years), 2000-2007; GSO, Employment-Unemployment Statistics in Vietnam, 2008-2010.

6 GSO (2010), Report of press of figure economic – social statistics in 2010. Retrieved from <http://www.gso.gov.vn/default.aspx?tabid=507&ItemID=10836>

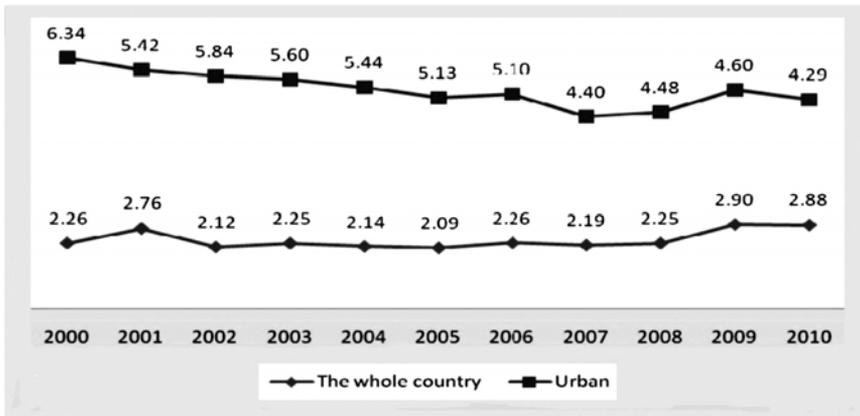


Figure 7-1. The unemployment rate over period 2000-2010 (%). From *Labor and Employment Surveys (various years)*, by MoLISA, 2000-2007; *Labor-Employment/Unemployment Statistics in Vietnam*, by GSO, 2008-2010; and *Population and Housing Census in Vietnam*, by GSO, 2009.

people do not have to suffer from long-term unemployment. As a result, they will often take jobs with modest incomes in the informal sector, which is usually unstable for supporting themselves and their families.⁷

In urban areas, the unemployment rate is rather high compared with the employment status of the whole country. Interestingly, this rate of unemployment tends to decrease regardless of an increased flow of migration from rural to urban areas, which demonstrates a large potential for job creation in urban areas.

Characteristics of Employment

The restructuring of the economy has resulted in changes in employment. Statistical data have shown a transition in the employment structure from agriculture–forestry to industry–construction and ser-

⁷ According to the Institute of Researches and Development of France (IRD), presented at the 2009 workshop on the informal sector in Vietnam, this sector accounted for a large number of workers and has tended to increase in the last few years.

VICES. For the last 10 years, the share of agriculture–forestry and fishery employment in the total employment has decreased from 63.4% in 2000 to 48.2% in 2010.

Among the employed population, about 19.4 million people working as manual workers accounted for 39% of the total employed population. Of the skilled workers in agriculture, forestry, fishery (including farming, breeding, aquaculture, seafood processing, and so on) and staff of personal service, security and social security, each account for 15%. Skilled craftsmen account for a relatively high share: around 13%. Machinery assemblers and operators account for a modest 7%. The share among other groups is quite small.

In the labor market formalization process, the number of wage earners has increased over time. In 2000, there were over 7 millions wage earners who accounted for 18.4% of the total workforce. In 2010, this figure increased to nearly 17 million, or 34.5% of the total workforce.

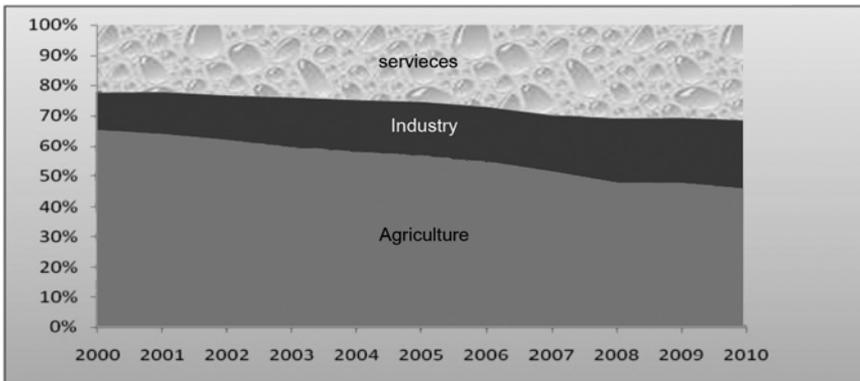


Figure 7-2. Distribution of employed population by economic industries (%). From *Labor–Employment Survey*, by MoLISA, 2000–2007; and *Labor–Employment /Unemployment Survey*, by GSO, 2008–2010.

Characteristics of Unemployment

The urban unemployment rate is higher than the rural one. Contrary to trends in urban areas, the rural unemployment rate has increased, from 1.05% in 2000 to 2.27% in 2010, which indicates a strong pressure for full employment creation for rural workers. Seen another way, it can be said that full employment and employment with higher productivity in rural areas would help to mitigate the pressure of migration flows from rural to urban areas.

The rate of unemployment is not very high, but youth unemployment is really a challenge in Vietnam. In 2009, the unemployment rate of young people age 15-24 was 6.4%, accounting for 56% of the total unemployed workforce.⁸ Moreover, it should be noted that among the total unemployed, 40.2% have never worked; and among the unemployed who are used to working, the long-term unemployment rate (a year or longer) is rather high. The number of long-term unemployed accounted for 25.5% “used to work” unemployed in 2009, which implies that the unemployed perhaps need stronger supports from social

Table 7-2. *Unemployment Rate by Gender and Urban Areas*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	(%)										
Nationwide											
Total	2,26	2,76	2,12	2,25	2,14	2,09	2,26	2,19	2,25	2,90	2,88
Male	2,37	2,27	1,92	1,88	1,86	1,96	2,36	2,29	1,97	2,04	2,38
Female	2,14	3,26	2,33	2,63	2,44	2,24	2,40	2,08	2,55	2,28	3,43
Urban areas											
Total	6,34	5,42	5,84	5,60	5,44	5,13	5,10	4,40	4,48	4,60	4,29
Male	1,06	1,96	0,95	1,18	1,08	1,08	1,29	1,44	1,45	2,44	3,9
Female	6,34	5,42	5,84	5,60	5,44	5,13	5,10	4,40	4,48	4,74	4,73

Note. From *Labor and Employment Surveys (various years)*, by MoLISA, 2000-2007; *Labor-Employment/Unemployment Statistics in Vietnam*, by GSO, 2008-2010; and *Population and Housing Census in Vietnam*, by GSO, 2009.

⁸ MoLISA (2010), *Vietnam Employment Trends*, 2010, p.9.

Table 7-3. *Share of Unemployed Population by Unemployment Duration*

	Total	Male	Female
Never worked	40,2	37,9	42,5
Used to work	59,8	62,1	57,5
In which			
Under 1 month	1,6	2,7	0,6
1-6 months	24,7	28,4	21
6-12 months	8,0	9,3	6,6
12-32 months	10,7	11,1	10,4
Over 32 months	14,8	10,7	18,9

Note. From *Population and Housing Census in Vietnam in 2009*, by GSO, 2010.

assistance and active labor market programs that also involve vocational training and employment information.

3. The UI System in Vietnam

Review of the Development of the UI System in Vietnam

Because a market mechanism was adopted in 1986 to promote economic growth and development, unemployment has been unavoidable. To address this new situation, the Government has promulgated a range of decisions and decrees to assist the unemployed to stabilize their life, revealed in part in the following legislation:

- Decision No. 217/HDBT dated January 14, 1987 by the Chair of the Ministers Council (currently known as the Prime Minister) on defining a separation payment scheme for dismissed workers (for civil servants) or labor contract termination (for the workers who work under defined term labor contract) caused by a production slowdown or the dissolution of an enterprise. Those workers receive an allowance equivalent to a one-month salary for each working year. If workers were suspended or terminated from a labor contract be-

cause of breaches in discipline not serious enough to be punished by dismissal, or if being prosecuted for criminal liability, they would be subsidized with half of a one-month salary for each working year. In case the aforementioned beneficiaries are allowed to come back to work in the state organizations, their accumulated working period would not be accounted for in social insurance.

- Decision No. 227/HDBT issued on February 29, 1987 by the Chair of the Ministers Council ruled that staff and civil servants who voluntarily resign from their work would receive an allowance based on a rule that for each working year for governmental organizations, they would receive an allowance equivalent to a one-month salary and other subsidies (if any). This allowance is based on the State Budget. If staff and civil servants were redundant but did not want to resign from their positions, their organizations would let them be laid off for a period to find another job. The maximum lay-off time is 12 months and they still get 75% of total salary and subsidies (if any). If after 12 months, they cannot find another job, they would be suspended and receive an allowance as defined above. For redundant workers who have enough time and other conditions to retire but are not quite old enough to retire as regulated, they can be allowed to resign before the required retirement age without a medical examination. Still, the number of early retirement years should not exceed five.
- Decision No. 176/ HDBT by the Chair of the Ministers Council issued on October 8, 1989 on rearranging workers in state enterprises ruled that redundant workers who have worked in the state sector and can apply for a separation payment scheme as stipulated in an uninterrupted working year, will get a basic monthly salary and subsidies (if any). The minimum allowance is equivalent to a 3-month salary. The budget in this situation comes from employers. Enterprises with financial difficulties are partly supported by the state budget, but not to exceed half of the expenses. Assistance for these

enterprises has been considered in specific situations. The compensation would go directly to the workers in one payment. If the enterprises are having financial difficulties and cannot afford to make the one time payment, they can negotiate with the workers to make several installments. In the case of workers having to stop working from 1 to 3 months, they would receive an allowance for the temporary work stoppage; moreover, this fund comes from the budget of the enterprise.

- Decision No. 315/ HDBT issued on December 1, 1991 by the Chair of the Ministers Council involves readjusting and restructuring production-business activities in the state economic sector, supplemented with various regulations on spending collected finances to pay for worker resignations according to Decision No. 176/HDBT.
- Decree No. 233/HDBT promulgated on June 22, 1990 by the Chair of the Ministers Council based on labor regulations for FDI enterprises. The regulation stipulates that enterprises have to contribute 2% of their total payroll to local labor organizations to formalize the unemployment fund. However, this regulation has not been implemented because the Government has not developed detailed guidelines for raising the money, management methods, and principles involved in using this fund.
- On August 30, 1990, the Government issued an Ordinance on Labor contracts that clearly defines that a labor contract should cover the following: work duties, wages (salaries), workplace, contract duration, and the conditions prescribed by policy for occupational safety, hygiene, and policy for social insurance. On May 12, 1992, the Ministers Council issued the Decree No. 165/HDBT on "detailed regulations for the implementation of the labor contract Ordinance," in which a clear regulation on severance allowances for workers goes into effect upon the termination of their labor contract based on Article 19. Depending the specific case, the workers can benefit from different allowance levels as stipulated in Clause 2, Article 25 of the

Ordinance as follows:

- The employees receive a severance allowance equivalent to one-half of the monthly wage or salary, including subsidies (if any) for each year they worked for the employer in the case of labor contract termination depending on specific cases specified in the Ordinance on Labor Contracts and Decree No. 165/HDBT (for more details, please see Clause 5 of Article 20 and Item a, b, c, Clause 2 of Article 21 and Item d, Clause 1, Article 22 of the Ordinance and Clause 1, Article 17 of Decree 165/HDBT), the employees can receive an aforementioned allowance equivalent to 1.5 times of the monthly wage or salary including subsidies, if any, for each working year. In the case of male employees age 45 and over and female employees age 40 and over who had worked continuously for 5 years, they would receive an additional allowance equivalent to at least 2 months of wages or salary, including subsidies (if any).
- If the employee terminates a seasonal working contract for certain jobs lasting 3 months to less than a year, in the abovementioned cases, the employee would be paid 1 month of wages or salary, including subsidies (if any).
- In addition to the abovementioned allowances for employees who have worked for over one year, they can receive a transportation allowance, baggage charges, meals, and traveling fees to return to their place of residence.
- The abovementioned allowances are paid by employers from company reserve funds that come from their revenues.
- To implement the policy for redundant employees that resulted from the rearrangement of state-owned enterprises, on April 11, 2002, the Government issued Decree No. 41/2002/ND-CP, stipulating supplement subsidies and allowances in addition to the abovementioned ones for the following targeted workers who have lost their jobs:
 - Male employees may retire early at 55 to 60 years of age and

female employees at 50 to 55. She/he must have participated in the social insurance program at least 20 years or more: (a) they have the right to retire without any deductions from their pension despite their early retirement age and (b) the right to enjoy two additional reliefs that include an additional allowance equivalent to 3 months of current rank-based or grade-based wages and subsidies for each early retirement year (12 months) and an additional allowance equivalent to 5 months of current rank-based or grade-based salary for 20 years of social insurance participation from the 21st year. For each year of participation in social insurance, the employee will receive one-half of monthly current rank-based or grade-based salary.

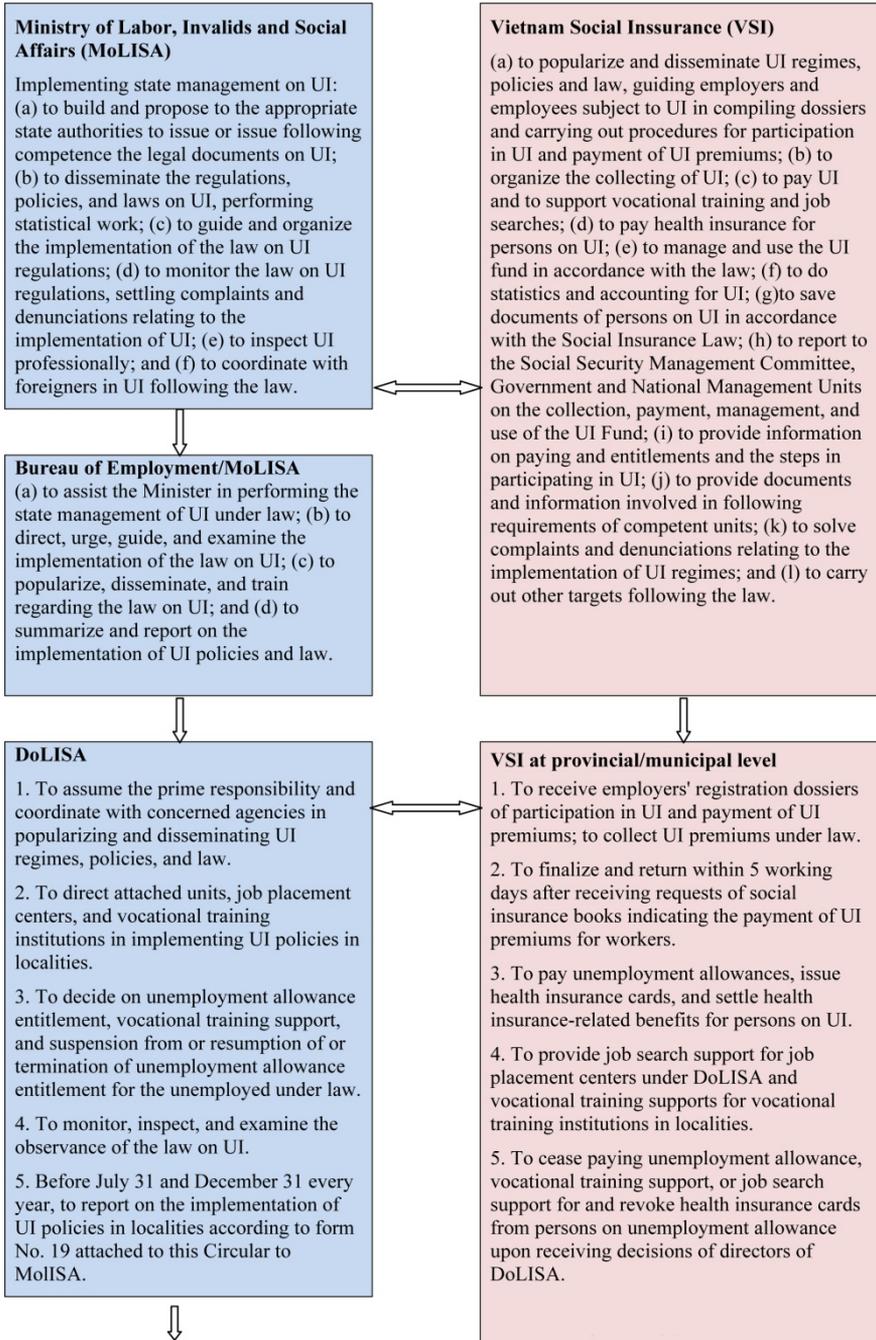
- If the employee at retirement age does not have enough years in participating in social insurance (maximum a year), as stipulated by the Labor Code, the State will pay a lump sum equal to 15% of the monthly salary for the remaining months of participating in social insurance so that the employee can receive this pension.
- The remaining targeted workers are terminated with their labor contracts and receive compensation such as unemployment allowances, additional current rank-based or grade-based salary, salary subsidies for one time, etc.
- In addition, the Ministry of Finance also allows the establishment of "the Support Fund for Redundant Workers" under the Decision No. 85/2002/QD-BTC dated July 1, 2002. Financial sources to found this fund came from the state budget, contributions of organizations and individuals or borrowing from other sources (if any). This fund is administered and managed by the Minister of the Ministry of Finance.

It can be said that Vietnam has tried to formulate policies on severance and jobless assistance for unemployed workers, and they partially meet the needs of enterprises and workers. These policies also help workers to stabilize their life and self-job creation. However, from a

general view, the abovementioned policies remain patchy, quite passive, and lack guarantees for a stable life, especially for young unskilled workers. The employees who receive a one-time allowance, which is too little to support a stable life, are faced with many difficulties. Moreover, if the employees have received a lump sum, they do not have the right to receive their pensions when they are old. Many employers who do not abide with the solutions involved in subsidy policies for jobless workers have not been addressed. The subsidy level is very low compared to the losses that workers get when they are unemployed. In case the employers try to implement the policies, they do not have the financial capacity to pay for subsidies. On the other hand, the consideration of payment for severance or unemployment allowance is done in the form of a lump-sum so unemployed workers' life is not ensured, etc. Therefore, the government in Vietnam has developed and promulgated the Social Insurance Law, under which UI is regulated.

An Overview of the Unemployment Insurance Model in Vietnam

The government has the function of unified state management of UI and provides guidance for the formulation, promulgation, and implementation of normative laws, policies, and regulations on UI. MoLISA is responsible for the state management of UI for the government. However, both MoLISA and VSI join to coordinate and manage UI. They have the following functions:



Job placement centers

1. To receive unemployment registration forms and dossiers of UI enjoyment, examine them, and carry out procedures to settle UI regimes under this Circular.
2. To disseminate and popularize UI policies and law.
3. To provide job counseling and recommendations for persons on UI and to provide appropriate vocational training for those on UI.
4. To keep workers' dossiers under regulations.
5. To make periodical reports.



Vocational training institutions: To provide vocational training for unemployed persons at the request of DoLISA.

6. Before July 15 and January 15 every year, to report on the collection and payment of UI premiums in the first half of the year and the previous year, respectively, to DoLISA.
7. To coordinate with DoLISA and concerned agencies in popularizing and disseminating the law on and settling problems in UI.



Enterprises: (a) to popularize and disseminate UI policies; to comply with regulations on UI participation; and to pay UI premiums under the law on UI; (b) to produce documents and dossiers and provide relevant information at the request of competent state agencies upon UI-related examination or inspection; (c) to provide copies of labor or working contracts or certify unilateral termination of these contracts or certify unemployment for workers within 2 days after they lose their jobs or terminate their labor or working contracts; to certify or close social insurance books for workers so that they can complete dossiers of UI under regulations; (d) to provide workers with information on payment of UI premiums within 2 working days after they make the request; (e) to guide workers who lose their jobs or terminate their labor or working contracts in registering unemployment with and submitting dossiers of UI to job placement centers under regulations; and (f) before January 15 every year, to report on the payment of UI premiums of the previous year to provincial-level Labor War Invalids and Social Affairs Departments of localities with which they register participation in UI.

Note. Adapted from The Government (2008), Decree No. 127/2008/ND-CP dated December 12th 2008 Detailing and guiding a number of articles of the social insurance law; MoLISA (2010) No. 32/2010/TT-BLD'TBXH, Guiding a number of the Government's decree No. 127/2008/ND-CP dated December 12, 2008, detailing and guiding a number of articles of the social insurance law regarding UI.

Unemployment Insurance Policies

Coverage. Employees participating in UI are Vietnamese citizens working under labor contracts, working contracts of indefinite terms or a term between a full 12 months and 36 months for employers who employ ten and more employees. Those employers are also covered by the UI law.

Sources for formation of the fund. Employees pay 1% of their monthly salary or remuneration into the UI fund. Employers pay 1% of the employees' salaries and remuneration fund into the UI fund.

The State's monthly budgetary support is equivalent to 1% of the employees' salaries and remuneration fund into the UI fund. The premium support is made once a year.

Profits from invested activities of the UI fund.

Utilization of the fund. Paying unemployment allowances, aid for apprenticeships, aid for job searches, paying for social health insurance premiums for unemployment beneficiaries, paying for expenses of management, and investing to preserve and develop the fund according to regulations.

UI regimes. UI consists of the following regimes: (a) unemployment allowance, (b) aid for apprenticeships, (c) aid for job searches, and (d) social health insurance.

Unemployment allowance. The monthly unemployment allowance is equivalent to 60% of the average six consecutive month contribution before unemployment. The period of receiving unemployment allowance is: (a) 3 months, if having a full 12 months to less than 36 months for UI contributions; (b) 6 months, if having a full 36 months to less than 72 months for UI contribution; (c) 9 months, if having a full 72 months to less than 144 months for UI contributions; and (d) 12 months, if having a full 144 months and over for UI contributions.

Aid for apprenticeship. Unemployment beneficiaries are aided with apprenticeships for a period of no more than six months. The support

level is equivalent to the level of expense for short-term training in accordance with the law on vocational training.

Aid for job searches. Unemployment beneficiaries are provided with employment consultancy and recommendations free of charge.

Social health insurance. Unemployment beneficiaries are entitled to the social health insurance benefit. The social health insurance premiums for unemployment beneficiaries are paid by the social insurance organizations.

Conditions for entitlement to UI. Unemployed persons are entitled to unemployment benefits when having the full three following conditions: (a) having made UI contributions for at least 12 months within a 24-month period before becoming unemployed; (b) having registered the unemployment with a social insurance organization; and (c) having not yet found a job within 15 days after the date of making unemployment registration with the social insurance organization.

4. Performance and Evaluation

Coverage

According to the Labor and Employment Survey 2010, the employed population numbered 49.1 million and wage workers numbered 17 million. Meanwhile, the sample enterprise survey of labor, wage, and social insurance, conducted annually by MoLISA, showed that the number of wage workers with labor contracts of at least 12 months accounted for 86.4% of total wage workers. Assuming that this rate is also true for the other economic sectors, it can be estimated that the legal coverage of UI would be 14.7 million workers in 2010.

Therefore, the actual coverage of the UI Law is not high at 48.0% of the legal limit, which is mainly because the UI law had only been implemented in 2009. Hence, it will take time to extend the coverage.

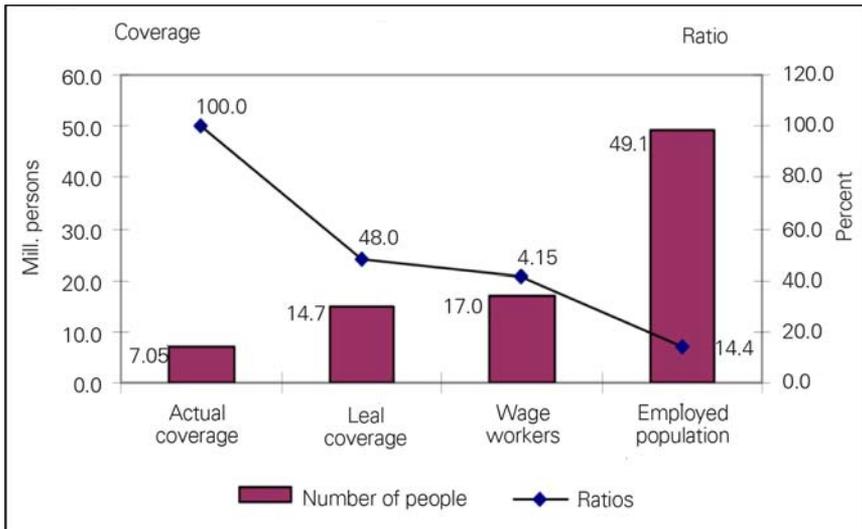


Figure 7-3. Indicators of insured workers in 2010. From *Unemployment Insurance 2011*, by BoE/MoLISA, 2011; *Enterprise Survey of Labor, Wages and Social Insurance*, by MoLISA, 2011; and *Labor and Employment Survey 2010*, by GSO, 2011.

Over the 2009-2011 period, the forecast for this process seemed to be optimistic. At the end of 2009, the law covered around 5,993 thousand workers. In 2010, this coverage increased to 7,055 thousand people, and by August 2011 more than 7,672 thousand workers were covered by the law. In other words, the expansion of coverage has gone rather well.

Moreover, it should also be noted that due to current UI law, only wage earners with labor contracts and employment contracts of at least 12 months are covered; hence, a very large number of wage earners in particular and employed population in general are excluded by the UI Law.

The coverage is not very large, but it has expanded at a relatively high tempo. As a result, the amount of contributions has also increased over time. The amount of contributions was 2,340 billion VND in 2009. In 2010, it reached 3,672 billion VND, an increase of 56.9%

Table 7-4. *Revenue of UI Contributions*

	2009		2010	
	Participants (person)	Contribution (mill. VND)	Participants (person)	Contribution (mill. VND)
State agency-party-union	998,415	429,882	1,511,202	986,170
Commune, ward and town	2,545	681	11,268	3,685
Non-public organization	89,629	23,582	109,168	40,480
State enterprise	1,254,717	523,624	1,277,320	672,547
FDI enterprise	1,704,134	743,630	1,940,273	1,008,484
Non-state enterprise	1,909,726	611,470	2,172,747	896,899
Cooperative	26,011	5,598	28,687	8,206
Cooperative group, household running business activities	6,282	1,469	3,017	742
Other organizations/ individuals	365	86	1,259	654
Total	5,993,300	2,340,022	7,054,962	3,672,833

Note. Adapted from data in the report of VSI and BOE (MoLISA).

compared with that in 2009. For the first eight months of 2011, the amount of contributions was 2,896.3 billion VND, an increase of 48.7% compared with that in the same period of 2010. Obviously, contributions mainly come from the enterprise sector and the public sector, accounting annually for around 98% of total contributions.

The Beneficiaries

Unemployment registration. According to the UI Law, insured workers are only entitled to unemployment allowance in case they have contributed at least 12 months within 24 months before becoming unemployed. Because the UI Law was only implemented in early 2009, there was no unemployment registration that year. Since 2010, UI payments have been initiated.

For 2010, the total number of unemployed workers registered under UI was 285,506 people. Separately, around 147,570 unemployed workers were registered under UI in September 2010. This figure grew to

271,468 in September 2011. In other words, the number of registered unemployed nearly doubled over 12 months, and each month 30,163 people registered for UI in 2011.

Beneficiaries receiving monthly UI allowance. In accordance with trends in unemployment registration, the number of workers who have made the decision to receive an unemployment allowance and job counseling have also increased, concentrated mainly in the months that fall in the middle of the year. In 2010, the total number of insured workers entitled to a monthly unemployment allowance was 156,765. Separately, the number of insured workers entitled to a monthly unemployment allowance was 17,343 in June 2010, and this figure reached 32,161 in June 2011. Some large cities and emerging provinces such as Ho Chi Minh City, Binh Duong, Dong Nai, and Ha Noi have larger numbers of UI applicants. More of them received a monthly unemployment allowance as compared to those in other less developed cities and provinces.

Therefore, the difference between beneficiaries who received a monthly UI allowance and registered unemployed workers is not high. In 2010, the rate was 54.9%. Compared with the total number of unemployed in 2010, the number of beneficiaries receiving a monthly UI



Figure 7.4. Unemployment registration from January 2010 to September 2011. Adapted from data in the report of VSI and BOE (MoLISA).

allowance just accounted for 11.1%. The low rate of beneficiaries receiving monthly UI allowances in comparison with the number of registered unemployed workers implies that there is a large number of registered unemployed workers receiving lump sum allowances of UI and

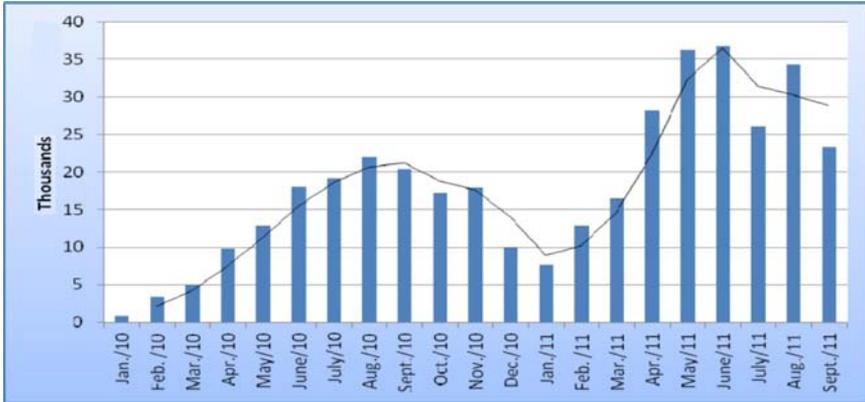


Figure 7-5. Unemployed workers receiving monthly unemployment allowance from January 2010 to September 2011. Adapted from the data in the report of VSI and BOE (MoLISA).

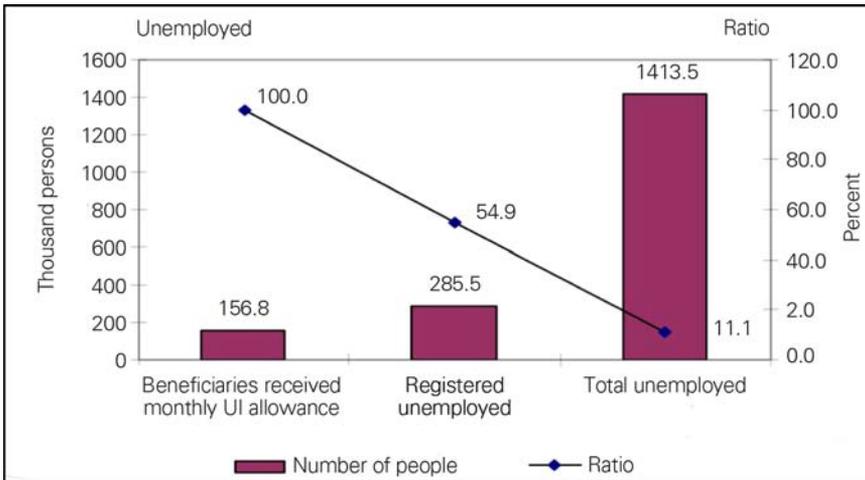


Figure 7-6. Unemployed workers receiving a monthly UI allowance and ratios in 2010. Adapted and calculated from various sources of VSI, BOE (MoLISA).

job promotions.

Nonetheless, the situation seems to have improved. In February 2011, the rate of beneficiaries receiving monthly UI allowances out of the total number of registered unemployed workers was 78.4%. The reasons that may explain this situation include: (a) the unadequate awareness of agencies, organizations and enterprises of the important role of UI policies; (b) employers and employees who do not fully capture the information and basic requirements of unemployment registration and other procedures of UI entitlement; (c) the procedures for UI entitlement being rather complicated with low technical assistance; (d) the existence of some cases of abuse. Regarding the latter, when some insured workers have enough conditions to benefit from an UI allowance, they temporarily terminate their jobs to register for UI and look for new jobs with better pay.

Apprenticeship supports. According to the administrative reports of UI agencies, vocational training units are ready to receive unemployed workers if they submit vocational training applications. However, the number of participants has been very low. There were only 270 cases over 12 months in 2010. In September of 2011, there were 93 cases, accounting for 0.35% of the total registered unemployed.

There are many reasons for this situation, that include: (a) although

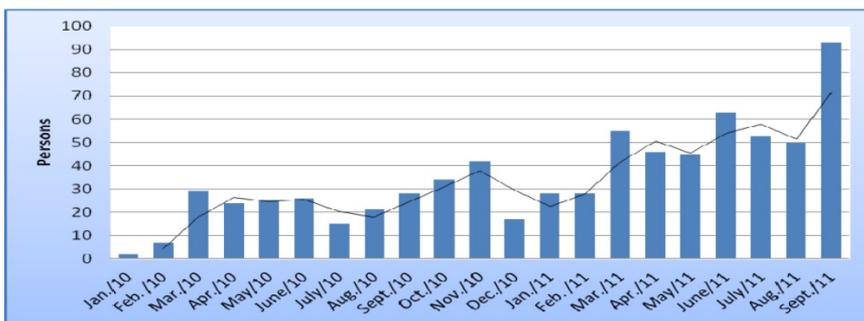


Figure 7-7. The trend of unemployed workers receiving apprenticeship support from January 2010 to September 2011. Adapted and calculated from data in the report of VSI and BOE (MoLISA).

the demand for labor is high, most enterprises only need manual workers or skilled workers with a salary equivalent to manual workers; (b) the unemployed workers are motivated to get a job as soon as possible because they need to earn income when they do not have any savings; (c) the support level of vocational training is low, short-time courses do not attract many workers, and the quality of training does not meet their requirements. Under current regulations, during the time of unemployment, the unemployed are supported to participate in vocational training at an elementary level for a maximum period of 6 months with monthly aid up to 300,000 VND (approximately 15 USD); thus, the low level and short-time support cause difficulties for workers in switching careers or improving their qualifications to find new jobs with better conditions; and (d) workers who have abused UI policies in order to receive an unemployment allowance or change workplaces do not create a demand for vocational training.

Job counseling and support for job searches. Getting job counseling and job search support are key functions of UI policies that should enable workers to reenter the labor market quickly. However, the rate of unemployed workers receiving job counseling and job search support is not very high in Vietnam. In 2010, around 125,562 registered unemployed workers were supported by this service, accounting for 66% of the total registered unemployed. Still, in the first nine months of 2011, this rate increased to 73.4%.

The provincial Employment Service Centers (under DoLISAs) formally and directly provide job counseling and job search services for unemployed workers. After receiving the decision of the Director of DoLISAs on unemployment allowance entitlement for the registered unemployed, the centers have a duty to counsel them and help them find jobs during the time they are entitled to unemployment allowance. However, it should be noted that most clients are new labor market entrants who are mostly unskilled.

Health insurance supports. As stipulated,⁹ monthly health insurance premiums for those who receive an unemployment allowance are a maximum equivalent of 6% of the monthly unemployment allowance. Participants in the health insurance system in general and those unem-

Table 7-5. *Job Counseling and Seeking for Registered Unemployed from January 2010 to September 2011*

Month	Number of unemployed receiving job counseling and help for job searches (1000 people)	Rate of unemployed receiving job counseling and help for job searches in total of registered unemployed (percent)
2010	125,562	66,22
Jan	1,57	26,68
Feb	1,02	18,61
Mar	3,67	27,26
Apr	6,47	35,07
May	11,66	58,43
Jun	14,93	77,56
Jul	19,42	78,49
Aug	17,14	78,68
Sept	14,23	76,48
Oct	13,23	75,71
Nov	12,66	87,08
Dec	9,58	95,58
2011	163,10	73,43
Jan	9,36	54,34
Feb	9,24	52,87
Mar	12,36	35,66
Apr	17,92	48,45
May	24,97	62,13
Jun	26,01	73,08
Jul	22,79	68,56
Aug	23,89	80,61
Sept	16,57	62,59

Note. Adapted from data in the report of VSI and BOE (MoLISA).

9 Item of the Provision 1, Article 13 of the Health Insurance Law.

ployed in particular have the right to register for an initial examination and treatment in the medical examination and treatment units at the commune and district levels or the equivalent. In case of emergency, they can be examined and treated at any medical examination and treatment unit; there, patients must present their health insurance card before leaving the health care units. In case of needing to be upgraded to another treatment level, patients must have health insurance records of medical examinations and treatments. The cost for treatment and examination of the unemployed is paid by the health insurance fund with an amount equal to 80% of total fees. Every month, the Social Insurance Agency pays a health insurance premium for those unemployed who are entitled to a monthly unemployment allowance.

Nevertheless, it should be mentioned that only for the duration of receiving the unemployment allowance are the unemployed able to receive health insurance. From the time when workers lose their jobs to the time when they are approved to receive an unemployment allowance, they are not entitled to receive such benefits. Furthermore, there is no regime of funeral support for the workers who have died during the time of the unemployment allowance entitlement.

Unemployment Insurance Payments

In 2010, the UI fund paid 435,8 million VND of unemployment allowances and other unemployment supports for insured unemployed workers. This payment amount equals an 11.9% of the revenue from employee, employer, and state contributions to the UI fund in the same year.

Because of the current circumstances in the labor market in which the demand of unemployed for vocational training and job search support has not been very large, expenses for vocational training, job counseling, and job finding services for those registered unemployed have still been modest. Most payments from the UI fund are for un-

Table 7-6. *UI Payments in 2010*

Items	Payment (mill. VND)	Share (percent)
Unemployment allowance	391,655	89.87
Vocational training support	37	0.01
Job search support	7,131	1.64
Other expenses	36,963	8.48
Total payments	435,786	100.00

Note. From VSI.

employment allowances. In 2010, this type of payment accounted for 89.87% of total fund expenditures.

5. Conclusions and Implications

Conclusions

Due to Vietnam's prevailing low level of economic development, its living standards are not high. Thus, the social protection system is insufficient to ensure a minimum level of living standards for unemployed workers. Consequently, the Vietnamese people often accept any kind of work to support themselves and their own families, usually in the informal sector with its typical low income and instability.¹⁰ On the other hand, economic growth for the past 10 years has remaining modest, mainly relying on increasing investments and labor-intensive modality, low labor productivity and especially the contribution of the productivity of the total factors.¹¹ Hence, the Vietnamese labor market

¹⁰ According to the French Institute of Research and Development (IRD), the informal sector in Vietnam accounted for a large number of workers and has shown an increase in the last few years according to a paper presented at the 2009 workshop on the informal sector in Vietnam.

¹¹ As cited in ILSSA(2010), Report on Social and Labor Trends in Vietnam, 2010-2011 period.

has the following typical characteristics:

- Both the LFPR and the rate of employed workers in the labor force are high. However, productivity is low and workers are mainly concentrated in agriculture and in the informal sector in manual jobs.
- The national unemployment rate is low, yet unemployment among youth remains a big issue, and the rate of long-term unemployment (one year or more) is quite high.

Vietnam has formulated policies on severance and jobless assistance for unemployed workers, and they partially meet the target of stabilizing the living standards of these workers and creating appropriate job opportunities. The development process involved in Vietnam's UI policy has been in force since 2009.

At present, Vietnam has formulated a UI system operated by the state. The private UI system has not yet been established. MoLISA is responsible for the UI administration and labor management, job introduction, and vocational training for unemployed workers. VSI is responsible for collecting, spending, and managing the UI fund.

Moreover, the system has only served a low range of Vietnam's labor market. Informal workers and workers with labor contracts or employment contracts of less than 12 months are excluded by the law. Consequently, the number of insured workers is not very large; thus, the number of recipients is small due to the rather stable and secure employment of workers with labor contracts of at least 12 months.

Furthermore, supports for vocational training seem not to be adequate for the demand of the unemployed. This level of support needed is not quite affordable for helping unemployed workers upgrade their qualification to meet better job requirements. Therefore, attending vocational training courses now is not very attractive to the unemployed.

During the days of waiting for unemployment allowances, the unemployed are not entitled to health insurance. This stipulation has cre-

ated difficulties for them in case health issues have befallen them in that waiting period. Moreover, during the unemployment period, they are not entitled to funeral benefits, also creating difficulties for unemployed workers who have contributed for a long time to social insurance.

Implications

In its three years implementation period, the law on UI has brought many benefits to insured workers and identified its important role in the social security system, especially in the context of the economic recession. However, the law itself and the way it is implemented have also exposed some shortcomings that need to be refined, including:

- Guidelines on UI Law implementation must be issued in a timely way to support the implementation of the Law such as how to identify employees who are undergoing adjustments in the current Law, particularly for a group of civil servants not yet assigned as “cong chuc”.
- Vietnam has a large number of small enterprises that employ fewer than 10 workers. The current Law does not cover this type of enterprise; hence, those workers have no chance of being insured under the UI law. Furthermore, this problem has especially emerged in the context of the economic recession. Some firms have narrowed their labor size; consequently, workers last year benefited from the UI law but this year are not protected.
- One among many purposes of the UI Law is risk sharing, but some stipulations in the law do not seem to follow this purpose. For example, the law stipulates that in case unemployed individuals have received an unemployment allowance and found a new job, they will get a lump sum for the remaining allowance that they would have received in case they continued to be unemployed. Therefore, the insured workers will get two income sources, one from the UI fund and the other from the new job.

- According to the current UI Law, insured unemployed workers are not provided with health insurance during the time they are waiting for their unemployment allowance even though they fully contributed to the UI fund before they experienced unemployment. Therefore, this stipulation should be refined.
- The low rate of the unemployed who registered for apprenticeship supports over the last two years has implied that the supports need to be improved and the quality of vocational training should be improved as well.
- The large gap between actual and legal coverage raises a question about strengthening communication and propaganda involving UI policies as well as enhancing the inspection activities on UI in particular and social insurance in general.

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Abbreviations and Acronyms

BoE	Bureau of Employment
DoLISA	Department of Labour, Invalids and Social Affairs
GSO	General Statistical Office
ILSSA	Institute of Labour Science and Social Affairs
LFPR	Labour force participation rate
MoLISA	Ministry of Labour, Invalids and Social Affairs
SIL	Social Insurance Law
UI	Unemployment Insurance
UIA	Unemployment Insurance Agency
VSI	Vietnam Social Insurance
VND	Vietnam Dong
WTO	World Trade Organization

Chapter 8

Unemployment Insurance in India

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1. Introduction

Open unemployment, especially among youth, is emerging as a major concern in India. Although the unemployment rate may be lower than what has become the norm in developed economies, the number of unemployed is significant in absolute terms. The issue of increasing unemployment among this group is critical given that India is poised to reap the benefits of a “demographic dividend”: an increasing share of the working age population. Nonetheless, the specter of rising youth unemployment threatens to turn the demographic dividend into a demographic curse. In addition, the threat of an erupting social crisis is ever present if high unemployment rates persist, perpetuating labour market inequalities.

In a broader sense, two approaches could be considered to provide income security to the unemployed: provision of cash transfer or provision of employment through public work programmes. The choice is often made by considering the magnitude of target groups, resources at the government’s disposal, the question of effective targeting, and the nature of unemployment. For instance, it is argued that unemployment

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insurance (UI) is best suited to address cyclical or frictional unemployment, rather than structural unemployment or when the demand for work is exceptionally high. By the same logic, public work programmes that facilitate the creation and improvement of both infrastructure and labour market participation are best suited for developing countries. These evolve from the Keynesian proposition to address unemployment following recession or in economies short of full employment, either “by *more* public works or *better distributed* public works depending on the level of economic activity” (Tcherneva, 2008).

In India, the magnitude of open unemployment has been a major deterrent to the adoption of a universal social insurance against unemployment. The problem is compounded further by the relatively small size of formal or organized sector employment, which has a modicum of insurance provisions against unemployment. Instead of decreasing over time, the size of informal sector employment has increased, and was estimated to be around 92% in 2009-2010. Rather than providing a universal safety net in the form of direct transfer payments, the government has prioritized the stimulation of employment growth. Labour market interventions undertaken by the government include promotion of self-employment by providing technical, financial, and organizational support as well as extending financial incentives to tide over the temporary loss of income due to unforeseen contingencies like natural disasters.

A significant development was the introduction of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2005, which makes the provision of employment statutory. The scheme provides for the enhancement of the livelihood security of households in rural areas of the country by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer for unskilled manual work. UI is built into the scheme through the right of a beneficiary to claim unemployment allowance if a person who has applied for work under

MGNREGA is not provided employment within 15 days from the date on which work was requested.

In addition to this rights-based scheme, the government also extends health insurance to households below the poverty line under Rashtriya Bima Swasthya Yojana (RSBY). The scheme provides smart card-based cashless health insurance coverage up to Rs.30,000 annually to workers below the poverty line in any empanelled hospital in the country. RSBY assumes tremendous significance given that ill health has been found to be one of the most important causes for low productivity, low earnings, and disguised unemployment in India. Health insurance even at a minimal level will bolster the employment capacity of the population as well as enhance productivity and income.

Of course, some limited attempts have been made to provide UI at the provincial and the national level. For instance, among the Indian states, Kerala has a high unemployment rate (as per Usual Principal Status [UPS]) of 8.8% in comparison with 2.5% at the all India level in 2009-2010. This state has initiated an UI scheme that provides a very nominal unemployment allowance. At the national level, Rajiv Gandhi Shramik Kalyan Yojna, launched by the Employees' State Insurance Corporation (ESIC) in 2005, aims to provide unemployment allowances for the employees covered under the ESI scheme who are rendered involuntarily jobless due to retrenchment/closure of a factory or a permanent disability arising from a non-employment injury. Eligible workers under the scheme are entitled to a daily allowance as well as expenses towards medical care for self and family during the period of unemployment for up to six months. To take advantage of these benefits, the insured person has to have contributed under the ESI scheme for a minimum period of three years. The daily rate of unemployment allowance is calculated on the basis of the average daily wage drawn by the insured person during the last four completed contribution periods immediately preceding the date of unemployment. The maximum period for which an insured person is entitled to draw an unemployment

allowance is 12 months. The allowance can be availed in one stretch of time or in different periods of not less than one month. During the first half of the financial year 2011-2012, around Rs. 9.3 million was paid as unemployment allowance to workers. It is with this broad perspective that this paper attempts to explore the different dimensions of UI in the Indian context. We begin this paper by providing a brief account of the data sources available in India to assess employment and unemployment situation. Subsequently recent trends and patterns in the labour market situation are provided as a background for analyzing existing schemes that provide unemployment assistance and limited insurance against unemployment.

2. Features of the Labour Market

This section provides an overview of the labour market situation in India. Key indicators of the labour market, such as labour force participation rate (LFPR), work participation rate (WFPR), unemployment rate, and sectoral distribution of employment generation are examined to situate unemployment and UI in perspective.

Labour Force and Workforce Participation Rates

In the period from 2004-2005 to 2009-2010, a sharp decline was witnessed in the labour force¹ as a percentage of the total population. LFPR declined by 3%, from 43% in 2004-2005 to 40% in 2009-2010. It has been argued that increased participation of the population in education and the enhanced income of workers over the years have led to a declining overall LFPR. As noted in Figure 8-1, the decline was

¹ Labour force refers to the part of the population that supplies or offers to supply labour, or is pursuing economic activities for the production of goods and services, and therefore includes both *employed* and *unemployed*.

Box 8-1. Data Sources and Concepts to Measure Employment and Unemployment in India

Two major data sources are available to assess the employment and un-employment situation in India: Employment-Unemployment Surveys conducted by the National Sample Survey Organisation (NSSO) and the Population Census conducted by the Registrar General and Census Commissioner of India. Because Census taking in India is decadal and the year for which complete data is available pertains to as far back as 2001, we have relied on quinquennial Employment and Unemployment Surveys conducted by the NSSO for this paper. The NSSO collects data on employment and unemployment using three broad measures or approaches: Usual Status; Current Weekly Status; and Current Daily Status.

- **Usual Status** relates to the activity status of a person during the reference period of the last 365 days preceding the date of survey. The activity on which a person spent a relatively longer time (major time criterion) is considered the Usual Principal Status (UPS). To decide the usual principal activity status of a person, a two-stage classification is used to determine the broad activity status (e.g., employed, unemployed and out of labour force), within which the detailed activity status is determined depending on the relatively longer time spent in the activities. Besides the usual principal activity status, a person could have pursued some economic activity for a shorter period of not less than 30 days, which constitutes the subsidiary economic activity status of that person. These two taken together provide the measure of Usual Principal and Subsidiary Status (UPSS); that is, usual status.
- **Current Weekly Status (CWS)** of a person is the activity status obtained for him/her during a reference period of 7 days preceding the date of survey. According to this concept, a person is considered a worker if he/she has performed any economic activity for one hour at least on any day of the reference week; his/her CWS is determined on the basis of daily activities performed on each day of the reference period.
- **Current Daily Status (CDS)** of a person is determined on the basis of his/her activity status on each day of the reference week using a priority-

cum-major time criterion (day-to-day labour time disposition). Broadly, a person is considered working (employed) for the full day if he/she worked for four hours or more during the day.

The employment and unemployment surveys of the NSSO also provide information on the nature of employment. Accordingly, a worker is categorized into regular salaried/wage employee, casual worker, and self-employed.

- **Regular Salaried/Wage Employees** are those who work in others' farm or non-farm enterprises (both household and non household) and in turn receive salary or wages on a regular basis. This category includes not only persons getting time wages but also persons receiving piece wages or salary and paid apprentices, both full time and part-time.
- **Casual Wage Labour:** A person who is casually engaged in others' farm or non-farm enterprises (both household and non-household) and, who in return, receives wages according to the terms of the daily or periodic work contract.
- **Self-employed:** Persons who operate their own farm or non-farm enterprises or are engaged independently in a profession or trade on their own account or with one or a few partners are deemed to be self-employed. Self-employed persons are further categorized as follows:
 - **Own-account workers:** Those self-employed persons who operate their enterprises on their own account or with one or a few partners and who, during the reference period, by and large, run their enterprise without hiring any labour.
 - **Employers:** Those self-employed persons who work on their own account or with one or a few partners and, who, by and large, run their enterprise by hiring labour.
 - **Helpers** in household enterprises: Those self-employed persons (mostly family members) who are engaged in their household enterprises, working full or part time and who do not receive any regular salary or wages in return for the work performed. They do not run the household enterprise on their own but assist the related person living in the same household in running the household enterprise

sharpest for females in rural areas. However, it should be clarified that women's participation in the Indian labour market is generally low due to a variety of reasons, such as non-recognition of women's work, particularly their contributions in the household, and social and cultural factors that discourage female participation in economic activities, to mention a few. The decline noted in the LFPR during 2009-2010 is well reflected in the WFPR. As indicated in Figure 8-2, the WFPR of females had a steep decline in this period; in absolute terms it was approximately 1.8 million in urban areas and approximately 19.5 million in rural areas during the reference period. In absolute terms, the workforce increased from 457.9 million in 2004-2005 to 459.0 million in 2009-2010.

A positive feature of the employment situation in the recent period is an increase in principal status employment and a decline in subsidiary status employment. As noted in Table 8-1, the disaggregation of total employment indicates that although there was a decline in female em-

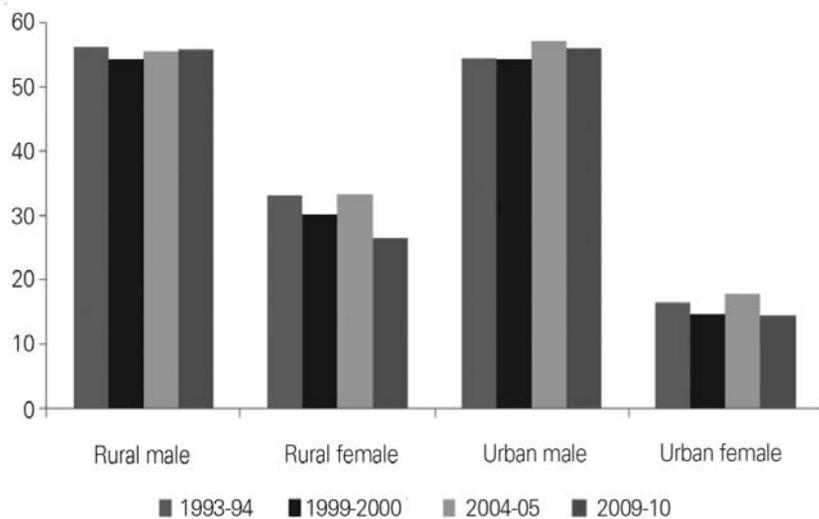


Figure 8-1. Labour force participation rate: UPSS (%). Based on NSSO *Employment-Unemployment Survey*, various years.

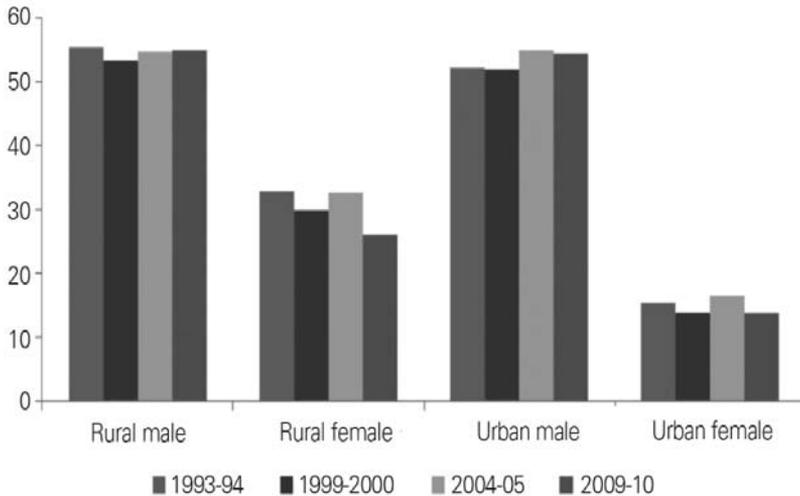


Figure 8-2. Work force participation rate: UPSS (%). Based on *NSSO Employment-Unemployment Survey*, various years

ployment, the rate of decline was much higher in the subsidiary status employment for women. In the case of male employment, although subsidiary status employment declined by 3.7% per annum, principal status employment grew by 1.5% per annum between 2004-2005 and 2009-2010. The overall increase in principal status employment was 0.61% per annum during the same period, which is significantly higher than the growth rate of total employment based on usual status.

A jump in principal status employment would also mean enhanced intensity of employment: increasingly larger numbers of workers were able to get employment for a major part of the year rather than working as subsidiary status workers (i.e., for a smaller part of the year). It has been widely noted that the high employment growth during 1999-2000 to 2004-2005 was caused mainly by the phenomenal increase in the subsidiary status employment of the female workforce. In contrast, whatever employment growth occurred during 2004-2005 to 2009-2010 was largely caused by the growth in principal status workers.

Table 8-1. *Compound Annual Growth Rates of Employment, 2004-2005 to 2009-2010*

	UPS*	SS **	UPSS***
(%)			
Rural			
Male	1.22	-1.84	1.16
Female	-2.38	-6.38	-3.36
Persons	0.20	-5.78	-0.38
Urban			
Male	2.15	-11.65	2.00
Female	-0.20	-8.19	-1.51
Persons	1.74	-8.91	1.29
Rural + Urban			
Male	1.50	-3.71	1.41
Female	-1.98	-6.60	-3.05
Persons	0.61	-6.19	0.05

Note. * Measured as usual principal status; ** measured as only subsidiary workers; *** measured as Usual Principal and Subsidiary Status. Based on *NSSO Employment-Unemployment Survey*, various years.

Nature of Employment

Trends in the nature of employment also indicate an increased intensity of work. From 2009-2010 data, the proportion of workers engaged as *regular* workers reached an all-time high of 15.8% of the total workforce. The proportion of regular employment increased at the cost of both the *self-employed* and *casual* workforce (Figure 8-3). Past employment trends indicate that up to 1999-2000, there was an increasing casualization of the workforce mainly at the cost of self-employed workers. Nonetheless, the process of casualization was arrested during the first half of the last decade. From 1999-2000 to 2004-2005, an upsurge was witnessed in the numbers of self-employed instead of increased casualisation.

Despite the increased casualization of the workforce in 2009-2010 compared to that in 2004-2005, a significant increase in the proportion of the regular workforce, particularly in urban areas, is evident. The

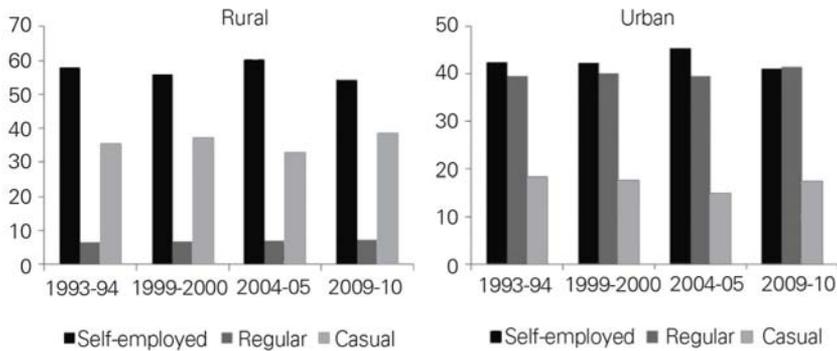


Figure 8-3. Distribution of workers by nature of employment (%). Based on *NSSO Employment-Unemployment Survey*, various years.

proportion of regular workers, which was more or less constant over the last 10 years, has increased by approximately 2% in urban areas. Normally, regular wage-paid workers have better quality employment and income security than workers who engage themselves in labour markets on a casual or self-employed basis. Hence, the increase in the proportion of the regular workforce essentially indicates increased employment intensity among workers through relatively secure job markets.

Sectoral Distribution of Workers

As indicated in Table 8-2, the primary sector continues to be the major employment provider, even though its share has decreased over the years, while that of the secondary sector and the services sector has had an increase. In 2009-2010, the contribution of agriculture to total employment declined by approximately 5% compared to that in 2004-2005. The share of the manufacturing sector also registered a slight decline in 2009-2010 over 2004-2005. The largest increase in the sectoral share of employment was noted in the construction sector. Between 2004-2005 and 2009-2010, employment generation in construction related activities increased by more than 4% (registering an annual

Table 8-2. *Share and Growth of Employment at Sectoral Level*

	Primary	Secondary	Construc- tion	Services	Total	(%)
Share						
1993-1994	64.75	12.43	3.12	19.7		
1999-2000	59.84	12.98	4.44	22.73		
2004-2005	58.44	12.59	5.59	23.38		
2009-2010	53.2	11.9	9.6	25.3		
Compound annual growth rate						
1993-1994 to 1999-2000	-0.41	2.06	8.57	4.12	1.17	
1999-2000 to 2004-2005	2.41	2.26	7.75	3.47	2.90	
2004-2005 to 2009-2010	-1.82	-1.07	11.48	1.64	0.05	

Note. Based on *NSSO Employment-Unemployment Survey*, various years.

growth of more than 11%).

Overall, the share of the services sector in total employment increased from less than 20% in 1993-1994 to more than 25% in 2009-2010. Within services, subsectors like hotel, restaurant and trade, transport, storage and communication, and the financial subsector have emerged as the major employing segments. Even during 2004-2005 to 2009-2010, when employment growth was minimal, these sectors registered a perceptible growth in employment. Given the limited capacity of the agriculture sector to generate additional employment and because the manufacturing sector is still trying to emerge from the economic slowdown, the role of construction and the services sector has become pivotal for generating future employment in the Indian economy.

The Unemployment Situation

For the first time since the 1990s, in 2004-2005 to 2009-2010, a sharp fall was recorded in unemployment rates, which is striking considering the low employment growth noted during the same period. As

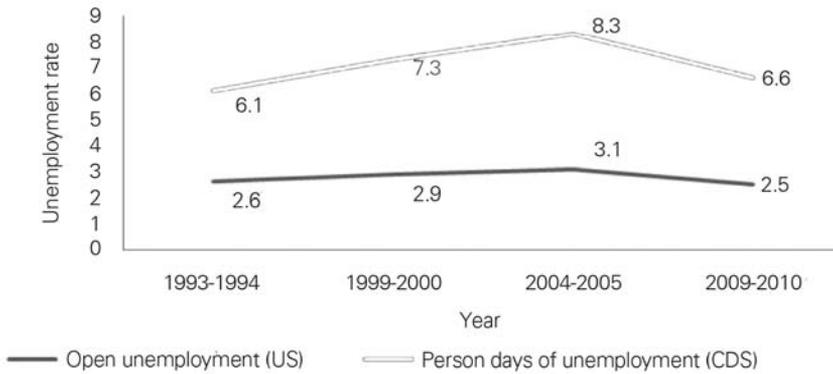


Figure 8-4. Unemployment rates over the years (%). Based on NSSO Employment-Unemployment Survey, various years.

indicated in Figure 8-4, the unemployment rate according to the Current Daily Status (CDS) fell from 8.2% in 2004-2005 to 6.6% in 2009-2010. Because the CDS approach measures the number of person-days in employed or unemployed categories, the decline in CDS unemployment rates implies that in absolute terms, the total number of unemployed person-days declined by 6.5 million persons, from approximately 34.5 million in 2004-2005 to 28 million in 2009-2010. In addition, estimates available of the chronically unemployed or open unemployment rate, measures like those in the principal status category, also indicate a declining trend during 2004-2005 to 2009-2010 by 0.6 percentage points. Obviously, the estimates of open unemployment rates are significantly lower than the unemployment rates estimated using CDS criteria.

Figure 8-5 indicates the trends in unemployment rates for different categories of workers. Obviously, the unemployment rate is high in urban areas, particularly for women. In 2009-2010, around 5.8% of urban women were unemployed, while in the case of rural women the rate was merely 1.6%. However, it needs to be noted that in the Indian economy prevalence of under-employment continues to be more of a critical problem than open unemployment.

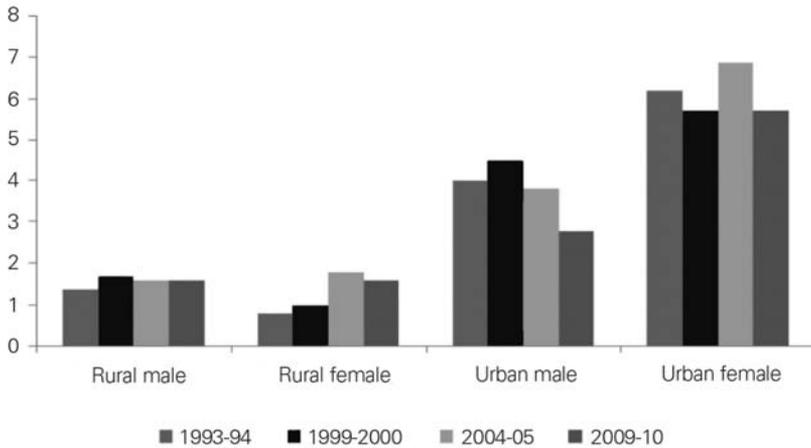


Figure 8-5. Unemployment rate in India: UPSS (%). Based on *NSSO Employment-Unemployment Survey*, various years.

The disaggregate analysis of unemployment across age groups and educational categories indicates the highest unemployment rates for those who have completed graduation and above: 9.7% (Table 8-3). Although the unemployment rates are lower for the youth population below the educational qualification of higher secondary, they can also possibly provide an indication of the kind of employment in which this group is involved: less remunerative and irregular employment. Trends in the youth unemployment rates also highlight the need to reconsider strategies to make the best use of India's *demographic dividend*.

The overall employment situation in the Indian economy presents a complex picture. Several arguments have been put forward to explain the situation. The existence of low unemployment rates alongside low employment growth is explained by the younger population opting to continue education (*education effect*); growth in wage rates resulting in certain sections of the labour force, such as children, women and older people, withdrawing from the labour market (*income effect*); and the non-availability of employment opportunities during an economic slow-down period leading to dropouts from the labour force (*discouragement*

Table 8-3. *Unemployment Rate among Youth Population in India by Education, 2009–2010: UPSS*

	15–24 yrs			25–29 yrs			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Illiterate	3.5	0.2	1.3	0.4	-	0.1	2.2	0.1	0.8
Below primary	3.8	0.3	2.1	0.5	-	0.2	2.7	0.2	1.3
Primary	3.7	0.8	2.3	0.7	0.3	0.5	2.8	0.6	1.7
Middle	3.3	1.0	2.3	1.2	1.2	1.2	2.8	1.0	2.0
Secondary	3.0	1.4	2.3	1.7	1.9	1.8	2.7	1.5	2.2
Higher secondary	4.6	3.6	4.2	4.6	5.1	4.8	4.6	3.9	4.3
Graduate & above	13.0	9.0	11.1	8.6	7.8	8.2	10.7	8.4	9.7
Total	4.1	1.7	2.9	2.5	1.7	2.1	3.6	1.7	2.7

Note. Based on *NSSO Employment-Unemployment Survey, 2009–2010*.

factor). The underlying trends in the labour market point to a likely increase in LFPRs in the coming years given the age structure of the Indian population. At the same time, the structure of employment generation in India continues to be problematic. In such a scenario, it is appropriate to explore the possibilities of UI in India and evaluate existing programmes that have features close to UI.

3. Structure of UI

As noted earlier, India does not have any scheme for UI per se similar to those existing in many developed economies. However, several programmes do exist to provide opportunities for gainful employment and thereby to promote inclusive growth. Employment generation and unemployment assistance schemes in India vary in terms of what they offer: from providing wage employment through public works programmes to promotion of self-employment and entrepreneurship through the provision of assets, skills, credit, and other support ser-

vices. Apart from the aforementioned provisions, other schemes extend social security coverage for the unemployed. The major programmes that generate employment currently operating in India are the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), Swarnajayanti Gram Swarozgar Yojana (SGSY), Swarna Jayanti Shahari Rozgar Yojana (SJSRY), the Prime Minister's Employment Generation Programme (PMEGP), and Rajiv Gandhi Shramik Kalyan Yojna. Apart from these scheme, RSBY provides security against ill health for poor households. Of the various programmes covered here, MGNREGA and RSBY are closest to UI coverage, while the others provide a certain amount of financial security for the unemployed.

Employment Generation Programmes Providing Unemployment Assistance

Swarnajayanti Gram Swarozgar Yojana (SGSY). SGSY is a self-employment programme for the rural poor. The basic objective of SGSY is to bring poor families (*swarozgaris*) above the poverty line by providing them with income-generating assets or extending bank credit and governmental subsidies to establish micro enterprises. To facilitate the process, the programme helps to form Self Help Groups (SHGs) for the poor, enhances their capacity by providing training, and also extends financial, technical, and marketing support to micro enterprises.

SGSY has had a significant impact on improving the economic and social well-being of the poor and the disadvantaged, especially in backward regions of the country, as noted in Figure 8-6. Since its inception, 4.1 million SHGs have been formed in rural areas and almost 70% of those are women's groups. It is also striking that nearly 60% of the total *swarozgaris* assisted to date belong to the Scheduled Castes (SCs) and Scheduled Tribes (STs), marginalized sections of Indian society.

Swarna Jayanti Shahari Rozgar Yojana (SJSRY). This scheme was conceived to tackle the issue of rising urban unemployment and

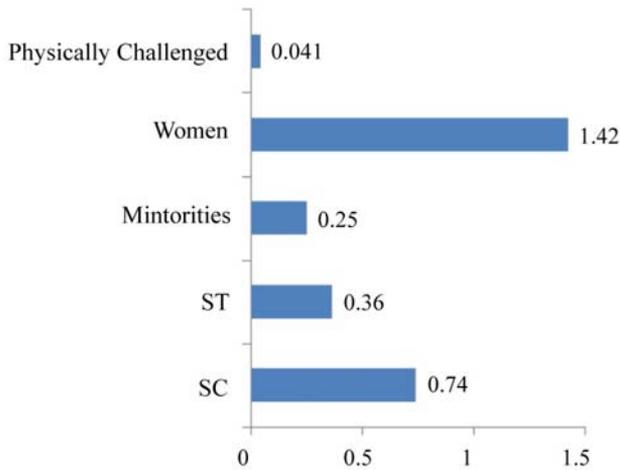


Figure 8-6. Achievements under SGSY during 2010-2011 (in million). Data from Ministry of Rural Development, Government of India.

underemployment, especially among the youth. The programme provides gainful employment to the urban unemployed and underemployed poor by encouraging the setting up of self-employment ventures and by providing wage employment through the construction of socially and economically useful public assets. SJSRY has five components: the Urban Self-Employment Programme (USEP), which targets the individual urban poor for the establishment of micro enterprises; the Urban Women Self-help Programme (UWSP), which targets urban poor women's SHGs for setting up group enterprises and providing them assistance through a revolving fund for thrift and credit activities (T&CS); Skill Training for Employment Promotion amongst Urban Poor (STEP-UP), which targets the urban poor for imparting quality training to enhance their suitability for self-employment or better salaried employment; the Urban Wage Employment Programme (UWEP), which seeks to assist the urban poor by providing employment in public works; and the Urban Community Development Network (UCDN), which seeks to assist the urban poor in organizing themselves into self-

managed community structures to gain collective strength to address the issues of poverty and participate in urban poverty alleviation programmes. It is worthwhile to note that the achievements of all the components have surpassed their targets (Table 8-4). Although the number of programme beneficiaries may be insignificant when compared to the overall size of the urban labour market, the programmes are increasingly providing opportunities to urban youth to emerge as job providers rather than remaining as job seekers.

Prime Minister's Employment Generation Programme (PMEGP). PMEGP is a credit-linked subsidy programme for the generation of employment opportunities through the establishment of microenterprises in rural and urban areas. The scheme targets the generation of 0.37 million employment opportunities during the 11th Five Year Plan (2007-2012). The specific objectives of the programme are to generate employment opportunities by setting up self-employment ventures/projects/micro enterprises; and to bring together widely dispersed traditional artisans/unemployed youth and provide them with self-employment opportunities to the greatest extent possible, in their hometown, thereby also checking distress migration. In 2010-2011, 48,023 projects were completed under the programme.

Table 8-4. *Targets and Achievements under SJSRY*

Component-wise beneficiaries	2010-2011	
	Targets	Achievements
No. of beneficiaries assisted for setting up Individual Micro Enterprises (USEP)	25,000	82,648
No. of beneficiaries assisted for setting up Group Micro Enterprises (UWSP)	25,000	74,355
No. of beneficiaries assisted through Revolving Fund for T&CS (UWSP)	50,000	0.18 million
No. of beneficiaries provided skill training (STEP-UP)	0.2 million	0.25 million

Note. Data from Ministry of Housing and Urban Poverty Alleviation, Government of India.

Employment Generation Programmes Providing UI

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). As noted earlier, MGNREGA has several features that function as social security against unemployment. With the objective of enhancing the livelihood security of people, MGNREGA guarantees 100 days of wage employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work. Thus, MGNREGA makes the government legally accountable for providing employment to those who ask for it and thereby goes beyond providing a social safety net towards guaranteeing the right to employment. If any worker who has applied for work under MGNREGA is not provided employment within 15 days from the date on which work is requested, an unemployment allowance shall be payable by the state government at the rate prescribed in the Act. The Act also prescribes provision of employment within a radius of 5 kilometers of the Panchayat; otherwise the workers are entitled to claim extra wages. These rules facilitate the reduction of distress migration, an important feature of the current labour market situation in India. The programme is expected to correct certain labour market inequalities, for instance gender-based segregation, by making mandatory provisions, such as that one-third of the participants should be women. The Act guarantees equal wages for men and women and also provides worksite crèches to enable women with young children to strengthen their participation in the labour market. To remove social inequalities in the labour market and to make the growth process more inclusive, the Act also prescribes higher participation of socially excluded groups like SCs and STs. Apart from providing social security MGNREGA envisages the improvement of the livelihood of rural people by environmental conservation. The scheme provides for the financial inclusion of a significant number of socially and economically vulnerable sections of the population. The major achievements under MGNREGA during 2010-2011 are highlighted in Box 8-2.

Box 8-2. MGNREGA Performance Highlights, 2010–2011

Employment provided to households (in millions)	54.7
Person-days of employment (in millions)	2566.4
Total works taken up (in millions)	5.1
Works completed	2.6
Works in progress	2.5

Note. Data from Ministry of Rural Development, Government of India.

Rashtriya Swasthya Bima Yojana (RSBY). As indicated in a previous section, the share of informal sector workers is high in India, and they are excluded from the coverage of social security provisions, including ill health and accidents. Evidence indicates that expenditure on health care is a major factor responsible for pushing households into poverty. An estimate for 2004–2005 shows that around 39 million people, or 3.6% of the Indian population, fall into the poverty trap due to out of pocket (OOP) health care expenditures (Sakthivel & Karan, 2009). A high proportion opts not to seek medical care because they cannot afford the high health care costs (Sakthivel & Karan, 2009; Yip & Mahal, 2008). Such reluctance to seek care is not surprising, for studies indicate that in India, health care expenditures are overwhelmingly financed through individual OOP payments with the government contribution being just 1% of the gross domestic product (GDP) (Mahal, 2010; Shiva Kumar et al., 2011).

RSBY was introduced in 2008 to provide financial security to individuals in households below the poverty line (BPL) in terms of health expenditures arising out of hospitalization. The programme plans to cover an estimated 6 million BPL households spread across 600 districts in the country in a phased-in manner. The eligible enrolled households (with a maximum limit of five members) are entitled to an

annual health insurance of Rs.30,000, covering hospitalization, day-care treatment and related tests, consultations and medicines, as well as pre- and post-hospitalization expenses, for some 700 medical and surgical conditions and procedures. There is also a provision for transport allowance subject to a cap of Rs. 1,000 per year. An insurance company, selected through a process that involves the submission of tenders, receives an annual premium per enrolled household from the government. Insurance premiums not exceeding Rs.750 per household are subsidized by the central and state governments at a 75/25 ratio. (The beneficiary household only pays an annual registration fee of Rs.30.) For better coverage, widespread information and education campaigns were initiated prior to the launch of RSBY. Table 8-5 summarizes the main features of the programme.

Under RSBY, the identification of eligible individuals/house-holds is made on the basis of lists of BPL households prepared by state governments for the purpose of targeting various public services, particularly the public distribution system. Enrollment of households is conducted through village level camps organized by the selected insurer (insurance company) for the district. The date and location of starting the enrollment process are publicized in advance. Mobile stations are set up at local centres (e.g., public schools). The smart card (loaded with biometric information of the members of the household, along with an information pamphlet describing the scheme and the list of hospitals) is printed and provided on the spot once the beneficiary has paid the fee of Rs. 30 (US\$ 0.6). More than 7,000 hospitals (5,000 private and 2,000 public) from across the country have been empanelled under the RSBY scheme. When an insured member visits an empanelled hospital, the card is swiped and the specified cost of the procedure is deducted from the Rs.30,000 total on the card. Transport costs are to be paid by the hospital to the patient in cash. A receipt is supposed to be printed and provided to the member.

Table 8-5. *Key Parameters of RSBY*

Parameter	Description	Additional comments/caveats
Benefits covered	Cost of hospitalization for 725+ procedures at empanelled hospitals up to Rs. 30,000 per annum per household plus Rs. 100 transport cost per visit up to Rs. 1000.	Pre-existing conditions are covered; minimal exclusions; day surgeries covered
Eligibility criteria	Must be on the official state BPL list; limited to five members of the household, including household head, spouse and three dependents	All enrolled members must be present to be enrolled; infants are covered through mother
Premium and fees	Rs. 30 registration fee per household per annum paid by household Per household premium payment determined through competitive bidding process	Average premium for active districts is around Rs. 560
Policy period	One year starting the month after first enrollment in a particular district	Enrollment can take place over four months
Financing	75%/25% Government of India/state government	The ratio is 90%/10% in Northeast states and Jammu and Kashmir

Note. From Palacios, 2010.

Although RSBY does not provide insurance against unemployment per se, several features of the scheme could be equated to providing security against unemployment:

1. The scheme covers the most vulnerable workers, particularly from regions generally left out by insurance agencies. For instance, since inception, the programme was extended to include building and other construction workers registered with the welfare boards constituted under the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996, street vendors, beedi workers, domestic workers, and also those under MGNREGA who have worked for more than 15 days during the preceding year.
2. The scheme does not demand any cash transfer or paper work from the beneficiary.
3. The scheme accommodates the requirements of migrant workers, who can avail themselves of the benefits of the scheme from any empanelled hospitals across India.

The performance of the scheme in terms of coverage is depicted in

Table 8-6. RSBY is currently in operation in 25 states and union territories, covering 370 districts. More than 23.3 million families have been enrolled and more than 1.7 million people have availed themselves of the benefits under the scheme till March 2011.

Table 8-6. *RSBY: Achievements, July 2010*

Districts, smart cards	Achievement 2010-2011	Target 2011-2012
Cumulative number of districts (coverage)	354	380
Cumulative number of Smart Cards (issuance) (in millions)	23.4	25.0

Note. Data from Ministry of Labour & Employment, Government of India.

4. Evaluation of the Major Schemes

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

One of the most pronounced impacts of MGNREGA has been on wages in rural areas. Wages under MGNREGA have increased in all the states and the impact has been more visible in poorer states. For instance, wages in Bihar have increased from Rs. 68 in 2007-2008 to Rs. 119.12 in March 2011. In the same period, they have increased in Madhya Pradesh from Rs. 58 to Rs. 116.48 and in Orissa from Rs. 52 to Rs. 116.20. At the national level, the average wages paid under MGNREGA have increased from Rs. 75 in 2007-2008 to Rs. 115.71 in March 2011. These wage increases are emerging as an enabling factor both for the growth in rural wages as a whole and for reducing wage inequalities.

Recent studies indicate that MGNREGA has succeeded in propelling large numbers of women into paid work, many for the first time (Sudarshan, 2011). Female participation improved from 45% in 2008-2009 to 50% in 2011-2012. However, wide variations exist in the female

participation rate across states (Figure 8-7). While in 2011-2012 in states like Kerala, the female participation rate is 94%, in Uttar Pradesh and Bihar the share of women in MGNREGA tends to be low, at 18% and 28% respectively. The main reasons for higher female participation are proximity of place of work to residence, no requirements for job searches, and the trustworthiness of a government job with assured remuneration. Better female participation was seen in regions with a higher involvement of local people in the implementation of MGNREGA. The high participation rate of women in Kerala is often attributed to the involvement of Kudumbashree (a network of SHGs of women) in the implementation of the scheme. At the same time, it is also crucial to explore the extent to which high participation of females is sustained and translated to other avenues of employment, and the way in which current empowerment translates to better gender relations, both in the household and in society.

MGNREGA aims to ensure the participation of the SC and ST population in the programme. However, the data indicate a mixed result; not only is participation lower in certain states, but the participation of SC and ST also shows a declining trend in those states. As indi-

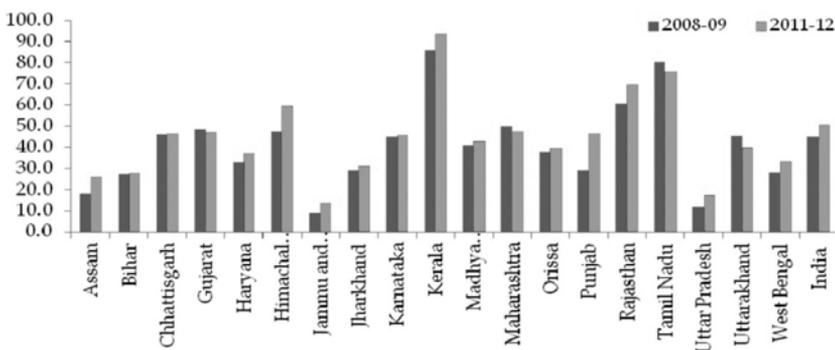


Figure 8-7. Female participation in MGNREGA (no. of person-days of employment generated). Refers to figures till October 2011. Data from Ministry of Rural Development, Government of India.

cated in Table 8-7, this lack of participation seems to be true for Bihar, Haryana and Karnataka. Still, evidence from Andhra Pradesh indicates that while members from disadvantaged groups are not likely to have a higher participation rate, they tend to participate for longer periods of time (Jha, Gaiha, & Shankar, 2010). At the macro level, the scheme has also had significant implications for the financial inclusion of the rural population, for more than one million savings accounts in banks and post offices have been opened for MGNREGA workers.

The system's contribution to land productivity and facilitation of vertical skill mobility among rural households that avail themselves of employment are two crucial features enabling MGNREGA to promote equity and more inclusive growth. An impact evaluation of the system conducted by IAMR (2008) in 20 districts spread across India indicated its positive impact on the overall quality of life of the beneficiaries. It noted that the programme led to a significant increase in the expenditure on food and non-food items by the beneficiaries and also reduction in indebtedness.

MGNREGA has also had a significant positive impact on the conservation of natural resources. Of the nearly 50 lakh works taken up during 2010-2011, around two-thirds were related to water conservation, resulting in a rise in the water table, especially in dry and arid regions. A study of the environmental impact of MGNREGA undertaken in the Chitradurga district of Karnataka indicated that apart from providing employment and income to rural communities, the programme provided multiple environmental services like groundwater recharge, increased soil fertility, reclamation of degraded lands, and carbon sequestration (Tiwari, 2011).

An important limitation of MGNREGA is the negative influence of the landed elite, who control the Panchayati Raj, a major implementing agency of MGNREGA, thereby strengthening existing inequalities. An impact evaluation study of the scheme conducted in Uttar Pradesh (Ministry of Rural Development, 2010) noted that control of job cards

by the *pradhan* (village chief) has resulted in their non-issuance to the deserving sections. In a large number of cases, villagers were not aware that demanding work under MGNREGA is their right or of their role in deciding and planning the nature of work to be undertaken under the scheme. Widespread corruption also exists in allocating work. For instance, many of the works were often performed in areas benefitting the *pradhans* or in the *bastis* (locality) of the higher *castes*. Because of the lack of democratic participation and the existing social structure, these issues were not addressed in relevant meetings. At the same time, very few works on individual lands of SC, ST, and BPL beneficiaries were taken up. The study by IAMR (2008) noted that contrary to popular perception, there was no significant reduction in distress migration. One-fourth of the families surveyed claimed that migration in search

Table 8-7. *Person-days of Employment Generated under MGNREGA across Social Groups* (%)

States	2007-2008			2010-2011		
	SCs	STs	Others	SCs	STs	Others
Bihar	44	1	55	25	2	73
Chhattisgarh	9	46	44	10	36	54
Gujarat	9	38	53	9	35	57
Haryana	64	-	36	49	-	51
Himachal Pradesh	25	22	53	30	7	62
Jammu & Kashmir	10	20	70	8	14	78
Jharkhand	13	45	42	12	43	45
Karnataka	22	16	62	16	9	74
Kerala	11	21	68	16	3	81
Madhya Pradesh	10	23	67	21	29	49
Maharashtra	8	31	60	7	16	78
Orissa	20	42	38	18	36	46
Punjab	95	-	5	78	-	22
Rajasthan	14	46	40	18	22	60
Tamil Nadu	-	-	-	29	1	70
Uttar Pradesh	34	29	37	32	1	67
Uttarakhand	22	2	77	19	4	78
West Bengal	43	12	45	35	11	53
All India	26	22	52	22	18	60

Note. Data from Ministry of Rural Development, Government of India.

of work has continued from their respective villages to towns/cities, not only for better wages but also for fair wages, which is a vital point in the context of the debates on increasing the MGNREGA wage rate and also irregularities noted in implementing the programme. Evidence from West Bengal also suggests that poor planning at the local level is a major factor affecting the performance of MGNREGA (Mukherjee & Ghosh, 2009). The need for decentralized planning with a long-term perspective for the success of MGNREGA was also stressed in a study conducted in Gujarat to assess employment, income, and output multipliers of the scheme (Hirway et al., 2010).

Rashtriya Swasthya Bima Yojana (RSBY)

The positive impact of RSBY in providing social security to poor families has been widely recognized in both national and international circles, with UNDP and ILO identifying the scheme as among the 18 innovative programmes for social security globally. The performance of RSBY in selected states of India is presented in 8-8. With respect to the coverage, data reveal that Assam, Tamil Nadu, Himachal Pradesh, and Kerala have implemented RSBY in all the districts. It should be noted that in general, Kerala and Himachal Pradesh have already achieved improved health indicators. Another set of states, including Jharkhand, Karnataka, and Chhattisgarh, has coverage of around 80%. However, one of the most concerning matters is the poor coverage of districts in Orissa, Uttar Pradesh, and Haryana. Again, a slightly different picture emerges when the coverage of RSBY among the BPL households is considered. Except for Himachal Pradesh, Kerala, West Bengal, Chhattisgarh and Gujarat, the coverage of BPL households is below 50%. In Uttar Pradesh, the coverage of BPL households in RSBY is merely 37%. Even in Karnataka, where empanelment has been completed in five out of the six districts, the coverage of BPL households is not impressive. Interestingly, in all the states, there is a

clear dominance of private hospitals among the empanelled hospitals, a dominance that is exceptionally high in Maharashtra (99%), Bihar (95%), and Haryana (90%).

Impact evaluation studies conducted across India on the functioning of RSBY present mixed results. Evidence from a field study conducted in Karnataka indicated that an impressive share of eligible people were aware of or were enrolled in the scheme: 85% and 68% respectively in 2010 (Rajasekhar, Berg, Ghatak, Manjula, & Roy, 2011). However, a large number of the enrolled were yet to receive their cards (38%) even after six months from the time the system was initiated. Other problems noted in the study include issues with the BPL list and a general

Table 8-8. *Coverage of RSBY across States in India, 2011*

State	Districts				Percent of BPL HHs covered	Hospital	
	Total	Selected	Enrollment in progress	Enrollment completed		Private	Public
Assam	27	5	-	5	41.3	27	21
Bihar	38	38	8	30	45.9	748	37
Chhattisgarh	18	18	5	13	45.2	271	435
Delhi	9	10	-	1	16.2	123	-
Gujarat	26	27	14	12	56.6	854	320
Haryana	21	21	12	9	44.4	579	60
Himachal Pradesh	12	12	-	12	79.5	42	135
Jharkhand	24	21	13	8	34.0	177	151
Karnataka	28	9	7	1	9.7	113	66
Kerala	14	14	-	14	67.0	169	155
Maharashtra	35	32	11	21	46.9	1007	8
Orissa	30	13	5	2	48.2	47	67
Punjab	22	20	11	9	49.7	337	157
Rajasthan	33	4	-	4	-	-	-
Tamil Nadu	32	2	-	2	-	32	-
Uttar Pradesh	70	71	44	26	37.5	1113	679
Uttarakhand	13	15	8	5	55.3	70	84
West Bengal	19	19	8	7	69.3	402	-
All India	624	392	168	199	47.3	6149	2537

Note. Retrieved from <www.rsby.gov.in> on 4-01-2012.

lack of awareness of how and where to receive treatment under RSBY. From the perspective of hospitals, the delay in reimbursements is noted as a strong disincentive for participation.

Apart from the significant variations in the implementation of RSBY across states, wide differences are also noted in its execution at the district level. Two possible reasons are noted for the phenomenon: preference of insurance companies for districts with a high share of BPL households or villages relatively easier to reach; and insurers trying to reduce risk by *cream skinning* (Sun, 2010). However, an impact evaluation study conducted in Delhi provides little evidence of insurance companies selectively enrolling healthier households (Das & Leino, 2011). Furthermore, although there are no gender differences in the utilization of RSBY, evidence indicates that when there are more than five members in a household (the maximum limit of members that can be enrolled in the system), the sons get preference over daughters, which places a barrier on the latter's participation in health service (Sun, 2010). Finally, several criticisms of the operation of private hospitals empanelled under the system have been made. An evaluation study on RSBY conducted in Kerala indicated that a significant percentage of hospitals empanelled under the system have limited facilities (Rajagiri College of Social Sciences, 2009), which has serious implications for the quality of health care provided to RSBY beneficiaries. Again, a study from Gujarat notes how hospital authorities change records and report services not delivered to the beneficiaries in an attempt to claim higher amounts (Ministry of Labour and Employment, 2011).

The impact of RSBY at the broad level is positive: it is improving the utilization of health services in BPL households and thereby providing social protection. An evaluation study conducted in the Jaunpur district of Uttar Pradesh indicates that about 68% of the users reported a decline in health care expenditure post RSBY (Amicus, n.d.). The government is committed to extending the coverage to other vulnerable sections in a phased-in manner. As a first step, there is a pro-

posal to extend the system to households above the poverty line who are willing to pay a premium. There is also a strong suggestion to cover, under RSBY, expenses towards outpatient care.

5. In Lieu of a Conclusion

The Indian labour market currently faces the challenge of generating adequate employment opportunities for the unemployed and at the same time providing decent work conditions to the workforce, with the majority engaged in low paying and irregular jobs. Given the magnitude of those requiring UI, the provision of public employment has emerged as an important policy instrument. Among the different public employment programmes that have been implemented in India, MGNREGA is distinct and effective in several ways. Most importantly, the scheme ensures the provision of employment as a right and has largely been successful in addressing social and economic inequalities prevalent in the Indian labour market, particularly with respect to access and low wages, to the marginalized sections of society. Such marginalization is particularly true for female workers. The scheme also creates an infrastructure that has a direct implication on the livelihood of the poor. RSBY, on the other hand, provides insurance coverage to BPL informal sector workers and their families against health insecurities. Though RSBY is in the initial stage of operation, the available evidence paints a positive picture of how it functions.

Considering the large magnitude of those requiring UI in India and the potential problems in operating a cash transfer scheme for resources, targeting, and leakages, providing public employment programmes is apparently becoming a more viable option. Given the demographic structure of the Indian population, such public employment programmes could also provide a platform for skills development and

upgrading, thereby becoming a powerful instrument for social inclusion.

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Chapter 9

Conclusion: Comparative Evaluation of Unemployment Insurance in Asia and Implications

Deok Soon Hwang

1. Raising the Issues

Some issues were raised in the introduction of this study regarding the importance of conducting a comparative analysis of unemployment insurance benefits in different parts of Asia and of trying to better understand UI in the context of the Asian welfare regime and the socio-economic system. In the seven chapters in the body of this study, the UI programs of six Asian countries as well as the unemployment protection program (not UI) of India are reviewed.

In this conclusion, the topic is narrowed, focusing on comparisons in these countries between the larger framework of protection for the unemployed and UI. In Asia, where most countries are still in the developing stage, protection for the unemployed can take a different form than UI, which is the topic of section 2. Next, we look not only at how UI is designed, but also to what extent it is effective, which will be reviewed from the point of application and of benefit reciprocity (sections 3 and 5). We analyze the UI design from the perspective of generosity of eligibility, benefit amount, and duration (section 4) and examine methods for UI financing (section 6). Last, we propose topics for future study (section 7).

2. Framework for Unemployment Protection

Although UI and its income security mechanism are the focus of this study, income support methods other than UI do exist as well as labor market policy programs other than cash benefits to the unemployed that cannot be analyzed separately from UI. This section first reviews the overall framework and then provides detailed country-by-country UI comparisons.

UI or Employment Guarantee

The objective of this study is to compare the differences in UI in Asia, but it should be noted that UI alone might not be sufficient to provide social security for the unemployed, for there is a sizeable population in some countries who are excluded from UI (e.g., the self-employed and agricultural workers). To compensate for the potential shortfall, the Korean government launched public works projects in the Asian financial crisis in the late 1990s and the global financial crisis in 2008, as a way to provide temporary expansion of social protection for the unemployed.

Moreover, complementing income guarantee programs (cash benefits) with job creation programs is one clear recommendation from the UN in its "social protection floor" agenda. The Social Protection Floor Advisory Group (2011) defines social protection floor as follows:

[B]asic income security, in the form of various social transfers (in cash or in kind), such as pensions for the elderly and persons with disabilities, child benefits, income support benefits and/or employment guarantees and services for the unemployed and working poor. (p. 9)

Core social services are also included in the social protection floor. In relation to UI, employment guarantees through job creation (public

works, etc.) can play an important role in complementing or even substituting for UI in countries in which socioeconomic circumstances are not ripe for such insurance programs. A case in point is India, which does not have UI but has been included in this research as an important case study. Lacking a UI program, India has instead instituted the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), which provides income security to rural families for up to 100 days through public works. The Social Protection Floor Advisory Group (2011) also cites MGNREGA as an example of significant progress in implementing the social protection floor. On the other hand, performance indicators during 2010-11 show that the program provided, on average, 47 person days of employment to 54.7 million households totaling 2,566.4 million person days. These figures show that there is still room for improvement to enhance the effectiveness of the program (Thimothy & Sasikumar, in this report).

Despite the limitations, given that many Asian countries are not yet advanced in industrialization, India's MGNREGA does offer important implications for these countries. Obviously, the need for UI will grow along with deepening industrialization, but a public job creation program can help bolster the social safety net for the unemployed in the time before UI is formally adopted, or even after that time, as a complement to the insurance program: the reason that NGOs calling for development of social security programs in Asia are citing public works programs is a viable task worth pursuing (AROSS, 2011).

Unemployment Insurance or Employment Insurance

Although the goal of this study is to discuss UI as an income security mechanism for the unemployed, in some countries the passive labor market policy of UI and active labor market policy of job training or wage subsidies are included in one employment insurance framework. Japan, Korea, and Taiwan are the best examples of Asian countries

with employment insurance. These countries have in place not only UI but also job training for the unemployed and the employed, support for job retention during downturns, and wage subsidies for hiring the disadvantaged, all in the single framework of employment insurance (EI). In the case of Korea and Taiwan, parent protection programs like maternity leave and childcare leave for women are included in the EI as well.

China, Thailand, and Vietnam have UI, and they provide job training to the unemployed (unemployment benefit recipients) through the UI fund. As such, supporting job training through the UI fund (not EI) appears to be the one Asia-specific feature hardly found in any Western developed nations.

3. Unemployment Insurance Coverage

UI is basically applied to wage workers, but there can be additional requirements depending on the country (Table 9-1). The most common one is exclusion of workers over a certain age from the mandatory coverage in consideration of the pension system. Japan, Korea, Taiwan, and Thailand are the countries in which such a provision is explicitly specified.

In addition, coverage may differ by workplace size, employment type, and region, depending on the country. Vietnam differentiates by work-

Table 9-1. *UI Coverage in Asian Countries and Economies*

	China	Japan	Korea	Taiwan	Thailand	Vietnam
Firm size, area	Urban enterprises	All	All	All	All	Ten or more workers
Age	-	15~64	16~64	15~60	15~60	-
Employment status	-	-	-	-	-	Contract with one or more years

Note. ISSA (2009).

place size and employment type: the workplace must have at least 10 employees and the employment contract must be for at least 1 year or be open-ended. Meanwhile, in China, the programs cover only enterprises in cities and public corporations or organizations. Rural migrant workers employed in cities (*nongmingong*) are also covered.

However, the preceding discussion does not provide sufficient information on the actual scope of protection offered by UI, for two reasons. First, the percentage of legally covered workers out of the total employed population differs by country. In particular, the self-employed and agricultural workers are in most cases excluded, and this population is different by country. Second, there are those workers who may be legally included but in practice are not, which is a problem regarding informal employment.

The indicators that can measure the actual coverage are: percentage of UI-covered workers out of total employed, and percentage of UI-covered workers out of total employees or legal coverage. Table 9-2 is a collection of the indicators by country collected from the papers in this study and ILO statistics. The percentage of UI-covered workers out of total employed is calculated by multiplying the UI participation rate with the percentage of employees out of the total employed. In addition, the percentage of UI-covered workers out of total employees is determined by the legal coverage and extent of legal enforcement, while percentage of employees out of total employed depends on the extent of industrialization and type of economic structure.

As seen in Table 9-2, the percentage of UI-covered workers out of total employment is high in the order of Japan, Taiwan, Korea, Thailand, China and Vietnam, while the percentage of UI-covered workers out of total employees comes in the order of Taiwan, Japan, Korea, Thailand, China and Vietnam. As for the factors that affect the actual coverage (number of UI-covered workers out of total employment) in Vietnam, the percentage of employees in Vietnam (which has the lowest level of protection) is the second lowest next to China while its

number of UI-covered workers out of total employment is the lowest. This is because the percentage of UI-covered workers out of total number of employees is the lowest due to limited legal coverage (as described in Table 9-1) and low compliance. According to Quang (in this report), only 48.0% of legally-applicable employees actually have UI coverage.

Low UI coverage in China is mostly due to the low percentage of employees. The number of UI-covered workers out of total employees is 55.4%, much higher than that in Vietnam. Likewise, in Thailand, the low percentage of employees is a decisive factor. The percentage of insured workers out of total employees is 57.4%, not very different from Korea's 59.7%. In the case of Korea, the percentage of employees and percentage of UI-covered workers out of total employees are both lower than those in Japan and Taiwan. Nonetheless, it should be noted that in Korea, the number may have been underestimated, due to the exclusion of the over 1 million insured daily workers from Table 9-2. Japan has the highest percentage of employees among all countries being analyzed, and Taiwan has the highest percentage of UI-covered workers out of total employees, making Taiwan the country with the broadest de facto coverage among Asian countries with UI.

Table. 9-2. *Actual Coverage of UI in Asian Countries and Economies, 2010*

	Employment(A)	Employee(B)	Insured workers(C)	(1,000 persons, %)		
				$\frac{C}{A} \times 100$	$\frac{C}{B} \times 100$	$\frac{B}{A} \times 100$
China	761,050	241,253	133,760	17.6	55.4	31.7
Japan	62,570	54,623	38,240	61.1	70.0	87.3
Korea	23,829	16,971	10,131	42.5	59.7	71.2
Taiwan	10,334	7,978	5,881	56.9	73.7	77.2
Thailand	38,037	16,892	9,700	25.5	57.4	44.4
Vietnam	48,015	16,025	5,993	14.4	41.5	34.6

Note. The unit of employed and employees differs depending on the source but has been unified to 1,000. From ILO (www.laborsta.org); papers in this report; <http://www.economywatch.com/economic-statistics> for Taiwan's employment statistics.

4. Eligibility and Benefits

In this section, the components of UI design such as eligibility and benefit amount and duration are compared in detail. Further, each country's UI is evaluated from the perspective of generosity. Generosity of UI can be seen from different angles. The OECD usually looks at the issue in terms of the income replacement rate of unemployment benefits (OECD, 1994, 2011). Sjöberg (2010) developed a set of indicators by giving a standardized score for income replacement rate, benefit period, and per capita benefit amount and adding the scores. On the other hand, Vroman and Brusentsev (2005) multiplied benefit receipt rate with income replacement rate. Such indicators are based on the actual performance of UI programs, but it is still not easy to build datasets using indicators on the level of generosity of Asian UI benefits. Thus, the possibility of evaluating UI based on the benefit receipt rate and other indicators will be discussed in the next section; at the same time, in this section, the focus will be on the formal design itself in assessing generosity.

Eligibility

Unemployment benefit (UB) eligibility can be divided into contribution requirements, causes of job separation, and job-seeking requirements. Of them, job-seeking requirements are almost uniform in appearance in all the countries because they commonly require registration in a public employment service center (PES) and making periodic visits to confirm job-seeking activities. Granted, whether there is a sufficient number of PESs and whether they provide quality matching services depend on the country, these are questions bearing on not the design of UI per se but on the capability of such PES, which is another topic altogether. Thus, in this section, eligibility is reviewed in terms of contribution requirements and causes of job separation.

Table 9-3 presents the minimum insured period and base period by country. China is an exception. for it does not have a clearly defined base period. Because it is easier to fulfill eligibility when the minimum insured period is shorter and base period is longer, these two indicators can be used to evaluate generosity. Korea, Japan, and Thailand all have a 6-month minimum insured period (or 180 days) but the base period is long in first Korea, then Thailand, and finally Japan. Thus, the level of generosity is high among these three countries: Korea, Thailand, and Japan, in that order. Among the remaining three countries where the minimum insured period is 1 year or 12 months, the level of generosity is high in the order of China (where there is no base period), Taiwan (base period 3 years), and Vietnam (base period 24 months).

Requirements for cause of job separation by country are listed in Table 9-4. Countries with requirements going further below in Table 9-4

Table 9-3. *Contribution Criteria of the UI in Asian Countries and Economies*

	China	Japan	Korea	Taiwan	Thailand	Vietnam
Minimum insured period	1 Y	6 M	180 D	1 Y	6 M	12 M
Base period		12 M	18 M	3 Y	15 M	24 M
Generosity ranking	4	3	1	5	2	6

Note. D, days; M, months; Y, year; From ISSA (2009), Papers in this Report.

Table 9-4. *Protected Causes for UI Eligibility in Asian Countries and Economies*

	China	Japan	Korea	Taiwan	Thailand	Vietnam
Involuntary	○	○	○	○	○	○
Voluntary with good cause	○	○	○	○	○	○
Sanction applied without good cause		○			○	
No Sanction						○
Generosity ranking	4	2	4	4	2	1

Note. ISSA (2009); papers in this report.

are deemed to be more generous (marked with "o"). Vietnam can be seen as being the most generous because it does not differentiate between voluntary and involuntary job separation. Such a design probably is related to Vietnam being a socialist country. Next are Thailand and Japan where some sanctions are given for voluntary separation without justifiable grounds. In Thailand, benefit duration is halved and the amount reduced by 40% in the case of voluntary separation. In Japan, the benefit period normally depends on age and insured period, but in the case of voluntary separation, only the insured period is considered, and the benefit duration is between 90 to 150 days (Oka, in this report). In Korea, China, and Taiwan, benefits are paid to the involuntary separators and the voluntary separators with justifiable causes. Thus, the level of generosity of these three countries in terms of causes of job separation can be said to be similar.

Benefits

The benefit amount is usually set as a certain percentage of the average wage while employed, and some countries also have the minimum and maximum. However, in China, the amount differs by region, and it generally follows the principle of "lower than the minimum wage, higher than public assistance." As for the calculation of average wage, the period of calculation is slightly different by country. Japan, Taiwan, and Thailand count from 6 months before job separation, while Korea counts from 3 months. In Thailand, the 3 months with the highest wage out of 9 months prior to separation are counted for the average wage calculation.

The usual wage replacement rate is 50-80% in Japan, 60% in Taiwan and Vietnam, and 50% in Korea and Thailand. Japan applies a higher replacement rate for workers with lower wages. In Thailand, there is a cap on the applicable wages and in Korea both a cap and floor. Korea in particular has a low ceiling and high floor, resulting in only a small

variance in the amount of benefits (Table 9-5). Another noteworthy aspect is that in China, Taiwan, and Vietnam, there is also medical cost or insurance support for the UI beneficiaries, which is a highly important additional benefit for the unemployed.

Duration of UB is divided into three types. First is setting a fixed period for all beneficiaries (Taiwan and Thailand), second is differentiating the duration by insured period (China and Vietnam), and third is reflecting the insured period, age, or disability (Korea and Japan). Korea and Japan have the most complicated rules for determining the benefit period.

When there are maximum and minimum benefit durations, the level of generosity is evaluated by obtaining the simple average of the maximum and minimum durations (see Table 9-6). By this standard, China has the highest generosity and Korea the lowest.

The contribution requirements, job separation cause requirements, benefit amount, and period have been reviewed so far, and the level of generosity in each category has been analyzed. It is not in the interest of this study to assess the overall level of generosity by connecting all four indicators. The actual UI coverage and labor market circumstances are too different by country to warrant such scrutiny. It should only be noted that the analysis shows that no one country ranks high in generosity in all categories but big differences exist by

Table 9-5. *Benefit Amount of UI in Asian Countries and Economies*

	China	Japan	Korea	Taiwan	Thailand	Vietnam
Replacement rate	Set by local governments	50-80% of AW	50% of AW	60% AW	50% of AW	60% of AW
Minimum			90% of MW			
Maximum			KRW 40,000		THB250 per day	
Additional support	Medical cost			Medical insurance		Health insurance
Generosity ranking	6	1	4	2	4	2

Note. AW, average wage; MW, minimum wage; From ISSA (2009); Papers in this Report.

Table 9-6. *Benefits Duration of the UI in Asian Countries and Economies*

	China	Japan	Korea	Taiwan	Thailand	Viet Nam
Minimum	1 Y	90 D	90 D	6 M	180 D	3 M
Maximum	2 Y	330 D	240 D	-	-	12 M
Generosity ranking	1	3	6	4	4	2

Note. D, days; M, months; Y, year; From ISSA (2009).

country in each indicator.

5. Performance of UI

As observed earlier, many Asian countries, although to a differing degree, have a sizeable presence of agriculture and self-employment and consequently, a significant portion of informal employment (with the exception of Japan). Percentage of employees out of total employed is one indirect indicator attesting to this phenomenon (Table 9-2). In addition, many de facto unemployed are not captured as unemployed in official statistical surveys, resulting in a nominal unemployment rate much lower than that in developed countries. Figure 9-1 shows the unemployment rate and growth rate in the 6 countries (or economies) with UI that are compared in this study as well as four major developed countries (the United States, Germany, France, and Sweden). To account for the differences in economic cycles, the 10-year average unemployment rate and growth rate from 2001 are used.

The unemployment rate is the highest in Germany and France, followed by Sweden, the United States, and Japan. Japan in particular shows a very low 4% average unemployment rate despite a lower growth rate than the four other developed countries. Meanwhile, though Taiwan, Thailand, and Korea have a similar average growth rate of 4%, the average unemployment rate is quite different with Thailand at 1.9%, Korea 3.5%, and Taiwan 4.6%. Furthermore, though China

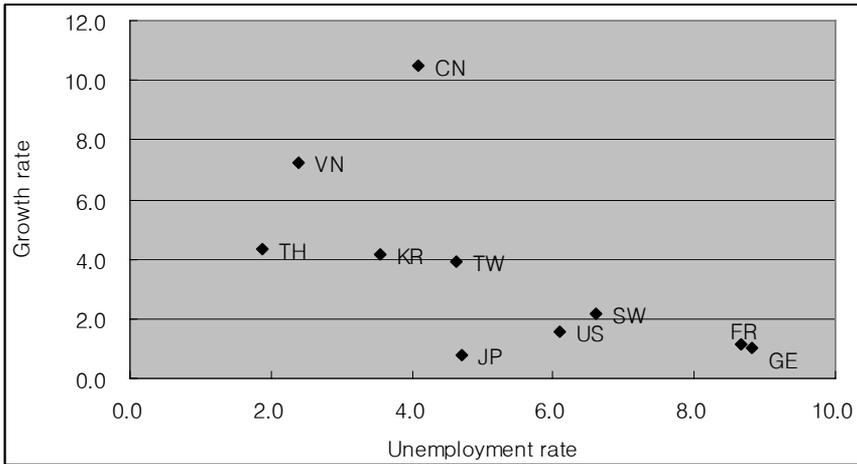


Figure 9-1. Growth rate and unemployment rate (Ten-year average for 2001–2010).

CN, China; JP, Japan; KR, Korea; TW, Taiwan; TH, Thailand; VN, Vietnam; FR, France; GE, Germany; SW, Sweden; US, United States. The Chinese unemployment rate means the urban registered unemployment rate. From World Bank (www.worldbank.org); papers in this report; <http://www.economywatch.com/economic-statistics> for Taiwan's statistics.

shows an average growth rate of over 10%, the unemployment rate registered in urban areas is 4.1%, higher than in Korea. Vietnam has higher average growth rate (7.3%) and average unemployment rate (2.4%) than in Thailand, which shows that, although different by country, Asian countries generally have a low unemployment rate. Even though not presented here, another noteworthy characteristic of Asian countries is that the width of changes in unemployment rate is quite narrow compared with fluctuations in the growth rate.

Therefore, it would not be a sufficient method to gauge the effectiveness of UB using the UB reciprocity rate calculated by the number of unemployed captured in labor force surveys and the number of UB beneficiaries captured in the administrative data. Thus, it is necessary to develop an alternative set of indicators (in addition to the average monthly number of UB beneficiaries based on administrative data out of the average monthly number of unemployed measured by labor

force surveys) that can more realistically evaluate UI effectiveness.

The most promising alternative indicators are the annual number of new UB beneficiaries or average monthly number of new UB claimants out of total annual or average monthly number of job separators who have been covered by the UI. Moreover, if a single survey checked both the employment status and UB recipient status, the number of UB beneficiaries out of total unemployed found in this survey can be used. In this case, those who did not respond that they are unemployed, even though they receive UB, would be excluded from the calculation.

Similar indicators have been built in this study by collecting all available data. Still, it was a challenge to collect all the aforementioned indicators listed from the countries included in this study. In the case of Korea, not only the conventional indicators but also the number of UB beneficiaries out of total separators and the number of UB beneficiaries out of total unemployed (from the same statistical survey) were all reviewed (Hwang, in this report). Once again, this ascertained the fact that doing a comparison on the number of UB beneficiaries based on administrative data with the number of unemployed (as found in the *Economically Active Population Survey*) tends to overestimate the benefit reciprocity rate. Although the proportion of the number of UB beneficiaries based on administrative data to the total unemployed population (in the 2009 *Economically Active Population Survey*) were at 42.7%, new UB recipients out of total separators were at 22.6%, and UB recipients out of total unemployed (as found in the *Supplementary Survey to the Economically Active Population Survey*) were at 11.3%.

In the case of China, the percentage of UB beneficiaries based on administrative data out of the total unemployed population as of 2009 was 25.5%, while the number out of total separators was 30.7% (Liao, in this report). Although the numbers do not seem low, the actual effect of protecting the unemployed should be interpreted while keeping in mind the fact that China's actual coverage (as seen in Table 9-2) is quite low.

In Japan, the percentage of UB beneficiaries from administrative data out of the total unemployed from the labor force survey was the highest among all the countries in the study, at 50.0% in 2010 (Oka, in this report). The same indicator can be obtained for Vietnam by using the average monthly number of UB beneficiaries and the number of unemployed, in which case the resulting number was 11.1%.

A Taiwanese report presents an indicator comparing the total new UB claimants and total unemployed population (Ku & Chang, in this report). Although the indicator thus measured is not directly comparable with other countries, it does clarify the trend in UB beneficiaries by using the monthly average number of unemployed. The percentage of total annual UB claimants out of the monthly average of unemployed population was 85.8% as of 2010.

In Thailand, only the annual total number of UB beneficiaries is known, which, as in Taiwan, makes it difficult to obtain an indicator comparable to other countries. And, the number of beneficiaries is 4.04 times higher than the number of unemployed. The reason the number is much higher than that in Taiwan is that the extremely low number of unemployed captured in surveys. According to Sopin (in this report), Thailand's official unemployment rate in 2010 was only 0.85%.

Although it does have limitations as an indicator, the UB reciprocity rate (calculated by the proportion of the number of UB beneficiaries based on administrative data to the number of total unemployed based on labor force survey) is the most commonly obtainable indicator among the countries in this study, and shows that the scope of protection is broadest in the order of Japan, Korea, China, and Vietnam.

6. Financing Rules

As a social insurance program, UI is normally funded by the insurance premium paid by employers and workers, and depending on the

country, the government also makes contributions. Of the Asian countries with UI, in Taiwan, Thailand, and Vietnam, the government also formally makes contributions to the UI fund at a certain rate. The government contribution rate is the highest in Vietnam, where 1% is required commonly from labor, management, and the government. In Thailand, labor and management each pay 0.5% of the wage while the government bears only half the rate, 0.25%. In Taiwan, workers pay 0.2%, employers 0.7% and government 0.1%, showing a relatively high share for employers and low share for the government.

Furthermore, even when only labor and management are required to pay the contribution, the government can bear the administrative cost (Korea) or make up for the funding shortfall (China and Japan). Overall, the Korean government has the lowest contribution burden. In terms of contributing shares between labor and management, in Japan, Korea, Thailand, and Vietnam, the share is equal between the two parties, while in China and Taiwan, it is higher for the employer. The total premium rate (of labor, management and government combined) was

Table 9-7. *Financing of the UI in East Asian Countries*

	China	Japan	Korea	Taiwan	Thailand	Vietnam
Employee	1% TW	0.55% TW	0.55% TW	0.2% TW	0.5% TW, Min: p/m THB1,650, Max: p/m THB15,000	1% TW, Min:MW, Max:20*MW
Employer	2% TW	0.55% TW	0.55% TW	0.7% TW	0.5% TW, Min: p/m THB1,650, Max: p/m THB15,000	1% TW, Min:MW, Max:20*MW
Government	Subsidies as required	Any deficit	Administrative costs	0.1% TW, Administrative costs	0.25% TW, Min: p/m THB1,650, Max: p/m THB15,000	1% TW , Administrative costs

Note. TW, total wage; p/m, per month; The premium for Japan and Korea covers just UI, while that for Taiwan covers UI and other active labor market policies. In Taiwan, up to 10% of the premium should be used for active labor market policies. From ISSA (2009); papers in this report.

found to be the highest in Vietnam and China, and the lowest in Korea.

7. Conclusion

In this study, we undertook a comparative analysis of UI and unemployment protection mechanisms in Asia based on total of seven countries/economies (six countries/economies with UI, and India). The UI scheme took effect in Japan, China, and Korea before 2000 and after 2000 in Taiwan, Thailand, and Vietnam. In this study, we compared and evaluated the benefits in each country in terms of generosity (based on the formal features of the program design), coverage, and effectiveness as a protective mechanism, which only marks the beginning of needed research on unemployment protection in Asia.

Topics directly related to UI warrant further studies: improving the accuracy of evaluation by developing indicators that can compare the effectiveness of UI as an unemployment protection mechanism; and how UI affects the labor market in terms of unemployment rate and duration, as well as the quality of reemployment. Of the countries reviewed in this study, Korea does have results from such a review, but reviews need to be conducted in other countries as well to be mutually shared and exchanged.

In Asia, important labor market indicators like the unemployment rate mean something different than in developed countries, and the industrial structure and employment structure are different among Asian countries, which points to the need to have more vigorous comparative studies on Asian countries to identify more clearly differences and similarities. In particular, informal employment is a fundamental, indispensable research topic that will not only help to better understand the labor markets of Asia but also to facilitate comparison and evaluation of the effectiveness of labor market policies and social security

programs like UI.

Unemployment protection can be in the form of not only UI but also public job creation, like that in India; or depending on the country, there may be a need for the two forms to coexist as a complement to each other. In terms of conventional unemployment protection, unemployment assistance or public assistance is also important. Still, in the countries reviewed in this study, unemployment assistance does not yet exist, and the role of public assistance in protecting the unemployed is still minimal. However, in the case of Korea, introducing unemployment assistance has become an important agenda, one that can help fill the vacuum left between unemployment benefits and public assistance, and its initial version has been reflected in the Employment Success Package launched in 2009. In Japan as well, a secondary safety net (based on job training) has been under vibrant consideration since the 2008 global financial crisis. Going forward, the scope of research should become broader, covering the full range of institutional arrangements for unemployment protection in each country as well as the role of each component: not only UI but also public job projects (public works), job training for the unemployed, self-employment support, and public assistance for the poor.

As was discussed in the introduction, it is obviously important to discuss the Asian welfare regime/regimes. But it is not in the interest of this study to answer whether the countries in Asia can be tied into one welfare regime or into different ones, or whether any attempt at typification would be unnecessary or counterproductive. In this study, we focused on the comparative study of a single program, UI, but regarding the discussion on the welfare regime in general in Asia, it was only mentioned that the spread of social insurance-type programs have highlighted institutional similarities and brought them closer to western kinds of welfare regimes. To address the diversifying social risks in the future, more in-depth comparative studies should be conducted on the social protection system of Asian countries and richer discussions on

Asian welfare regime/regimes should be carried out.

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