

## Employment-oriented crisis responses: lessons from Argentina and the Republic of Korea

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The current financial crisis is one of the severest ever seen. As the crisis has evolved, economic forecasts have been downgraded. In many countries, the impact of the crisis is clearly visible through the increasing trend of unemployment and poverty, the rising number of households in debt, and the increasing number of people receiving unemployment insurance benefits and social assistance, and opting for early retirement.

This brief looks at the different policy packages adopted by countries during past financial and economic crises in an attempt to draw lessons for the current crisis. Though it is important to note that the current crisis is unique both in its causes and global scope, its social impact will likely be similar to that of past crises. What emerges from various ILO reports and studies on past crises is that policy makers should act quickly and decisively to contain crises, use aggressive fiscal stimuli, and combine economic, financial and social policies into one single comprehensive policy package<sup>1</sup>. Looking closely at Argentina and the Republic of Korea, this brief shows that, by putting employment and social protection at the heart of crisis responses, policy makers can support economic and jobs recovery.

### Argentina and the Republic of Korea recovered quickly in the past

Experience from recent crises suggests considerable cross-country variation in the timing of economic recovery. Compared with other countries facing similar crises over the same period, the Argentinean and Korean economies revived relatively quickly from the crises of 2001-02 and 1997-98, respectively ([Figure 1](#)).

#### (a) Unemployment was contained

In the seven recent crises analysed here, unemployment averaged 5.1 per cent five years prior to the crisis, reaching 7.8 per cent on the crisis year and falling to 6 per cent 5 years after the crisis ([Figure 2](#)). Using a different sample of countries<sup>2</sup>, Reinhart and Rogoff (2008) find similar results for developing countries. The quality of employment also needs to be taken into account in developing and emerging economies<sup>3 ii</sup>.

<sup>1</sup> Very valuable comments and suggestions were received from Raymond Torres. Other colleagues from the International Institute for Labour Studies also provided comments, especially Ekkehard Ernst and Sameer Khatiwada.

<sup>2</sup> In Reinhart and Rogoff's sample, crises include Malaysia 1997, Indonesia 1997, Japan 1992, Thailand, 1997, Philippines 1997, Hong Kong 1997, Norway 1987, Korea 1997, Argentina 2001, Sweden 1991, Spain 1977, Colombia 1998, Finland 1991, and US 1929.

<sup>3</sup> For example, recent data shows that Argentina's share of informal employment in total non-agricultural employment was 53.3 per cent in the 1995-99 period; the figure for Mexico was 50 per cent in the period 2000-07, Indonesia 78 per cent in 1995-99, and Thailand 52 per cent in 1995-99.

It is interesting to note that there is significant country variation in the timing of labour market recovery. In Argentina, unemployment rates markedly declined after crisis, falling to below pre-crisis levels. Likewise, Korea successfully managed to decrease its unemployment since the peak of 1998 to 3.3 per cent by 2002. In other countries, unemployment rates increased compared to the pre-crisis level.

***(b) Poverty was reduced***

While it is difficult to examine poverty in detail given the scarcity of accurate data on the topic, in general, poverty increases during and after the crisis. The poor are severely affected through various channels such as variations in exchange rates, interest rates and consumer prices which leads to a decline in purchasing power. Crises also tend to result in social spending cutbacks<sup>iii</sup>. In all the countries that experienced a crisis, headcount poverty increased in its aftermath. More recent data shows that Argentina and Korea were able to reduce poverty to levels even below that of the pre-crisis period ([Figure 3](#)).

***(c) Government deficits were limited***

The government budget typically deteriorates during the crisis. However, among the countries analysed, only Argentina and Korea managed to bring their budget balance into surplus following the crisis ([Figure 4](#)).

**The success of job- and social-friendly policies**

Summing up the evidence, Argentina (from 2002 on) and Korea emerge as successful countries that managed to recover growth, contain unemployment and poverty and bring their budgets into balance post crisis. This is because these two countries adopted an approach that put decent work at the core of the recovery measures.

***(a) Supporting SMEs and investment in the environment helps recovery***

Korea prioritized SMEs as the engine of growth. The government increased credit availability for SME investment in technology and competitiveness<sup>iv</sup>. In addition, Korea encouraged banks to restructure loans away from their previous preferential treatment of larger companies, particularly the chaebol (conglomerates).

In designing their public works programme, Argentina ensured that the social needs of poor communities were met. 87 per cent of beneficiaries worked in community projects, which mainly comprised of agricultural micro-enterprises, social and community services and health and literacy promotion<sup>v</sup>.

***(b) Employment programmes help contain unemployment***

Workfare programmes were successfully implemented in Argentina and Korea<sup>4</sup>. In Argentina, participation in the programme expanded by over 20-fold, permitting a cut in the unemployment rate by around 2.5 percentage points<sup>5</sup>. The programme targeted poor families and 80 per cent of the benefits went to the poorest 40 per cent of households<sup>vi</sup>. In Korea the programme provided work for roughly 70 per cent of the country's 1.7 million unemployed<sup>6</sup>.

Both countries incorporated training and improvements in employment services into their recovery plans. Argentina encouraged vocational training within their workfare programme, allowing training to count towards hour requirements. It used local employment offices and local knowledge to improve and further develop its national programmes. Korea expanded its training programmes, increasing funding from insignificant levels in 1997 to 3.3 per cent in 1999 and increasing coverage to about a quarter of all unemployed<sup>vii</sup>. It improved the programmes efficiency and relevance, and strengthened and streamlined its job-matching services. Evaluations show these programmes enhanced employability while effectively supporting low-income households.

***(c) Social protection can mitigate the worst impacts of crisis***

To mitigate the diminished purchasing power of pensions, the government in Argentina increased minimum benefits by 250 per cent and other benefits by 25 per cent. Also, it changed pension rules to expand coverage, which led to the inclusion of an additional 15 per cent of the population over age 60<sup>viii</sup>.

Korea also emphasized social protection – most obviously through its expansion of unemployment insurance coverage. Korea expanded funding on unemployment during the crisis, increasing it from 1 per cent GDP in 1998 to 1.5 per cent in 1999, and successfully reduced funding after the crisis, bringing it to roughly 0.3 per cent GDP after 2000<sup>ix</sup>. Over the course of the crisis, Korea gradually expanded coverage from large companies (with over 30

<sup>4</sup> Historically, labour intensive public works have been used as a response to many crises and have been promoted by the ILO as a tool for overcoming unemployment since its creation. A 1935 ILO Report mentions "... the Conference recommends that each Member of the International Labour Organisation co-ordinate the execution of all work undertaken under public authority with a view to reserving such work as far as practicable for periods of unemployment....". For instance, during the Great Depression, the ILO argued for a coordinated international public works programme to increase domestic demand (de Michelis, 1931). To this effect, in 1932 the organization adopted a resolution to overcome the economic crisis based on public works, monetary stability and international trade (Martin 1932). Unfortunately, the calls made by ILO were not acknowledged by world leaders when they met in London in 1933 to address the economic crisis (Rodgers et al. 2009). The countries that adopted public works during the Great Depression met with some success. Sources: Martin, P.W. 1932. "World economic reconstruction: an analysis of the economic resolution adopted by the International Labour Conference", in *International labour review*, Vol. 26, pp. 199; de Michelis, G. 1931. "A World Programme of Organic Economic Reconstruction", in *International labour review*, Vol. 24, No. 5; Martin, P.W. 1932. "World economic reconstruction : an analysis of the economic resolution adopted by the International Labour Conference", in *International labour review*, Vol. 26, pp. 199; Rodgers, G. et al. (eds.) 2009. *The International Labour Organization and the quest for social justice, 1919-2009* (Geneva International Labour Office).

<sup>5</sup> In Korea, the government created 440,000 new jobs in 1998 and 119,000 in 1999 (Betcherman; Islam 2001). Participation in Argentina's work-contingent cash transfer programme, *Jefes y Jefas de Hogar Desocupados* (Unemployed Heads of Household Plan), expanded from 90,000 in Dec. 2001, to 1.2 million in Oct. 2002 and to 2 million in 2003 (Fachelli et al 2004). Source: Betcherman; Islam 2001; Fachelli, S.; Ronconi, L.; Sanguinetti, J. 2004. *Poverty and employability effects of workfare programs in Argentina*, (Poverty and economic policy (PEP) research network).

<sup>6</sup> In Korea, funding increased from 1 trillion KW in 1998 to 2.5 trillion KW in 1999. In Argentina, funding increased from 160 million in 2001, to 2.31 billion in 2002 and to 3.59 billion in 2003, which represented around 0.5-1 per cent of GDP (Fachelli et al 2004). Source: Fachelli et al 2004.

employees) to all workplaces and from regular workers to temporary, part-time and casual workers.

In addition, Korea provided social assistance through special loan projects, guaranteed severance payments and temporary livelihood protection to those unable to work. Temporary livelihood protection alone covered 2.5 per cent of the population at the height of the crisis in 1998<sup>x</sup>.

#### ***(d) Social dialogue facilitates decision-making***

In Korea, the government took several measures to improve social dialogue. In late 1997, it created a Tripartite Commission composed of labour, business, government and public interest groups that helped the country quickly reach consensus on many key issues, such as corporate restructuring, price stability, expanding social and employment-oriented programmes, enhancing labour rights and workplace cooperation and promoting labour market reforms<sup>xi</sup>. The rival trade union, KCTU, was also legalised.

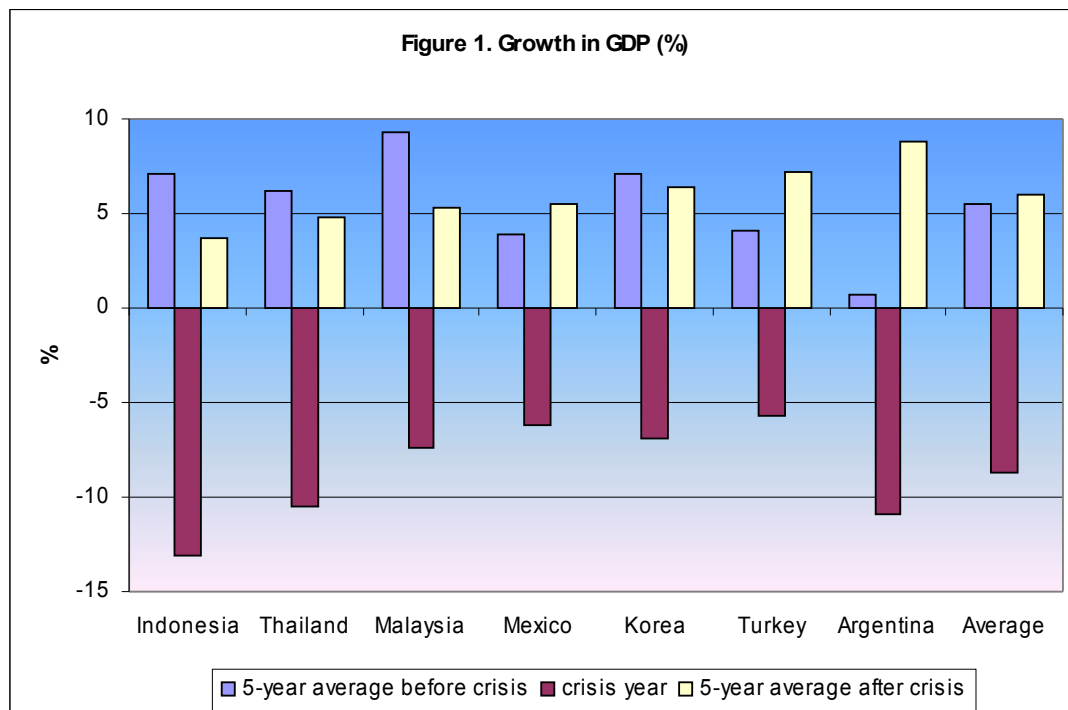
In Argentina too, social dialogue helped to foster agreement on the main economic and labour policies for recovery and to increase cooperation between employer and worker organizations<sup>xii</sup>. Social dialogue led to the adoption of a Decent Work Agenda, with its emphasis on social inclusion<sup>xiii</sup>. The ILO supported the process of social dialogue in Argentina, offering policy assistance and ideas. At the sectoral level, the government successfully encouraged collective bargaining and coverage under agreements increased from 1.2 million in 2004 to 4.2 million in 2006<sup>xiv</sup>.

In Argentina an important element of crisis recovery was the improvement of labour standards through collective bargaining, efforts to formalize work, minimum and living wages and social security. Minimum living and adjustable wages (SMVM) were re-established to improve purchasing power; by 2005 these wages covered 84 per cent of the income needed to rise above the poverty line, compared to the earlier 37 per cent in 2003. In the recovery period, employment grew and formal employment constituted 89 per cent of new jobs, which improved working conditions and public finances<sup>xv</sup>.

### **The way forward: the ILO's Global Jobs Pact**

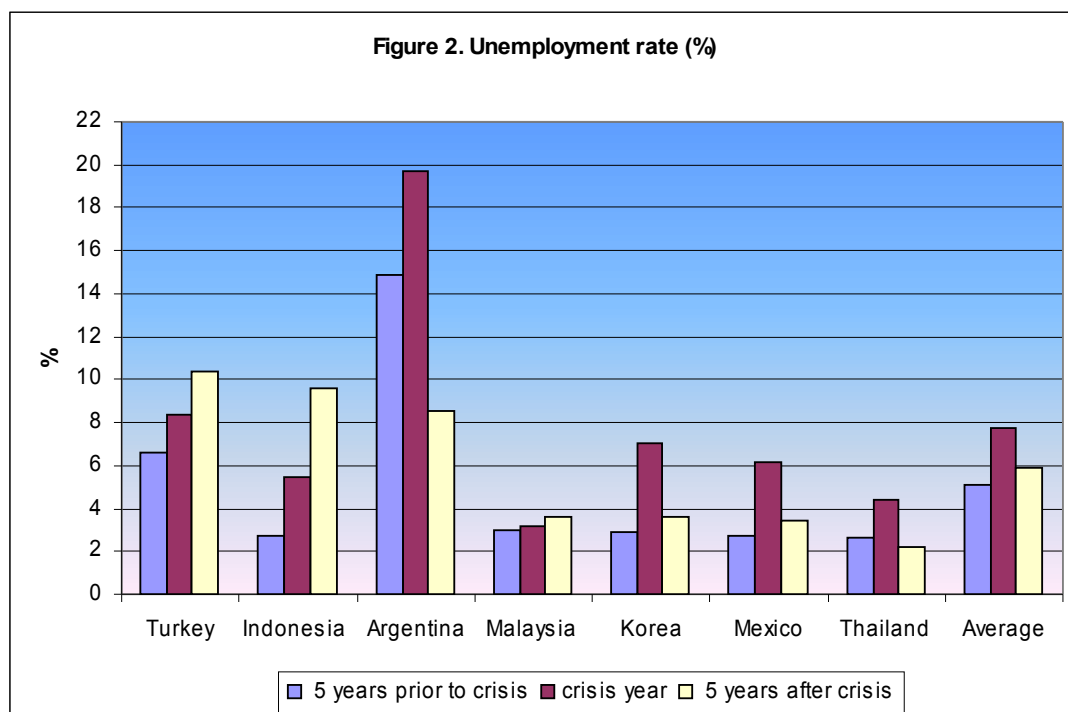
This brief discusses how Argentina and the Republic of Korea responded to the crises of 2001 and 1997, respectively. The policies outlined, such as unemployment benefits, public works, assistance to SMEs and social dialogue, constitute the core proposals for the ILO's Global Jobs Pact to respond to the current global crisis. Importantly, the approach adopted by Argentina and Korea was cost effective. Though the policies entailed higher government spending in the short-term, the situation was quickly reversed. Soon after the crisis, the budget was in surplus – reflecting both higher revenues resulting from higher economic growth (partly a result of the decent work friendly measures) and lower spending as pressures on social budgets fell hand-in-hand with unemployment.

**Figure 1**

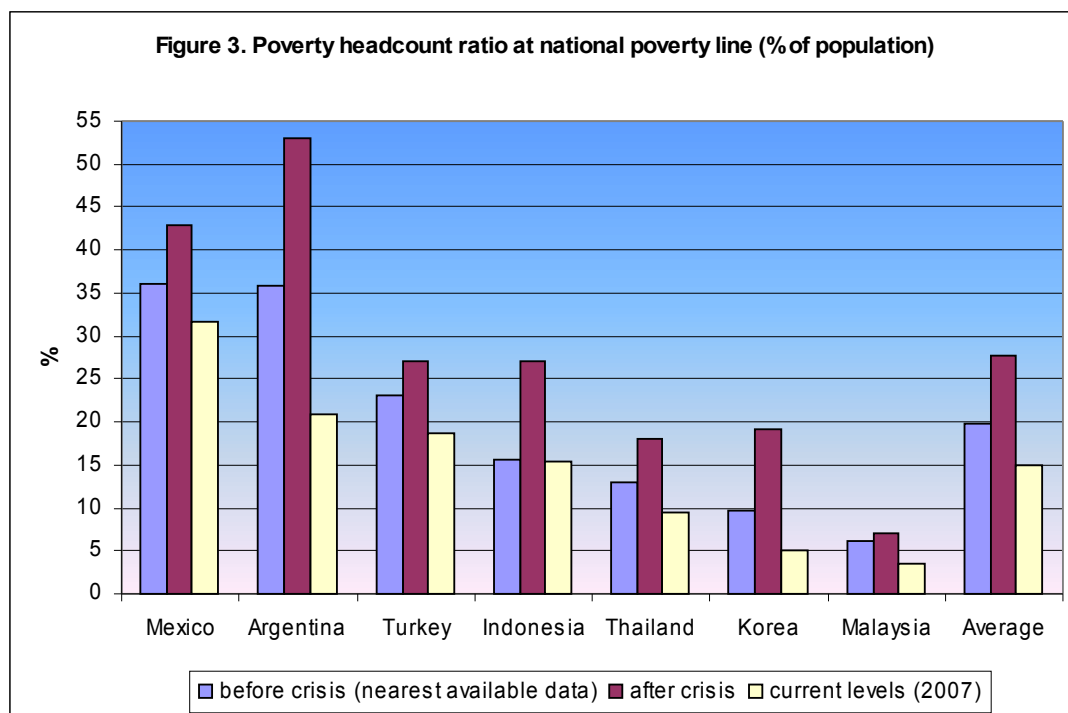


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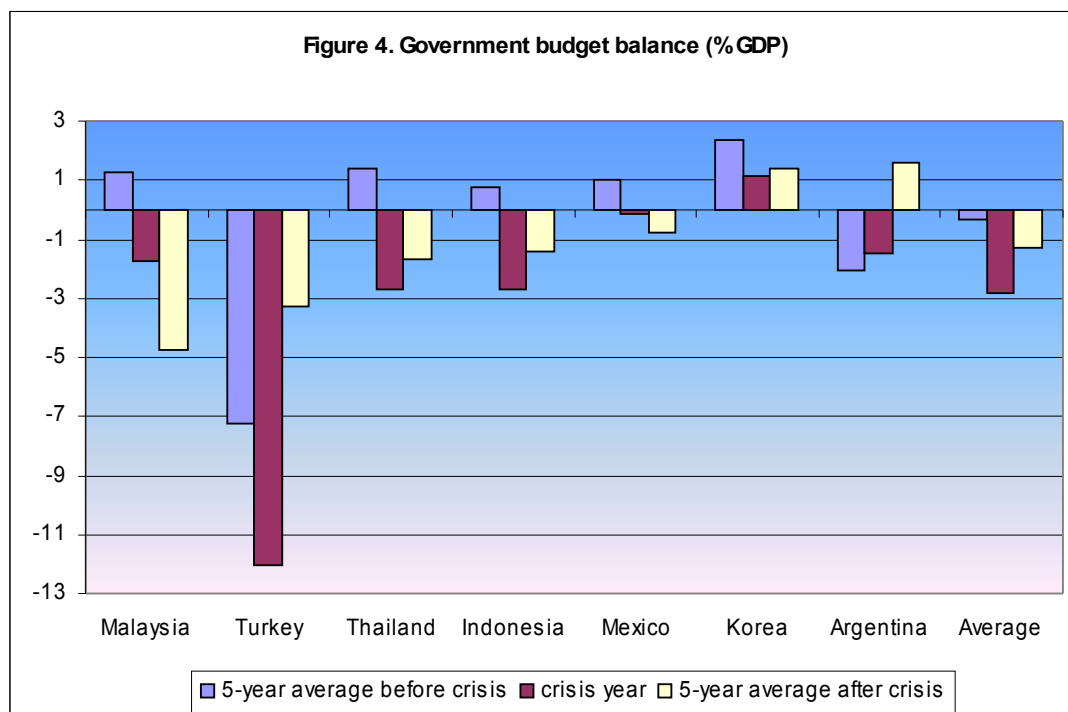
**Figure 2**



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**Figure 3**

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**Figure 4**

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- i Torres R.; International Institute for Labour Studies. 2009. [The Financial and Economic Crisis: A Decent Work Response](#) (pdf 561 KB) (Geneva, International Labour Organisation).
- ii Reinhart, C.M.; Rogoff, K.S. Jan. 2009. [The aftermath of financial crises](#) (pdf 63.1 KB), Working Paper No. 14656 (Cambridge, MA, National Bureau of Economic Research).
- iii Gottschalk, R. 2004. *Emerging Markets Financial Crises and Country Poverty Profiles* (London, Department for International Development).
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- v Wray, L. R. 2007. [The employer of last resort programme: Could it work for developing countries?](#) (pdf 367 KB), Economic and Labour Market Papers 2007/5 (Geneva, International Labour Office).
- vi Rofman, R.; Ringold, D. July 2008. [Argentina: Income Support Policies towards the Bicentennial](#) (pdf 636 KB), En Breve 128 (Washington, D.C., World Bank).
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- xiv Novick et al., 2007.
- xv Novick et al., 2007.