

The Youth Labor Market in Korea: Current Situation and Employment Policy*

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I. Introduction

Although youth employment has recently become the government's policy priority and there are positive signs in the rate and number of young people employed, the situation remains anything but rosy for young job-seekers in Korea. There is an impending *youth employment cliff* as corporations are set to reduce hiring amid rising unemployment. As of April 2015, the number of employed youths (15–29 years of age) stood at 3.902 million, an increase of 85,000 year-on-year, with the youth employment rate at 41.1%, an increase of 1.0 percentage points. However, unemployment among youth also grew by around 40,000 to 406,000 in total, as did the youth unemployment rate, by 0.6 percentage points to 9.3% (Statistics Korea, 2015). Realizing the gravity of the situation, the government has announced a number of plans related to youth unemployment, such as the *70 Percent Employment Roadmap*, *Directions for Employment and Labor Policy*, and the *Peak Wage System*. However, concerns remain about whether these programs can fundamentally improve the labor market structure. Underemployment of youths, who are the backbone of both the national economy and the labor market, is the main cause of deterioration in the economic structure resulting from lower labor productivity and growth potential. Thus, now is the time to take stock of the youth labor market and review the youth employment policies to enable efficient improvement in the labor market fundamentals. The purpose of this paper is to achieve a better understanding of the youth labor market in Korea, review the youth employment policies in effect today, and examine implications for more efficient policymaking to improve youth employment.

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II. The Youth Labor Market

1. Transition to the Labor Market

The high rate of youth unemployment in Korea is largely due to a mismatch between skills acquired through school education and skills demanded by industry, although there are other contributing factors, such as insufficient demand for high-quality labor and higher expectations on the part of young people. Because formal education falls short of meeting businesses' demands for job skills and the school diploma serves only as a threshold in employment qualifications, young people wishing to set themselves apart in the job market and improve their employment chances are working to build qualifications unrelated to job skills. However, there is skepticism about the usefulness of these job-preparation activities. They incur heavy individual and social opportunity costs: rather than giving youths opportunities to proactively build human capital,¹ they may simply be serving as another threshold to avoid the disadvantages of repeating the job-seeking process.

To differentiate themselves in the highly competitive labor market, young people are engaging in a wide range of preparatory activities, such as overseas language studies, foreign language exams, internships, trainee programs, and certificate programs. These activities often delay their initial transition into the labor market because they may require a leave of absence from school, more years of education, or continuation of job preparation after graduation. Yoo Bin Kim and Joo Yong Jeon (2014) defined *repeated job-seeking* as the continuation of employment preparation while remaining unemployed after college graduation. Analyzing employment preparation status using data from the Graduates Occupational Mobility Survey (GOMS), they found that at 1.5 years after graduation, repeat job-seekers numbered around 35,000, or around 13% of all graduates. Of the employed graduates, 45% were found to have taken a leave from school to prepare for employment, which supports the argument that such job-preparation activities are a major cause of young people's stagnating employment rate and delayed transition into the labor market. It is questionable whether such preparatory activities outside of formal education, accompanied by excessive individual and social opportunity costs, are justifiable for the performance of the youth labor market.

¹ Joo Yong Jeon et al. (2013) were skeptical about whether young people's job-preparation activities help build human capital that can increase employability and productivity, and thus wage level. They observed that the higher opportunity costs incurred by the excessive supply in the labor market and the need for competitiveness are a major factor that delays youths' initial transition to the labor market.

Figure 1 is a comparison of the average monthly wages earned by college graduates by type of employment preparation and job quality.² The benefits of employment preparation for wage increase remain unclear, and the data do not support the argument that such preparation builds human capital and thus increases employability, productivity, and wage level.

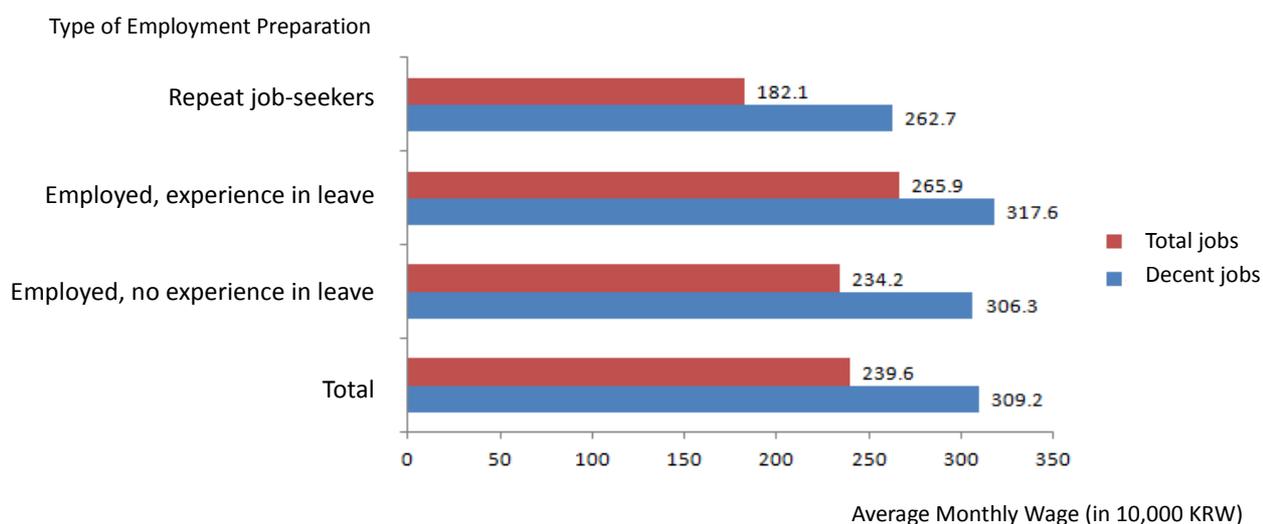


Figure 1. The average monthly wage (in 10,000 KRW) by type of employment preparation. Source: *The Youth Labor Market in Korea: Main Characteristics and Policy Implications*, by Yoo Bin Kim and Joo Yong Jeon, 2014, Korea Labor Institute; re-cited.

The average monthly wage of those employed after repeated job-seeking is 1.821 to 2.627 million KRW, lower than all other groups and even the total average. Those who had taken a leave from school do show a higher wage level in general than those who had not (by 317,000 KRW), but in decent jobs, the gap is reduced to just 113,000 KRW, falling far short of the opportunity costs of repeated employment preparation. Figure 2 shows a similar pattern. When the average monthly wage earned by graduates is broken down by period of leave, there is no indication that taking a longer leave for employment preparation contributes to a higher monthly wage.

It is often said that extended job-preparation activities and longer preparation periods are due to a higher employment threshold. However, another grim reality in the youth labor market is higher expectations by job-seekers themselves, who covet large company positions, while small

² A *decent job* is one that meets the following criteria: permanent, adequate/upwardly matched employment, offering at least two types of social insurance coverage, and above-average wages. It follows the definition in Seon-mi Shin (2013).

and medium enterprises (SMEs) still struggle to find workers. This phenomenon reflects the social pressure young people feel to choose jobs and workplaces that look good to others, such as positions at large companies offering high wages and job security, which limits their freedom to choose jobs based on their own preferences, uniqueness, or autonomy.

2. The NEET Phenomenon: Young People Not in Education, Employment, or Training

Those who do not survive the labor supply competition lose their will to find employment and become discouraged workers. According to Statistics Korea, there were around 492,000 discouraged workers as of January 2015, a record high and an increase of 255,000 year-on-year. It is a sign that youth unemployment in Korea has reached a critical point.

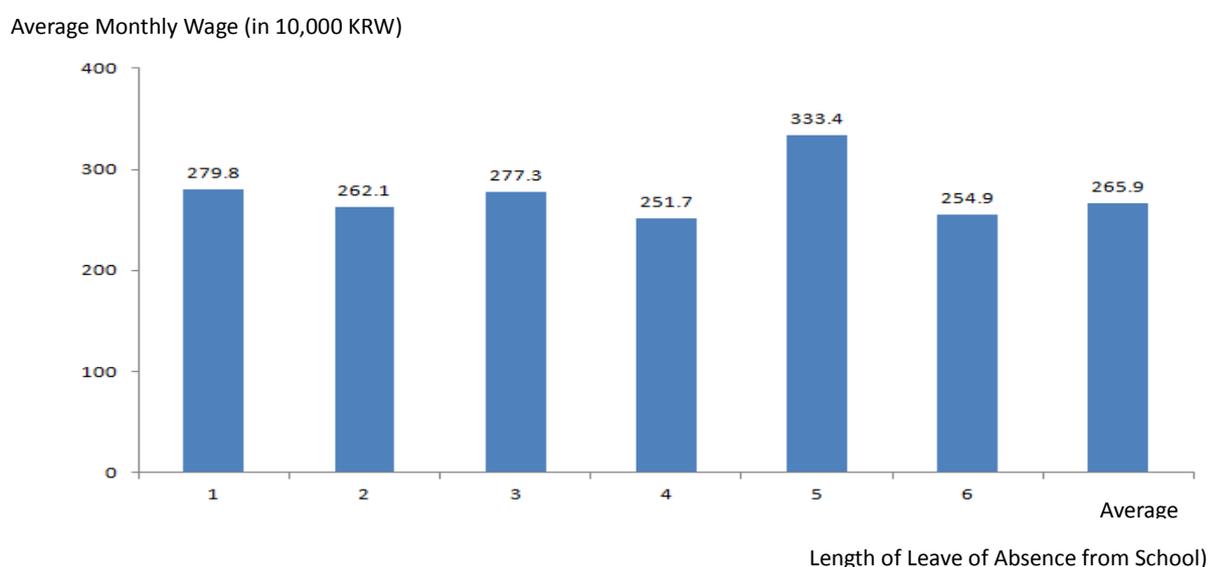


Figure 2. The average monthly wage (in 10,000 KRW), by length of leave of absence from school. *Source: The Youth Labor Market in Korea: Main Characteristics and Policy Implications*, by Yoo Bin Kim and Joo Yong Jeon, 2014, Korea Labor Institute; re-cited.

The discouraged workers who are not in education, employment, or training are called NEETs. Jaeryang Nam and Se-Um Kim (2013) performed a comparative analysis of labor market performance of young people based on their experience of being a NEET. Those with NEET experience have a lower rate of employment, and higher rates of unemployment and economic inactivity. In addition, the longer the NEET experience, the stronger the negative impact. The average monthly wage and hourly wage also show a gap of 74.1% to 85.5% and 71.6% to 89.0% respectively, supporting the analysis that the NEET experience leads to poorer employment performance.

3. Gender Gap in the Labor Market

According to Statistics Korea's *Women's Lives through Statistics 2013*, the labor force participation rate of women has been increasing, reaching 49.9% in 2012, but it still falls far short of the rate of 73.3% for men. Although the gender wage gap in Korea has been reduced from 45% in the 1990s to 37.2% as of 2013, it remains the highest gender wage disparity among OECD members. By employment type, fewer female (38.7%) are in permanent positions than male workers (49.4%), and more female workers are in temporary/daily jobs. Given that women's college enrollment rate is higher than men's (and the difference is increasing), the data show that women's higher education has thus far had little influence in reducing the gender wage gap in the labor market. The gender gap stems from women's role in the labor market being confined by traditional perceptions and by women's limited access to information relevant to job seeking. Based on the analysis, we can conclude that one priority in advancing women's economic participation is to discard traditional assumptions about gender-based divisions of labor. It is also necessary to broaden support for career education to strengthen women's job-seeking capability, increase internship opportunities for women, and a more women-friendly corporate culture in order to create more and better jobs for women. (Seon-Young Kim, 2000; Young-Min Lee & Jeong-yeon Lim, 2013; Joo-heon Park, 1997).

III. Youth Employment Policy

1. Work-Leaning Dual System

Korea's Work-Leaning Dual System is designed to develop human resources with practical skills that meet corporate requirements. According to the design of the program, businesses hire young job-seekers as student-employees and give them educational opportunities based on National Competency Standards (NCS). At the end of the program, the student-employees earn certificates of education and training upon passing an evaluation. The program's main purpose is to provide business-customized education and training so that hiring can be based on job competency, and job seekers can avoid excessive and unnecessary competition in educational attainment and extracurricular qualifications. Student-employees receive wages along with education and training from the company. The government supports administrative costs for the education and training to encourage corporate participation. The dual education system was launched as a pilot program in late 2013, and as of September 17, 2014, a total of 1,721 companies had participated. However, 95% of these companies are SMEs with fewer than 300 employees; participation by large companies has been minimal. In addition, the dual system is still led by the government because of a lack of voluntary leadership by businesses. The average

per company is 6 student-employees, 17 months of training, and 1.63 million KRW in wages (HRD Korea, 2014).

According to Seung-hwan Jeon et al. (2015), the net benefit³ of Korea’s dual education system is 8.91 million KRW per student-employee, higher than that of major countries like Switzerland and Australia. Still only at an early stage, Korea’s system nevertheless appears to be producing positive outcomes. However, note that the performance goal of the dual education system was to increase quantitative indicators (the number of participating companies, the number of student-employees, etc.) and that there are differences between Korea and the benchmark countries in terms of workplace conditions and perceptions. There is still a need to revisit the program lest it suffer from deterioration in quality.

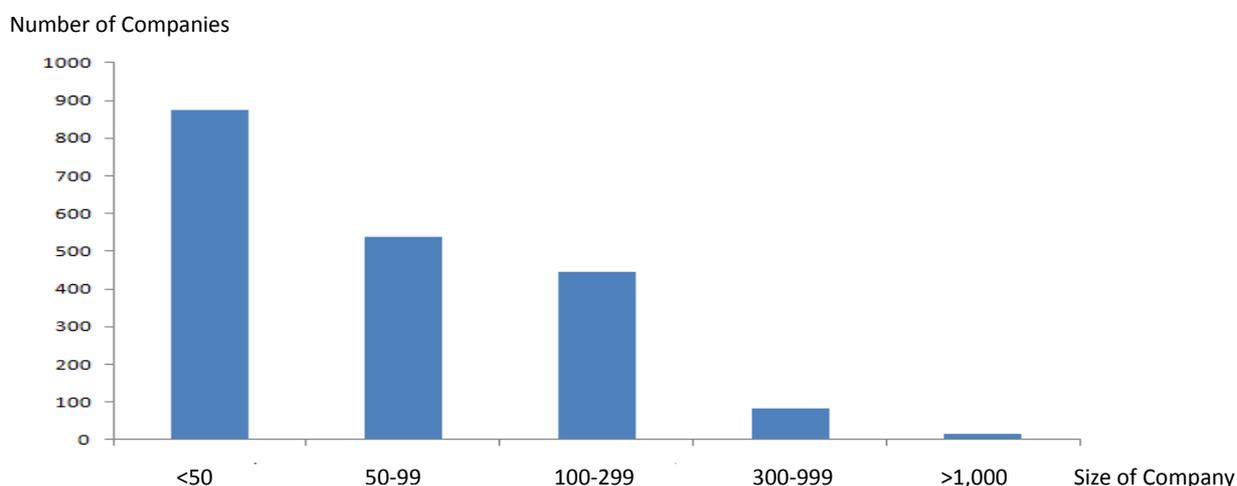


Figure 3. Work-Leaning Dual System participant companies by size (by number of permanent workers).

Source: “Dual Education System: Status, Performance and Challenges,” by Seung-hwan Jeon et al., 2015, *The HRD Review*, Book No. 18, Issue No. 1; re-cited.

2. Youth Internship at SMEs

This is a program for unemployed youths age 15 to 34 to experience 6-month internship opportunities at SMEs employing over five permanent workers. The main objectives are to reduce worker–job mismatch at SMEs and to improve the employability of unemployed youths in permanent jobs. As incentives for businesses, part of the labor costs is financed for up to 1 year. The youth interns receive wages from the company during the internship period, and they

³ Gross profits minus gross expenses (gross profits = student-employees’ productivity, cost of new hiring, productivity gap with other employees, government support, other profits; gross expenses = labor costs, administrative costs, costs of selecting and hiring student-employees, other costs).

are entitled to employment support pay of between 1.8 million KRW and 3 million KRW, depending on the sector, when they are converted to permanent workers. Introduced in 2009, the program is credited with helping unemployed youths find permanent positions at SMEs. However, like other youth employment programs, its main targets are defined by quantitative indicators, later revealing limitations in quality management. Moreover, the participation rate remains short of the target because of young people's negative perceptions of internships, rules on exception from application, and the lack of publicity for the program. There are also complaints of young interns being assigned only to routine, menial jobs—such as simple chores, cleaning, and document copying—that do not prepare them for employment or help them accumulate human capital. More stringent on-site inspection and management are needed, as well as improvement in the quality of participating companies, simpler application procedures, and stronger protection of participating workers.

3. The K-Move: an Overseas Employment Support Program

The K-Move is an overseas employment support program for young people administered by HRD Korea under the Ministry of Employment and Labor (MOEL) as part of the government's national agenda. It includes several subprograms, such as the global information network, K-Move Schools, K-Move Mentors, and K-Move Centers. It offers incentives for young people to find and settle down in jobs overseas. As of 2015, 2,000 young people (those under age 35) are eligible for the incentive pay for the overseas employment success of up to 3 million KRW if they meet applicability and employment criteria.⁴ According to the MOEL's 2014 press release on its performance, since the inception of K-Move Schools, the youth employment rate has increased, and the average annual salary has increased by 22.3 percentage points, from 20.18 million KRW to 27.41 million KRW.

4. Employment Success Package Program

The Employment Success Package Program is designed to extend the employment support programs to the low-income class and other disadvantaged groups and to provide incentive pay for those who succeeded in finding jobs. It is not limited to youths, as it is open to low-income workers age 18 to 64, but it still qualifies as a youth employment policy because a significant

⁴ The Overseas Employment Success Incentive Pay is paid out twice: the first payment is 1.5 million KRW 1 month after employment, and the second payment is 1.5 million KRW 6 months later. For employment-disadvantaged youths, up to KW4 million is paid, with KW2.5 million in the first payment. Employment-disadvantaged youths include members of households receiving basic livelihood support, family of persons with national meritorious service, children of multi-cultural families, and so forth.

number of the participants and successful job-seekers are young people in their 20s and 30s. There are two types of assistance under this package: Type I and II. Type I is for the low-income class earning less than 150% of the minimum costs of living and for the employment-disadvantaged such as female heads of household, marriage migrants, North Korean defectors, troubled teenagers, and credit recovery applicants. Type II is for young people age 18 to 34 and middle-aged job-seekers earning less than 250% of the minimum costs of living. Employment support is provided for each step for up to 1 year. In Step 1 of the Employment Success Package Program, a participation benefit (maximum 250,000 KRW for Type I and 200,000 KRW for Type II) is given to those participants who develop an *Individual Plan for Job-Seeking* after participating in group counseling. In Step 2, a training participation benefit of 18,000 KRW per day, up to 284,000 KRW per month, is given to support the livelihood of those who attend vocational training. Finally, when a participant successfully finds a job working over 30 hours a week and becomes qualified for Employment Insurance coverage, the amount of the incentive pay for employment success is based on the employee's term of service.⁵

IV. The Youth Labor Market: Issues and Challenges

As reviewed so far, the issues of Korea's youth labor market are largely due to the failure of the education system to respond to the structural changes in labor demand. This is affecting not only young people's entry into the labor market but also their post-entry security. Those who fail to find security in the labor market tend to try to fulfill their expectations through job mobility, but having frequent job changes and a greater number of jobs has a negative impact on wage increases, years in service, and employment type, making it unlikely that the goal of improving labor market performance is reached through job mobility (Young-Min Cheon & Jeong-Hye Yoon, 2008; Byeong-Hee Lee, 2002). Nor does vocational education, seen as an alternative to formal education, help improve labor productivity or wage increases after employment, as its outcome is still insufficient, and it is used only as a selective tool for employment. This means that the current education system is only fostering competition instead of building human capital. It also implies that educational achievements, such as educational attainment or certificates, serve merely as screening tools when workers first enter the labor market. It is necessary for the Korean education system to break away from the existing complacency and to give students efficient and practical opportunities to acquire skills that will help improve their labor productivity. It is also necessary to build a system to provide information about the labor and

⁵ The incentive pay for employment success is 200,000 KRW for 1 month of service at the same workplace, 300,000 KRW for 3 months, and 500,000 KRW for 6 months; for a total of up to 1 million KRW.

education markets and to strengthen job security programs that promote matching between educational background and job description.

Another challenge is to change the corporate-friendly and labor-exclusionary social and economic environment and perceptions in order to protect and advance the rights of all workers, including the youth. Unless there is a fundamental shift in the collective mind-set instilling the notion that labor is not a commodity, the labor market cannot be a place of opportunity for most young job-seekers. The recent controversy over *passion pay* (whereby young people are compelled to work for their *passion* at extremely low wages) is a case in point. It was ignited in the fashion industry and culminated in the collective dismissal of trainees at a social commerce company, revealing a dark side of the Korean reality for young people today, where their hope is exploited as even education and training opportunities are turned into products. Unlike the original objective of apprenticeship training, which was for young people to be hired as student-employees to learn theory and practice while performing actual jobs, it has become a common practice in Korea to employ young people in place of regular workers without properly compensating them. It is necessary to change social perceptions to ensure protection so that student-employees can acquire necessary skills in a secure environment. Unlike the United States and France, where there are legal guidelines and protections for unpaid interns, Korea offers scant legal protection. Given that young people's initial process of career formation has a significant impact on their later performance in the labor market, there should be some self-introspection in the labor market to help create a social consensus on transitional labor⁶ that today remains outside legal protection. There should also be a legal framework to ensure the protection of transitional workers' rights.

Vocational training should be an efficient and practical process for acquiring skills to help enhance productivity, not just another way of building up extracurricular qualifications. To that end, the quality of vocational training should be improved to reduce the mismatch between skill requirements and education, and the job security program should be strengthened. Young people themselves should be equipped to deal proactively with labor market changes by diversifying their college majors, which today are highly concentrated in the humanities and social sciences, and by improving the structure for education and training linked to each major.

⁶ The Youth Union defines the forms of work that take place between education and entry into the labor market, such as traineeship and internship, as *transitional labor*.

V. Conclusion

The youth employment rate in Korea, which had continued to fall since the Asian financial crisis, recently rebounded thanks to increases in the numbers of people employed and of productive population. However, given the existence of marginal labor (such as discouraged workers) that is not captured through statistics, youth unemployment appears to be a problem that is more serious than statistics show.

Job-seeking fervor is strong, as attested to by college libraries that stay open all night and overseas study agencies and private language schools that are always full, but the ominous phrases *employment cliff* and *1 million youths unemployed* frequently make newspaper headlines. The TV drama series *Misaeng* (translates to *Incomplete Life*), a portrayal of typical life in the workplace, won phenomenal popularity, probably due to its similarity to real life. The characters experience the trials and tribulations of job-seeking wars and discriminations towards non-regular and fixed-term workers that are the daily realities of Korean society today. It is true that some blame young people themselves for their high unemployment, citing worker shortages at SMEs and high college enrollment rates and finding fault with the unrealistic job expectations of the youth. But the social and structural problems driving youth unemployment are too large for the phenomenon to be purely of their own making. What we need now, more urgently than ever, is a shift in the economic and social paradigm so that we will aspire to coexistence between capital and labor under the belief that sustainable economic growth and welfare expansion can be made possible through labor.

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