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Employment and Labor Policies in Transition : Employment

Youth Employment : Reality and Beginnings of Improvement

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I. Introduction

Youth employment has become one of the most serious issues of Korean society. It is defying all attempts by not only the central government and local authorities but also the private sector and universities, and continues its downhill slide. Rising unemployment and worsening job quality resulting from economic stagnation have most heavily affected young people, the relatively employment-disadvantaged group. The widening income gap might lead to the labor market being replaced with older workers who need post-retirement income. Resolving the employment issues of young people, the backbone of the national economy, society and the labor market, is the most pressing employment issue for Korea today.

Korea's labor market is faced with demographic changes brought on by low birthrate and population aging, as well as transition into the Fourth Industrial Revolution, being ushered in by advances in artificial intelligence, robotics and life science. Given this backdrop, it is necessary to assess how such social and economic uncertainties will trigger structural changes in youth employment and Korea's labor market in general. Korea as a nation must strengthen readiness to those changes. This paper reviews the issues of youth labor market and employment, identifies the major causes, and presents policy implications for more efficient youth employment policymaking.

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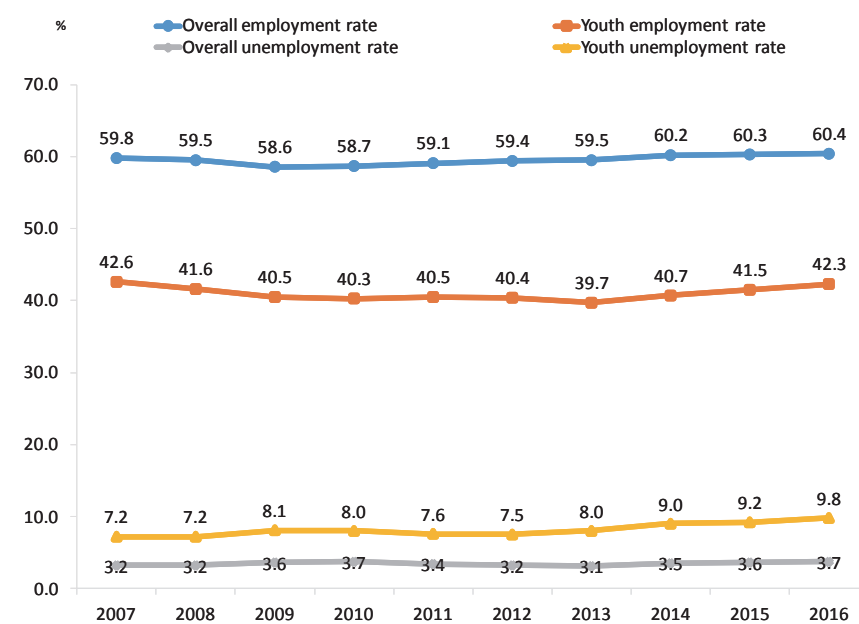
II. Youth Employment : Status and Issues

Korea's employment rate in the 15-64 age group plummeted since the Asian Financial Crisis. It has been on a rising trend since then, but not for youths (15-29), whose employment rate has been falling in the 2000s, down to as low as low 40% level today. In 2016, youth employment rate stood at 42.3%, up 0.8%p year on year. By age cohort, the 15-19 group's employment rate was 8.0% and the 20-24 group 46.0%, still deeply mired in sluggish employment. It is close to 70% (69.6%) for the 25-29 group, the age when they begin to enter the labor market, but the quality of employment leaves much to be desired, in terms of wage, working hours and working type. For example, 42.4% of the young people who got employed through the government's programs under the Comprehensive Plan to Ease Youth Employment Cliff did so in non-regular jobs, with 40.1% receiving less than 1.5 million Korean won in monthly wage.¹¹

Unemployment statistics also paint a grim picture of the labor market for youths. Youth (15-29) unemployment stayed around 8.0% in the 2000s, then fell steeply in 2007 to 7.2%. After some fluctuations it went back to a rising trend in 2013. Particularly in 2015 it reached 9.2%, the highest since the change in statistical methodology in 1999. It rose further in 2016, reaching 9.8%. The problem is compounded when the statistically uncaptured young marginal workers are also included. Youth unemployment, according to the Complementary Employment Indicator 3,²¹ also known as the perceived unemployment rate, stood at 22.0% in both 2015 and 2016.

Although the causes of the exacerbating youth employment in Korea are varied and complex, the most often cited is the entrenched dualism in Korea's labor market. Specifically, this means that the Korean labor market is divided into the primary and secondary markets, the primary market offering higher wage and better working conditions with strong job security, and the secondary market

Figure 1. Employment Indicators : Overall, Youths (Employment Rate, Unemployment Rate)



Source : Statistics Korea, *Economically Active Population Survey*, each year.

1) Korea Employment Information Service (2016).

2) Employment Indicator 3 = $\frac{\text{Time related underemployment} + \text{Unemployed} + \text{Potential labor force}}{\text{Economically active population} + \text{Potential labor force}} \times 100$

Figure 2. Hourly Wage in Non-regular Jobs (as of Aug., Regular job=100)



Source : Korea Labor Institute (2016), "2016 KLI Non-Regular Labor Statistics."

offering generally lesser conditions. Mobility between the two markets is highly limited, and the gap has become deeply embedded, creating a structure of wage mismatch in the labor market in general.

It is a telltale sign of the wage gap between regular and non-regular workers, and between large companies and SMEs, and the leading indicator of the labor market dualism and imbalance. Although the large company-SME wage gap has been bridging over the long term, the regular/non-regular wage gap remains large, with non-regular workers' hourly wage to regular workers standing at 65.4% as of last year. And SMEs' average wage is still only around 60% of that of large companies.

Wage is not the only gap between the primary and secondary markets; social insurance coverage, retirement pay availability, years in service, among others, are also areas where the gap remains pronounced. The yawning gap is the fundamental cause of today's youth employment woes. It leaves only the primary labor market as young people's rational employment choice, causing delays in their entry and high unemployment rate.

Another major factor of Korea's youth labor market

problem is the mismatch between school education and industrial needs. As formal education falls short of providing the skills required by businesses, education simply becomes another qualification to gain employment. To distinguish themselves in the job-seeking competition, young people are obsessively piling up qualifications that have little to do with job skills.

What is serious about this problem is that the extended employment-preparation activities do not serve as opportunities for human capital accumulation and cause excessive individual and social opportunity costs due to delay in labor market entry. As of 2016, it took 51 months on average to graduate from university (63 for men, 42 for women), and 11 months to find the first job (13 for men, 10 for women). But they only stayed 19 months on average in the first job.³⁾ The fact that unsatisfactory working conditions such as wage and working hours was the number one reason (48.6%) for leaving the first job implies that their job preparation activities are little helping them settle down in the labor market.

The demand side of the labor market is not helping improve the youth unemployment issue, either. Job creation

3) Statistics Korea, *Supplementary Survey to the Economically Active Population Survey*, as of May 2016.

capability keeps weakening as low growth trend continues in the wake of the global financial crisis. And the large company-SME gap drives young job seekers to large companies, leaving SMEs to fill their worker shortage with migrant workers. Such is the contradictions in the Korean labor market today, where young people cannot find jobs, and companies cannot find workers.

Another grim aspect of the youth labor market is that those who do not pass through the labor supply competition become discouraged and fall into the NEET group, and that the gender gap persists among young job seekers. According to Statistics Korea, discouraged workers as of Dec. 2016 numbered 448,000, and 40.2% of women workers are in non-regular jobs, higher than men by 13.7%p (Statistics Korea 2016, “December Employment Trend”). The growing rate of debt restructuring among young people, as well as the delinquency rate in student loans, are indicative of the continuous rise in low-income working youths.

Economically active population in the 15-29 age group is expected to shrink due to the sharp drop in productive population following low birthrate. Young productive population is projected to start shrinking in 2020, going down to 8,059,000 by 2023, or only 5 years from now. Some expect such demographic changes to ease the shortage of youth jobs, for example improve their employment rate and economic participation rate, but whether it will actually improve job prospects for young people is questionable. Given the large share of non-regular and low-income jobs among youths today, the working condition mismatch will continue if no improvement is made.

III. Conclusion : Policy Implications

The discussion so far leads to the following policy recommendations to address the worsening youth employment and unemployment in Korea.

First, it is necessary to bridge the wage gap between large companies and SMEs as a way to ameliorate the labor market dualism, the fundamental obstacle against youth job creation. It will be worthwhile to consider introducing a Corporate Wage Disclosure System to trigger social interest in the wage gap between large companies and SMEs, regular and non-regular workers, and principals and contractors. It should be the basis for starting dialogue at the industry and regional level to start tackling the wage inequality issue. The coverage of the Shared Growth and Cooperation Fund should be broadened to include working condition improvement by spreading the profit-sharing scheme. Stronger tax incentives should be offered for shared growth and cooperation.

Second, subsidies centered on large companies and employers should be reduced, and support for SME employees should be increased instead. The current employment subsidies are still focused on employers, while direct subsidies and tax benefits for employees are not helping increase young people going to work for SMEs. Support should be made more practical and broader, such as higher rate of income tax break, reimbursement of social insurance payments for a certain period, to the extent that young people would perceive them as real benefits of working at an SME.

Third, young people must be encouraged to enter the labor market early. As observed earlier, youth employment rate might be improved over the medium to long term following demographic changes, but in the short term, improvement is not likely given the current employment situation. Thus short-term prescription for youth employment issues should also be sought, and incentives for early labor market entry can be seen as a part of it. It would be worthwhile to consider enacting a “First Job Law” to encourage young people to join the labor market. Young people finding the first job within a certain period after graduation can be entitled to such benefits as income deduction and tax breaks, and firms can be entitled to cor-

porate income tax break.⁴⁾ By differentiating the benefits for young people by the post-graduation duration of finding the first job, years in service and company size, and for companies, by the efforts to improve the quantity and quality of youth jobs, it could strengthen the incentives to participate in the labor market.

Fourth, reducing the working time can be one effective way of creating jobs for young people. The labor market's job creation capability should be enhanced by reducing working time, by easing the current norm of long work, and promoting decent flex-time jobs. It is necessary to spread positive perceptions about work-life balance, by highlighting that reducing working hours at this point would be reasonable as lifetime working hours have increased with the extension in retirement age. To that end, legal improvement should be made to reduce the possibility of long working hours, by counting weekend work as overtime work, and easing working-time exceptions for certain sectors, and easing the disadvantages of flex-time work.

Last, plans must be made for the different types of young people, while assessing the efficiency of existing policies and integrating or modifying the current youth employment programs. These programs are scattered across different Ministries, often overlapping with each other in objectives while having limited budget, resulting in sub-optimum policy effectiveness. Similar or redundant programs should be consolidated, the delivery system should be unified to ensure better fiscal and budgetary efficiency, and policies should be efficiently consolidated

or coordinated through an ongoing inter-Ministry consultation body. In addition, youth employment policies must be designed with clear targets (i.e., type of youths) at the policymaking stage. The policies tailor-made for such groups as young NEETs or low-income youths such as the working-poor are good examples. Young NEETs, or those "not in education, employment, or training" have been on the rise, taking up 18.5% of all young people as of 2016. Young working-poor, those who must keep working while in school, also have been increasing, but there have been insufficient policy interest and finely-segmented plans. It is necessary to expand the Employment Success Package, currently limited only to low-income youths, to include other types of vulnerable youths. It is important to prevent young people from falling into NEET status by regularly monitoring the at-risk group, providing counseling and career training, and to strengthen support for their start-up or work experience activities.

Undoubtedly, what is the most important is to find more fundamental, multi-faceted solutions to youth employment, a complex problem involving labor market dualism, demographic factors and labor supply-demand mismatch. Nonetheless, there is also the need to address this increasingly worsening problem with a more immediately effective and timely solution. Youth employment is not a problem of young people alone. Based on the understanding that "Young people are the future of our society," we need to strengthen the social safety net that can ease their sense of anxiety and uncertainties.

4) Ahn (2016). It defines the eligibility for support as: the first job was found within 3 years of graduating from the final school and is covered with social insurance.

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