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Employment and Labor Policies in Transition : Employment

Overview : Employment and Labor Policies in Transition

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I. Why Transition?

The Korean labor market is facing a transition, affected by factors both extrinsic and intrinsic. Outside Korea, there are dramatic advancement in technology and the resulting changes in production and consumption patterns, the New Normal where low growth is the norm, inauguration of the Trump administration, and growing uncertainties in relations with China triggered by the decision to deploy THAAD on Korean soils. Inside, there are social changes that require new approaches, such as demographic changes following low birthrate and population aging and rise in social conflicts.

From the viewpoint of industries and businesses, or the demand side of the job equation, the industry is being reshaped as the erstwhile leading sectors like the heavy and

chemical industries are losing international competitiveness. For the longer term, production innovation resulting from ICT advancement is affecting the industrial structure and its ecosystem, which in turn affects the labor market, especially the employment and unemployment of workers in the affected industries. The new production and consumption patterns bring new types of employment, requiring shifts in the infrastructure surrounding the labor market such as labor laws, social security system and training and education content.

From labor supply, the demographic changes caused by low birthrate and population aging have driven Korea into the brink of a super-aged society, likely to become a population-declining society in the near future. These shifts on one hand increase demand for income-earning jobs from the age of formal retirement to advanced age,

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and call for policy tasks that would address the likely drop in growth potential following population decline, as well as the sharp labor supply reduction that could lead to depletion of social security resources. Meanwhile, lack of or insecure employment of youths, the so-called Echo Generation, has become the direst issue in Korea's labor market today. It is a factor that weakens human capital among the young generation. Youth unemployment is at the highest since the mass unemployment crisis at the height of the 1997 Asian financial crisis. Even among the employed, many of them remain insecure, going back and forth between part-time and non-regular jobs, or between employed and unemployed status. Moreover, student-loan-indebted young people who enter the labor market as credit delinquents are on the rise. Such moniker as the "give-up generation" (giving up 5 life goals, or 7 life goals) is a stark reminder of the social anxiety felt by young people who appear to be increasingly losing hope for the future. The Korean society has gone from a time when certain level of education guaranteed employment to the present where long years of education, training, and job-seeking efforts barely make one employable. Thus, the most pressing employment and labor policy today is the one that can reverse the current march.

If the issues raised above highlighted the quantity of labor, there are also issues on the quality side of it. One example is the need to reduce working hours, to go from the current norm of long hours to one with more work-life balance. There is also the need to ease the dual structure in the labor market as it generates numerous social ills. Even as the disparity worsens between regular and non-regular workers, large companies and SMEs, and principals and contractors, the social safety net remains weak especially for the workers unprotected by social insurance and those unable to engage in job-seeking. It

is also necessary to change how businesses respond to economic cycles. Today it is focused on quantitative head-count adjustment, but it should be more about improving wage, working hours and flexibility of the internal labor market so that firms can avoid the series of events that lead to sharp confrontations during downtimes, such as downsizing and labor-management conflicts. This means that the current confrontational and dysfunctional labor-management relations must shift to job-based solidarity and innovation.¹⁾

Korea's labor market today is faced with two policy issues: addressing the external socio-economic issues in transition, and overcoming and shifting away from the current structural problems of the labor market. Now based on the understanding why Korea's labor market is said to be in transition, let us review the direction in which employment and labor policies should be designed.

II. Strategy in Times of Transition: from Labor Demand Perspective

The most pressing challenge from the labor demand side is the strong pressure for restructuring, brought about as Korea's traditional growth engines lost their international competitiveness due to oversupply. The manufacturing sectors that have been the 5 core industries for over a decade, electronics (semiconductors), auto, steelmaking, petrochemicals and shipbuilding, have been designated as oversupply industries in 2015, and became entitled to temporary deregulation.²⁾ Furthermore, shipbuilding in 2017 was designated as a "special employment support industry" as it had to go through drastic restructuring. Other core industries are not safe from this fate, should they fail to ease oversupply and maintain international compet-

1) Among them, the dual structure of the labor market and the need for paradigm shift in labor-management relations, the policy alternatives will be discussed in the next issue.

2) Shipping and construction were the other industries designated as oversupply sectors in 2015.

itiveness. If restructuring is undertaken in these industries as well, it should be accompanied by appropriate employment and labor policy along with precautionary industrial and financial policies. In 2016, it was witnessed from the example of shipbuilding that when there is restructuring, the first to lose jobs are non-regular workers and suppliers. They are not strong enough as social dialogue partners, not fully entitled to policy support designed to minimize impact from restructuring, and often not even covered by social insurance (including Employment Insurance). The groups most vulnerable to restructuring are also exposed to the biggest risk is a stark reminder of the need to improve the current employment and labor policy system.

Looking ahead to the mid-to-long term, the world is awash in talks of the fourth industrial revolution. Its impact is expected to go beyond that of the past industrial revolutions that ushered in material wealth and information explosion. It is based on the breakthrough idea that the human society will become a Cyber Physical System where everything is interconnected, not just in the realms of production and consumption but also in our everyday lives. In addition, technological changes led by ICT are leading our society to a completely new direction, driven by shared economy and platform companies like Uber, that go beyond the traditional concept of production and consumption. There are views that the human society is moving into an unprecedented phase in history, resulting from the reshaping of core industries in major countries and rise of multinational behemoths armed with new technologies.

Amidst such breakneck pace of technological changes, what is pressing for Korea's industrial structure is to promote companies that have related technological capabili-

ties, such as IoT, artificial intelligence and robotics. If the traditionally large-and-heavy core industries can successfully converge these new technologies, if new businesses can start up based on the ideas using these technologies, and if at least some of them can grow into mid-sized firms then to large multinationals, it will bode well for the Korean economy's job creation capability. Turning this scenario into reality requires right policymaking. There should be more R&D investment on related technologies to trigger a virtuous cycle of production-income-consumption, a more vibrant start-up ecosystem (adopting the negative-list approach for regulations on technology start-ups, creating an efficient start-up support system, etc.), reform of the education and training system,³⁾ and improvement in taxation and distribution system.⁴⁾

SMEs' role is crucial in reinforcing the fundamental job creation capability of the Korean economy. Given that 99% of firms in Korea are SMEs, employing around 85% of wage workers, Korea's employment policy should focus on enhancing SMEs' job creation and retention capability. To address the labor demand-supply mismatch among SMEs, their competitiveness and financial capability must be improved. Of the innumerable SME support policies in place today, those designed to extend the life of marginal SMEs should be reduced while those designed to improve SMEs' competitiveness should be increased, such as support for start-ups, technological development and talent development. It is also necessary to improve the legal framework to help create a business ecosystem with fairness between SMEs and large companies, and to change the principal-contractor relations to ensure equitable distribution.

3) Some of the factors that call for such reform: growing importance of lifelong education and training, the need to acquire basic skills, knowledge and problem-solving skills through formal education required in the new production and consumption environment, and the need for training/education to be provided by the industry or company.

4) The recent technological changes, over the long run, will bring about fundamental changes in the labor market structure. The emergence of new and different types of employment throw challenges to the existing labor laws and social insurance systems that are based on the workplace.

III. Strategy in Times of Transition: from Labor Supply Perspective

From labor supply side, the most pressing policy task is youth jobs, which is said to be at a “cliff” today. At present, there are over 200 job policies in place under different central Ministries and local authorities, using up enormous budget, without providing employment or income solutions that are actually felt by young people. One often-mentioned improvement is to reduce the redundancy and inefficiency in the youth employment policies that are instituted in a haphazard fashion, but at a more fundamental level, these policies are rarely effective because they cannot go to the heart of the problem, which is creating decent jobs at the private sector.

Youth unemployment rate⁵⁾ has almost always been higher than other age groups and youths have always been the biggest group in the unemployed population. But why is it that they appear to be suffering an especially high rate of perceived unemployment today? What we are seeing now is the bursting of pent-up frustration at the worsening job insecurity and low wage, as a consequence of years of deterioration in the quality of youth jobs. It appears that the exacerbating quality of employment has magnified the discontent among youths.

The problem is compounded by the growing labor market dualism where the gaps are becoming entrenched between regular and non-regular workers, large companies and SMEs, and principal and contractors. It is also worsening the labor supply-demand mismatch by causing job-seeking distortion as more young people flock to the public sector or large companies. Meanwhile, supporting entrepreneurship (including start-ups), new businesses

or industries, often seen as the alternative for job-seeking youths, cannot overcome the duality, either. In the start-up sectors, many young people who work hard with passion end up leaving disappointed by the long hours and relatively low pay as they cannot even get overtime pay due to the “inclusive wage system.” The job skill mismatch, or the difference between what is provided by education/training and what is required from the industry, is another factor driving many young people to job training even after graduating from university. It is also why they spend extra efforts to seek generic “qualifications” without clearly thinking about the occupations or job descriptions that are right for them. Addressing this issue requires the Korean society to find ways to strengthen job creation capability, reduce the share of young people entering the labor market through non-regular and/or low-wage jobs, and increase their labor mobility so as to enable their transition to more stable and better-paying jobs or workplaces.⁶⁾

Over the medium to long term, what will determine Korea’s labor supply is demographic size and structure. Korea’s recent demographic changes, caused partly by low birthrate and population aging, have ushered the nation into the brink of a “super-aged society,” with the likelihood of experiencing population decrease in not too distant future. While the trend itself is global, taking place in most countries that are in a phase of moderate and stable growth after rapid economic development, it’s abnormally fast pace makes it singular for Korea. Some are calling for solutions to increase the birthrate and to open up to immigration out of fear that the plunging birthrate and accelerated aging will drag down Korea’s potential growth and affect social security resources.⁷⁾ However, there are a number of options that merit consideration when re-

5) “Youth” in this instance refers to ages 20-29, in accordance with the statistical definition. As of 2017, youth unemployment officially surpassed 10%, expected to peak since 2002 when the country recovered from the 1997 Asian financial crisis. The perceived unemployment rate is not likely to fall below the 22% recorded in 2016, unless there is marked recovery in the economy in 2017.

6) It is a key problem for young people, but also the consequences of the entrenched labor market dualism that affects all non-regular and low-wage workers. OECD data shows Korea to be among the lowest ranking in terms of fixed-term contract workers being converted to regular positions. This indicates that labor market dualism is a fundamental cause of Korea’s labor market distortions, a priority task for employment and labor policy.

7) Population aging is not a problem of the future. It is a labor market issue of today, given the older workers’ demand to find reemployment (as the baby-boomers begin to reach the retirement age) and the pace of social security fund depletion resulting from demographic changes.

sponding to demographic changes. For the immediate future, the priority should be on promoting youth employment as their job-seeking difficulties are likely to persist for the time being. Increasing re-hiring of older workers and improving their productivity, and turning the economically inactive women into economically active population are other efforts that are needed. These initiatives could perhaps temporarily ease the labor supply shortage caused by low birthrate and population aging, but more long-term answers are necessary, such as increasing the birthrate, changing the immigration policy or improving the quality of labor supply accompanied by technological advances.

As for reemployment of older workers, it is true that the retirement age has been recently extended to 60, but particularly in a country, such as South Korea, where the years in service are relatively short and where there is a high frequency of workers having to leave their workplace well before reaching the retirement age, there is a strong desire among older workers to find reemployment. However, the necessary infrastructure falls far short of what is in other developed countries, such as reemployment support or outplacement service like re-training or education. Compounding the problem is the gap between the National Pension eligibility age and the formal retirement age, as well as the pension benefit level. The older or elderly population without old-age income or sufficient wealth would seek reemployment after retirement, and most of them end up in non-regular positions or sustenance-type self-employment, sharing with youths the problems of job insecurity and low income. In sum, while

Koreans are quickly becoming one of the longest living in the world, the challenges faced by the Korean society are as follows: social security system remains inadequate (unable to guarantee sufficient old-age income), not enough workers remain in employment until the retirement age of 60, training/education for post-retirement reemployment or outplacement services are insufficient, and even reemployment or self-employment does not provide security in employment or income.⁸⁾

IV. Employment and Labor Policy for Quantity and Quality of Jobs

Until recently, Korea's economy appeared to be safely nestled in a growth system led by large manufacturing exporters, but when its key industries had to be put through restructuring, at a time of other economic complications both inside and outside the country, it began to see a slump across all areas, like production, consumption, investment and employment.⁹⁾ Recent employment policies have been focusing on increasing the number of jobs as risks of low growth and high unemployment became higher, but they were met with much criticism. Without being accompanied by a strong push for labor reform policies, they ended up deepening labor market dualism, leading to more social conflicts.

Thus, the employment and labor policy in transition has a policy package that aims to improve both the quantity and quality of employment. In terms of quantity, the goals should be: first, enhancing job creation capability; second,

8) While Jo-Yup Ahn (2011) "Study on Inter-generation Employment Substitutability" observed that there are minimal job-seeking conflicts between the older/elderly group and youth group as their respective job preferences are mutually complementary rather than substitutive. However, if circumstances change so that the growing cohort of older/elderly population and young job-seekers compete for the same job, it would become a serious problem. Particularly for the next few years when the job-seeking demand from both groups will spike, it would be necessary to strengthen employment policy programs at least for the short term. The problem is not only that their numbers keep growing but also their job insecurity persists and accumulates over time. If young job-insecure population keeps growing, it would result in labor market dualism being concentrated in a certain age group, decreasing their human capital and potentially triggering social conflicts.

9) The general rule is that economic growth leads to job creation more in non-trading companies than exporters, in SMEs than in large companies, and in services than in manufacturing, but in the case of Korea, the structure of economic growth has been centered on exporters, large companies and manufacturing. In particular, share of employment by large companies, offering job security and relatively high wage, has remained unchanged at 5-6%, contributing little to hiring more highly-educated job-seekers.

improving corporate competitiveness; and third, creating jobs through new industries. As for the quality aspect, they should be: first, easing labor market dualism; second, reducing working hours and improving the wage structure; and third, reaching social consensus on job creation.

These goals can be met when the policy package ensures involvement by the stakeholders such as government, businesses and labor supply. For the government, it needs to shift its policy focus away from economic growth. It needs to undertake a policy shift where all policies will be focused on “expanding employment and domestic demand” and related Ministries like finance, industry and employment will join forces in inter-Ministry employment and labor policies. Changing the government’s priority is not enough; instead, what is needed is to change the content of economic growth rather than being preoccupied with growth itself.¹⁰⁾ This also means changing the economic and industrial policies with the goal of increasing employment. Under the priority of improving the quantity and quality of employment for Korean nationals, new standards can be introduced in all areas where the state is involved, such as industrial deregulation, foreign investment requirements, start-up support and SME support. In other words, government policies primarily aimed at creating jobs must be inter-linked policies that necessitate coordination and cooperation among all ministries and organizations regardless of the level of governance and central government or local authority.

Given that the general tendency of technological change is to seek labor-saving production method, the prevailing view today is that the source of jobs in the future will be the service sector. So far the government has attempted to lead development in the high value-added service sector by revising the related laws, though it has been little effective. Nevertheless, the effort should continue, perhaps

with a different goal of creating more decent jobs by stimulating domestic demand through a wide range of services. There should be a strategy to develop business services (to increase professionals), creative services where Korean artists demonstrate international competitiveness (web-toons, gaming, entertainment, etc.), and social services that can enhance people’s quality of life.

With regards to businesses, there should be consistent efforts to strengthen their responsiveness to technological changes and to ensure fair trade between large companies and SMEs. As the gap between large corporations and SMEs or the gap between principal contractors and subcontractors widens, the labor market dualism becomes more severe, and the problem of mismatch of labor supply and demand gets worse. To strengthen the job creation capability of the economy for Korean workers, it is important to improve SMEs’ solvency and innovative capacity. And to increase new employment, one of the surest ways is to create a new sector by encouraging start-ups to become successfully established companies. In particular, to improve their competitiveness, the policy focus should be redirected from providing financial subsidies to supporting their fundamentals such as technological development and securing talent.

From the labor supply side, the policy should be aimed at fleshing out the response to demographic changes and easing the job mismatch. For the next 5-10 years, the job programs for young people explained above should be placed in a better structure. The youth job policies, mostly implemented by government agencies and local authorities, need to be made more efficient so that the benefits to be gained from the fiscal input can be enhanced. In particular, if organizations such as the Youth Hope Foundation and Creative Economy and Innovation Center can be reshaped with specific policy goals (e.g. youth start-

10) For example, the Trade and Investment Promotion Meeting, which is working under the goal of leading economic growth by promoting trade and investment, is a forum for designing economic growth strategy attended by the President himself. Perhaps it could be redefined as “Employment, Domestic Demand and Growth Meeting,” with the mission to embed the element of employment and domestic demand in all policy areas, not only employment and labor but also economic, industrial and welfare.

ups) and governance, they could be made more effective. Women's economic participation, which remains low compared to other developed countries, has been improving thanks to dramatic rise in women's education since the 1980s. However, there is still much room for improvement: career disconnect due to marriage and children, the need for change in social perceptions on working women and corporate culture, legal improvement for work-family balance and gender equality at home.

As for older adults, given that income generation would be a bigger priority for those who must find employment to support their family, there should be workfare designed specifically for them that combines short-term job creation policy with welfare program. This will prevent redundancy in assistance while ensuring slightly higher income than welfare benefits.

Workforce shortage at SMEs, a problem that is manifest despite the serious unemployment, is the leading example of jobs mismatch. What is used to be understood as aversion to "3D jobs" is now becoming a serious problem even in professional jobs in SMEs, as highly-educated young people keep flocking to large companies or the public sector. There are attempts to improve the policy aimed at easing SMEs' understaffing: its approach has shifted from subsidizing SMEs' hiring to directly assisting their employees so as to increase their income. There should also be a policy to improve the working conditions of non-regular workers or those of similar status in SMEs,

and to expand the channels for them to convert to regular positions.

Last, there must be solutions for the dual labor market. The inequality arising from such duality will further entrench unemployment and precarious employment, potentially sowing the seed for social disputes in the form of class conflicts. There should be measures to ease inequality in addition to reducing unfair transactions, and the policy recommendation has been defined as such: to improve the quality of life for non-regular workers, low-wage workers and low-income class, and to shape job-centric labor-management relations and promote social dialogue.¹¹⁾ As for how to make such policies possible, the following strategies are offered. First, to improve the legal framework and strengthen support to promote regularizing non-regular workers. Second, to lay out a roadmap to gradually apply and upwardly adjust minimum working standards and minimum wage for workplaces with fewer than 5 employees and special employment types (currently exempt from minimum working standards), and to strengthen management/supervision for compliance. Third, there should be broader coverage of social security protection such as social insurance for low-wage workers and low-income class who currently do not enjoy adequate protection. Social security loopholes must be minimized, and assistance programs must be considered that will guarantee a certain level of income.

11) The current labor-management relations in Korea, highly centric on large companies and the public centers, have moved in the direction that worsened the dual labor market. Social dialogue through the Tripartite Commission has not been known to fully reflect the voice of SMEs or non-regular workers. Thus, it is necessary to shift the paradigm of labor-management relations toward job-based solidarity and innovation. Detailed plan must be developed to that end.

Figure 1. Policy Package for Quantity and Quality of Employment

