

# Improving Employability of Workers at the Margin

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# 1. Introduction

- The youth, women and the middle-aged and aged are the representative employment-vulnerable groups of the Korean labor market.
- The employment structure with heavy dependence on core male workforce is hard to be sustained any longer due to the rapid pace of low birth rate and aging population since the 2000s.
- The future of Korea's labor market can be seen to be up to how to well manage the employment-vulnerable groups, such as the youth, women and the aged, under various different conditions.

# *1. Direction of Youth Employment Policy*

# Problems of Potential Unemployment

- The worsening of youth employment is probably more due to job mismatch, than to the shortage of jobs.
- In Korea, the youth unemployment rate (UR) is over twice as higher than other groups, but Korea's rate is relatively lower than OECD countries.

Table 1. Unemployment rate and Employment rate in major OECD countries (2010)

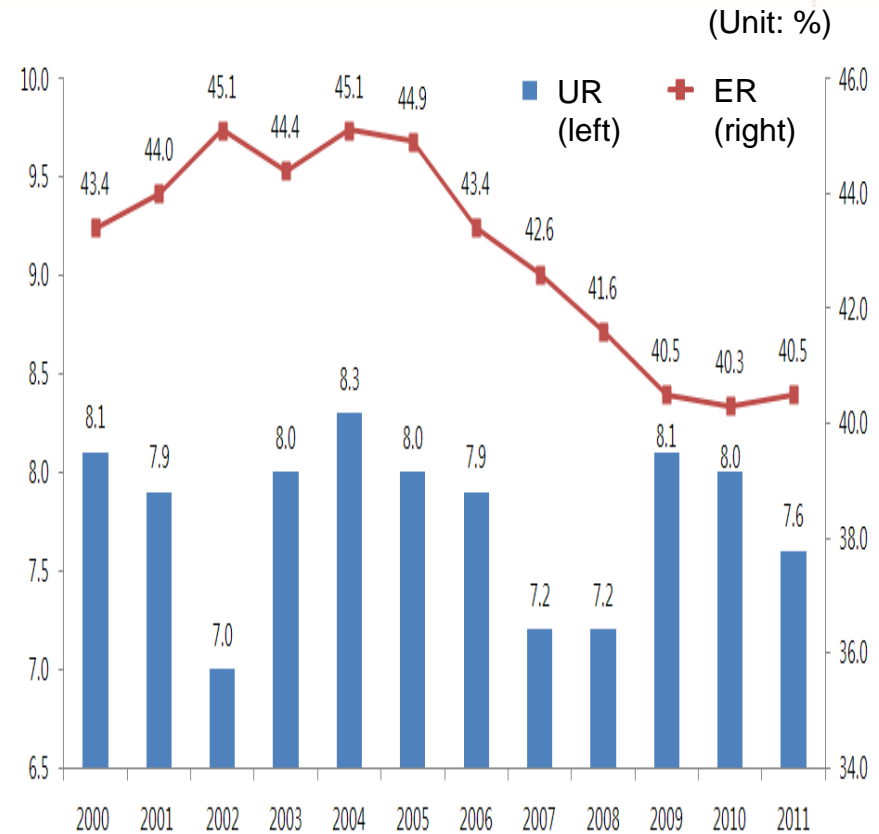
	Korea	Japan	France	Germany	Italia	Sweden	UK	US
UR	8.0	8.1	17.0	9.1	20.2	18.6	14.4	15.0
ER	40.3	54.0	46.6	56.9	34.5	50.4	60.8	55.0

Source: OECD, Labor Force Statistics.

# Stable UR with lowering ER for Young People

- Korea's UR of the youth today is not very different from the level in the early and mid 2000s.
- However, the employment rate(ER has sharply declined in the late 2000s. (45.1% in 2004  $\Rightarrow$  40.5% in 2011)
- Low rates of both unemployment and employment suggest that the youth account for quite a large amount of economically inactive population in the labor market of Korea.

Figure 1. Trends of the past 10 years



Source: Korea NSO, Labor Force Survey.

# Latent Unemployment - “Employment Preparers”



- In Korea, jobs in government offices and large companies are highly preferred by most young people and they conduct a recruitment examination in order to fill their vacant or newly created positions each year.
- The youth who wish to work for those workplaces usually spend extra time in preparing for those examinations.
- According to the Korean terms of unemployment, people who prepare for those exams are not considered to be involved in job seeking activities, hence categorized as economically inactive, not unemployed.

# Increase in the size of the Job Preparers”

- The proportion of employment preparer accounts for 8.1% of the economically inactive youth population, and the figure goes up to 25% among the age group between aged 25-29 years old (Table 2).
- The number of employment preparers has risen fast since 2003, and it seems that over time, along with the accumulative number of preparers, they have spend increasingly more time on preparing.

Table 2. Incidence of Job-Preparers among Persons not in the labor force (%)

	2003	2004	2005	2006	2007	2008	2009	2010
Youth	5.0	5.8	6.9	7.9	7.8	8.4	7.8	8.1
15-19 years	0.7	0.5	0.6	0.3	0.4	0.3	0.4	0.4
20-24 years	8.4	10.2	11.8	13.5	12.1	13.0	12.0	13.6
25-29 years	11.7	14.0	17.9	21.9	23.6	25.5	24.4	24.7

# Extended unemployment rate of the Youth

- The extended unemployment rate (UR+), which includes employment preparers as latent unemployed persons, turns out to be more than twice the official unemployment rate (Table 5).

	The Youth		15 ~ 19 yrs.		20 ~ 24 yrs.		25 ~ 29 yrs.	
	UR	UR+	UR	UR+	UR	UR+	UR	UR+
2003	8.0	12.7	13.0	18.3	9.6	15.0	6.3	10.4
2004	8.3	13.4	14.1	18.2	9.9	16.0	6.5	11.0
2005	8.0	14.2	12.5	17.3	9.9	17.1	6.4	12.0
2006	7.9	15.4	10.4	14.0	9.9	19.0	6.5	13.4
2007	7.2	15.1	9.3	13.6	8.7	17.7	6.3	13.8
2008	7.2	15.8	10.2	14.3	9.2	19.6	6.0	14.1
2009	8.1	16.4	12.3	17.5	9.5	19.4	7.1	14.9
2010	8.0	16.7	11.9	16.4	9.5	20.7	7.0	14.7

# Inefficient resource allocation

## due to job competition



- In Korea, the worsening of the youth employment is not just a problem of job shortage, but of the failure of school-to-work transition caused by the mismatch between education and labor market.
- As more and more students enroll university, the number of highly educated youth increases subsequently, but such labor supply structure does not correspond with job structure of the Korean economy, giving a rise to the mismatch in the labor market.
- Due to excessive competition over a handful of high quality jobs, it becomes common that more and more young people find themselves in a lengthy waiting line and they increase inefficient investment such as accumulating ‘spec,’ a newly coined word for academic backgrounds and careers in Korea.

# Reform of Labor Market Entry Practices

- As shown above, at the core of the problem involving youth employment lay two issues: low employment rate and long waiting period for employment.
- Existing recruiting procedures focusing on tests need to be transformed toward career-oriented so that human capital investment for the youth would be encouraged to move in an efficient direction.

# Reform of Labor Market Entry Practices (2)

- Specific alternatives :
  - Increasing job opportunities for high school graduates
  - Eliminating public employment examinations and giving career applicants bonus points so as to provide incentives to develop substantial capability
  - Promoting entrepreneurship and developing supportive system so as to encourage the establishment of start-up creative business
  - producing and distributing various information on employment and labor market, providing job seekers with various experience opportunities

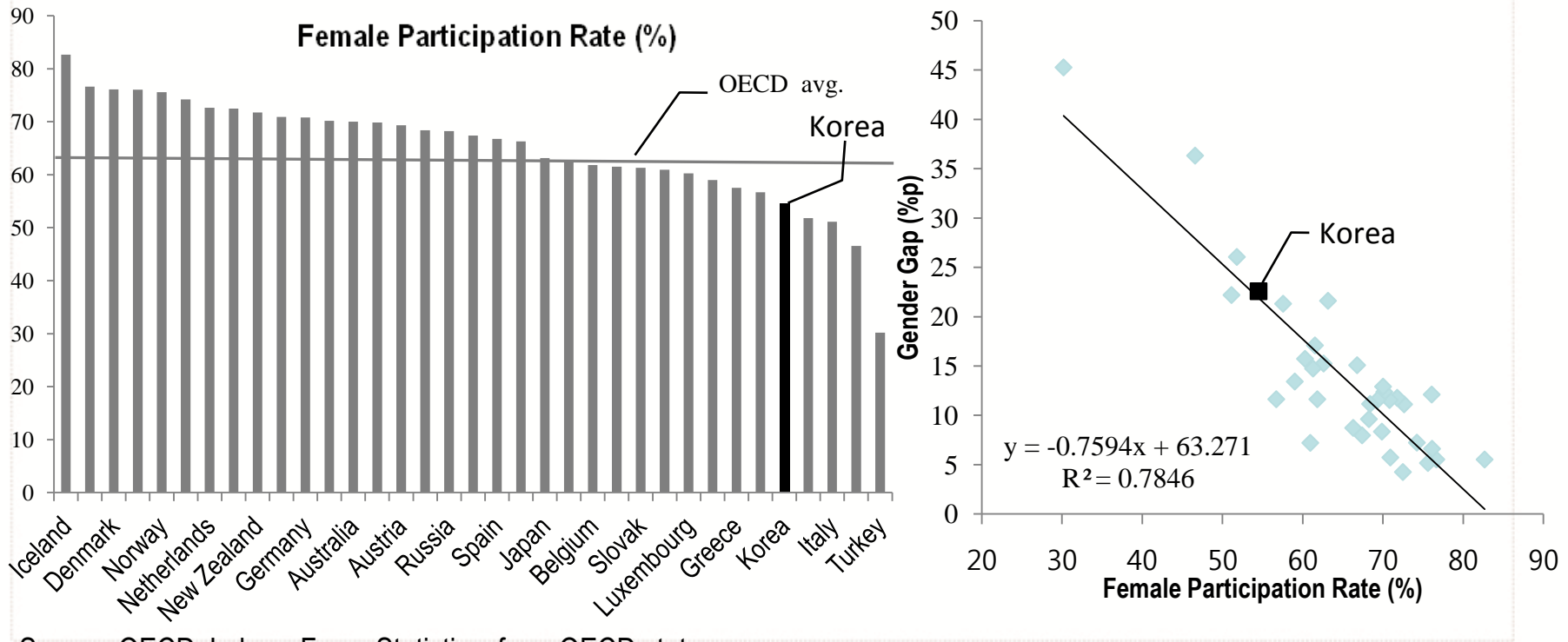
## **2. Direction of Employment Policy on Women**

- Importance of Working Time**

# Female participation rate and Gender gap in Korea

- Korean women's labor force participation rate is very low and the gender gap is very large among OECD countries.

Figure 2. Female participation rate and Gender gap in OECD countries

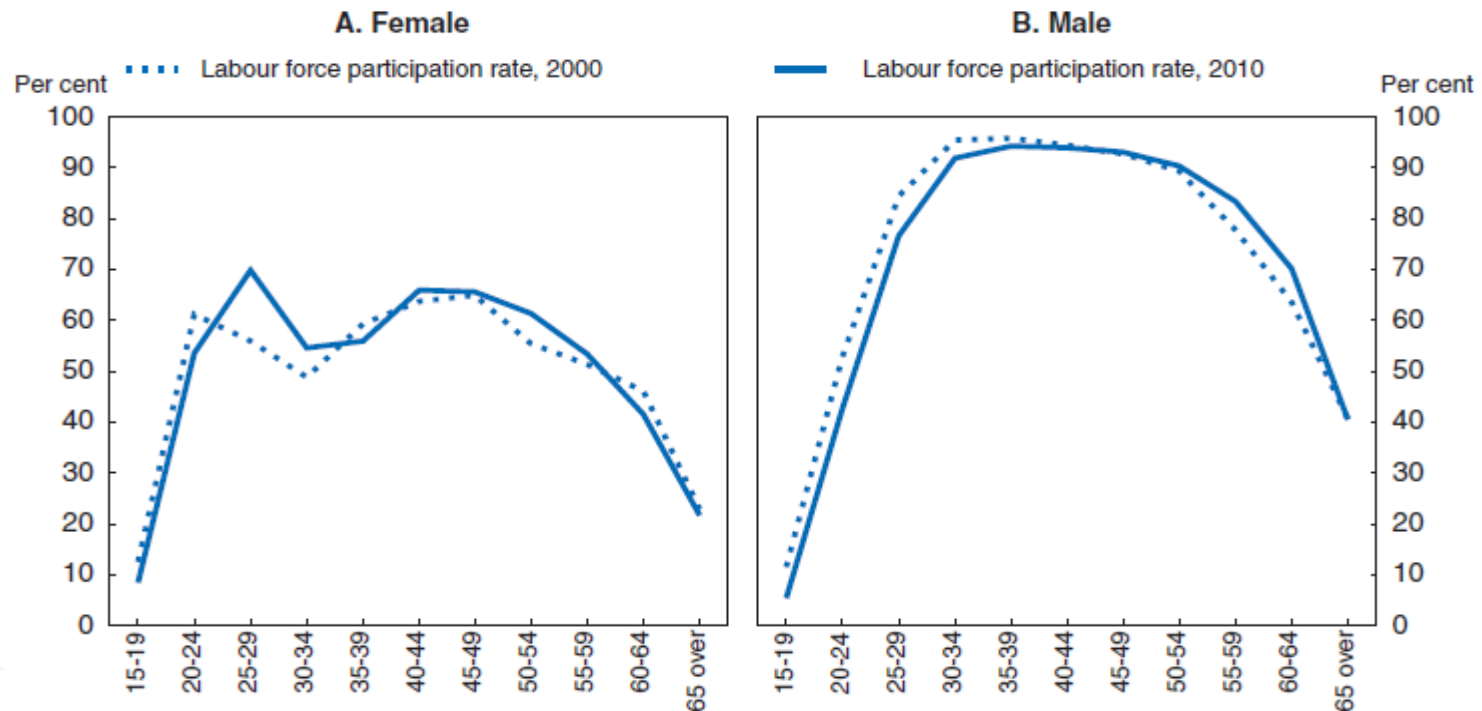


Source: OECD, Labour Force Statistics, from OECD.stat

# M-shaped pattern of female participation

- Women's participation patterns take the form of the M-shaped curve and it is significantly different from those of men.

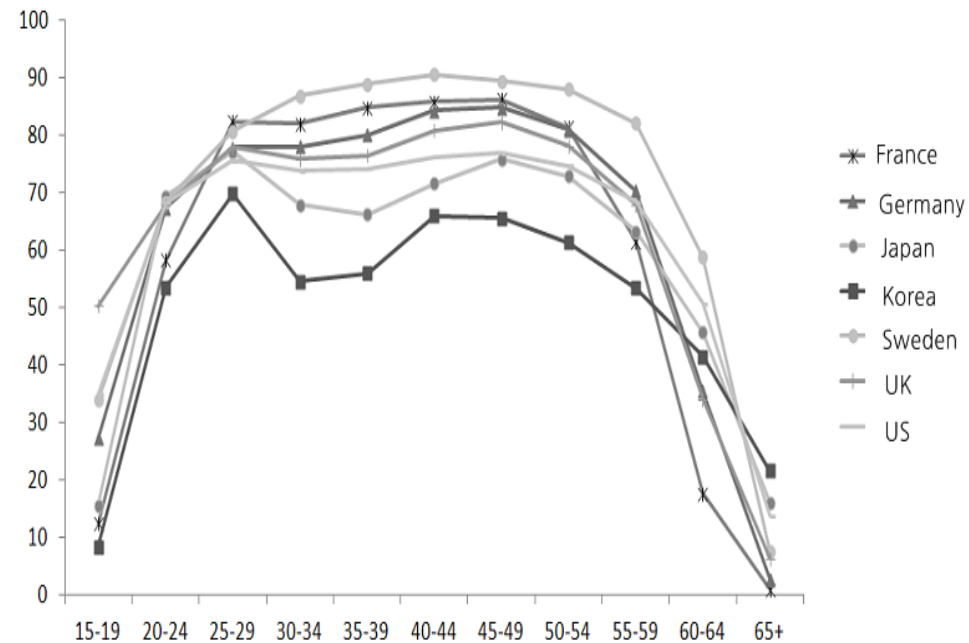
Figure 3. Changes in labor force participation by age and gender



# The “M” pattern of female labor force participation

- Among OECD nations, Korea and Japan are the only nation that still shows the “M” pattern in female labor force participation (Figure 4).
- The “M” pattern indicates that many women give up their work at certain point of time for heavy burdens of child birth and rearing.

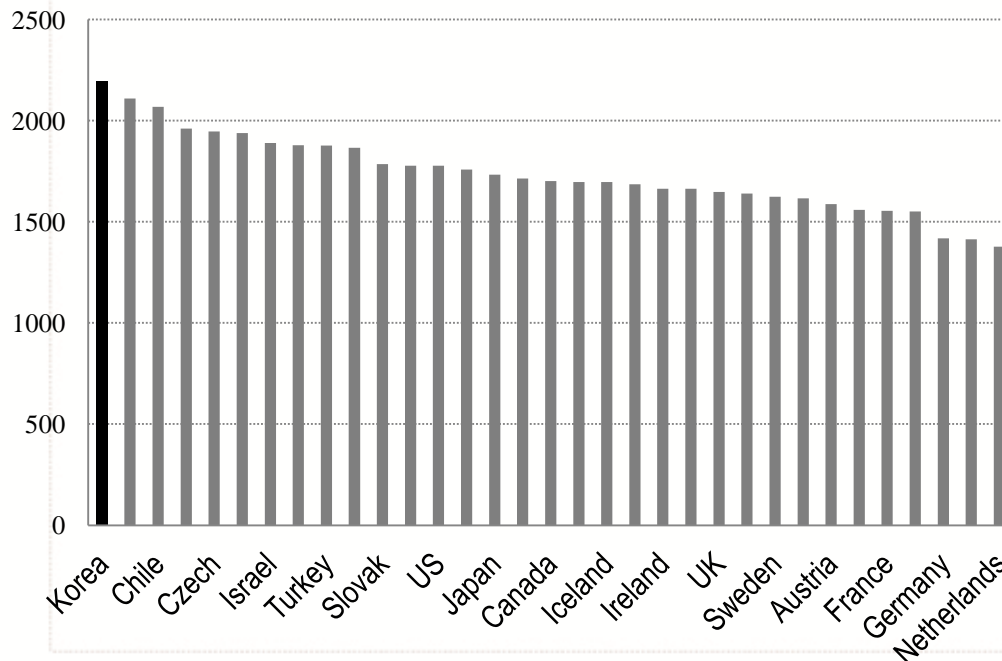
Figure 4. The pattern of female labor force participation



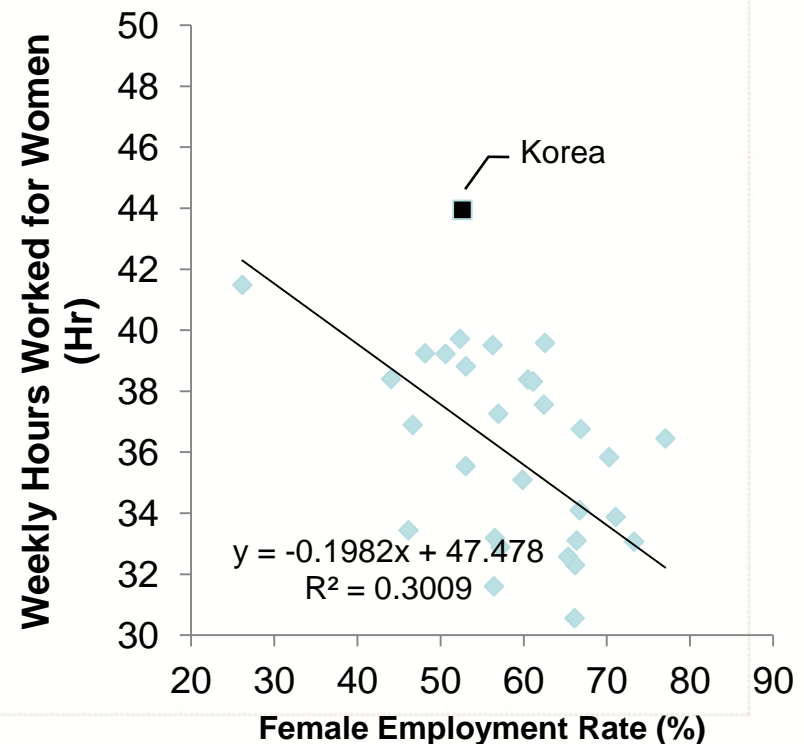
# Working Hours Restriction in the labor market

- In Korea, the practice of long working hours still prevails.
- In this case, women are likely to be underemployed due to hours restriction. (Moffitt[1982], Zabel[1993], Feather & Shaw[2000])

Annual hours actually worked per worker



Source: OECD, Labour Force Statistics, from OECD.stat

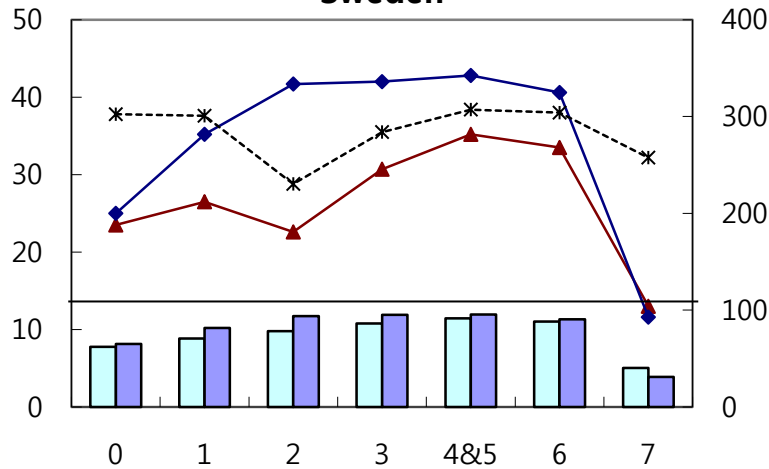


# International comparison of labor supply of women by life cycle

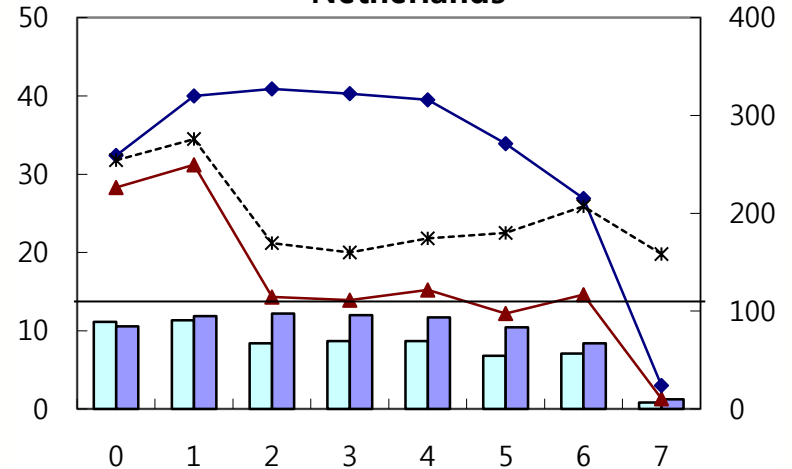
- Households from seven European nations are divided according to their life cycle, and then their labor market hours of married couples, employment rate and working hours of employed persons are compared. (Figure)
- Typical patterns of EU countries:
  - Popular dual earner pattern (Sweden)
  - Female part-time worker pattern (The Netherlands, UK, Germany)
  - Slightly Male breadwinner-focused pattern (France)
  - Choice between Full-time and Leaving the Labor Market (Spain, Italy)

# International comparison of labor supply of women by life cycle (2)

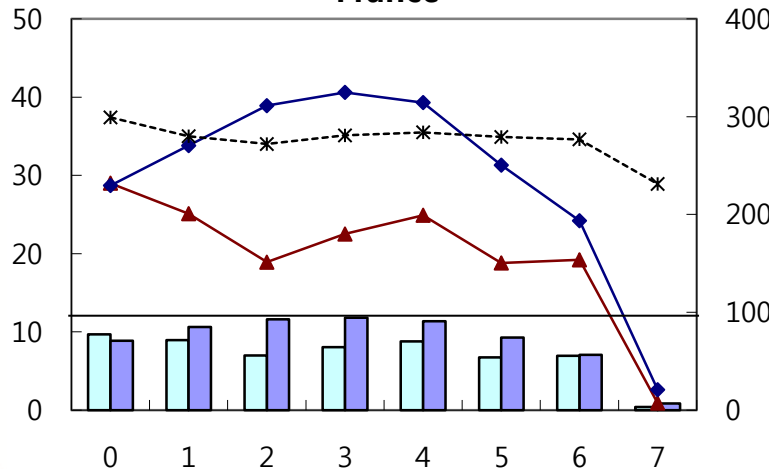
Sweden



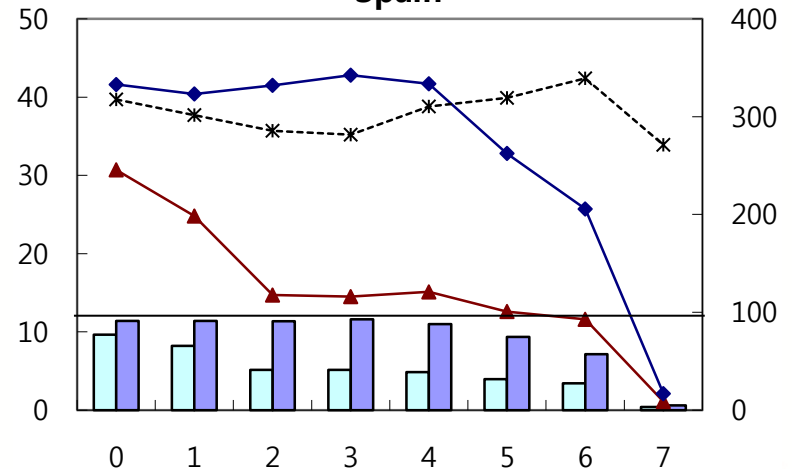
Netherlands



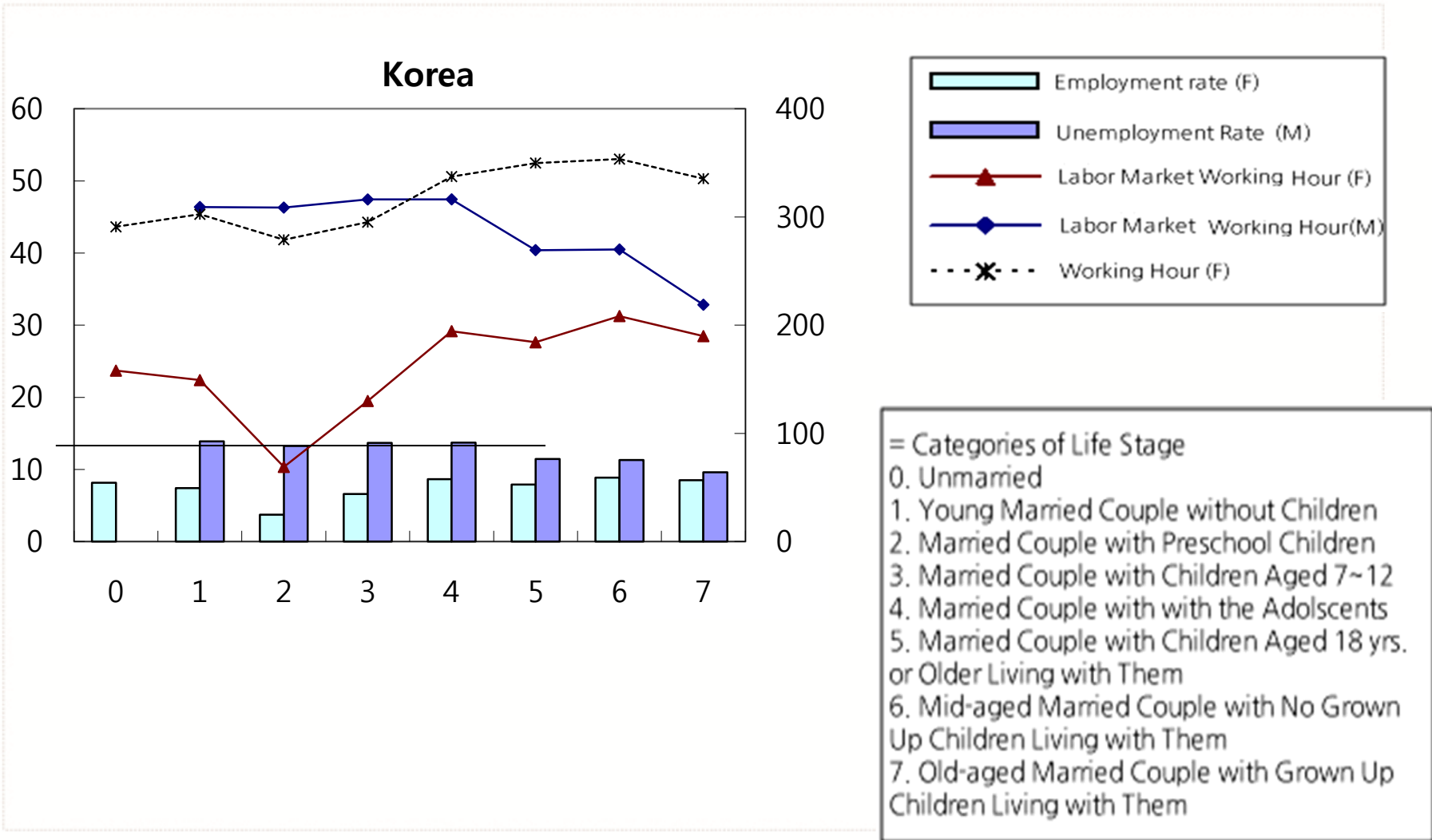
France



Spain



# The Case of Korea



# Policy Direction for Work-Family Balance of Women

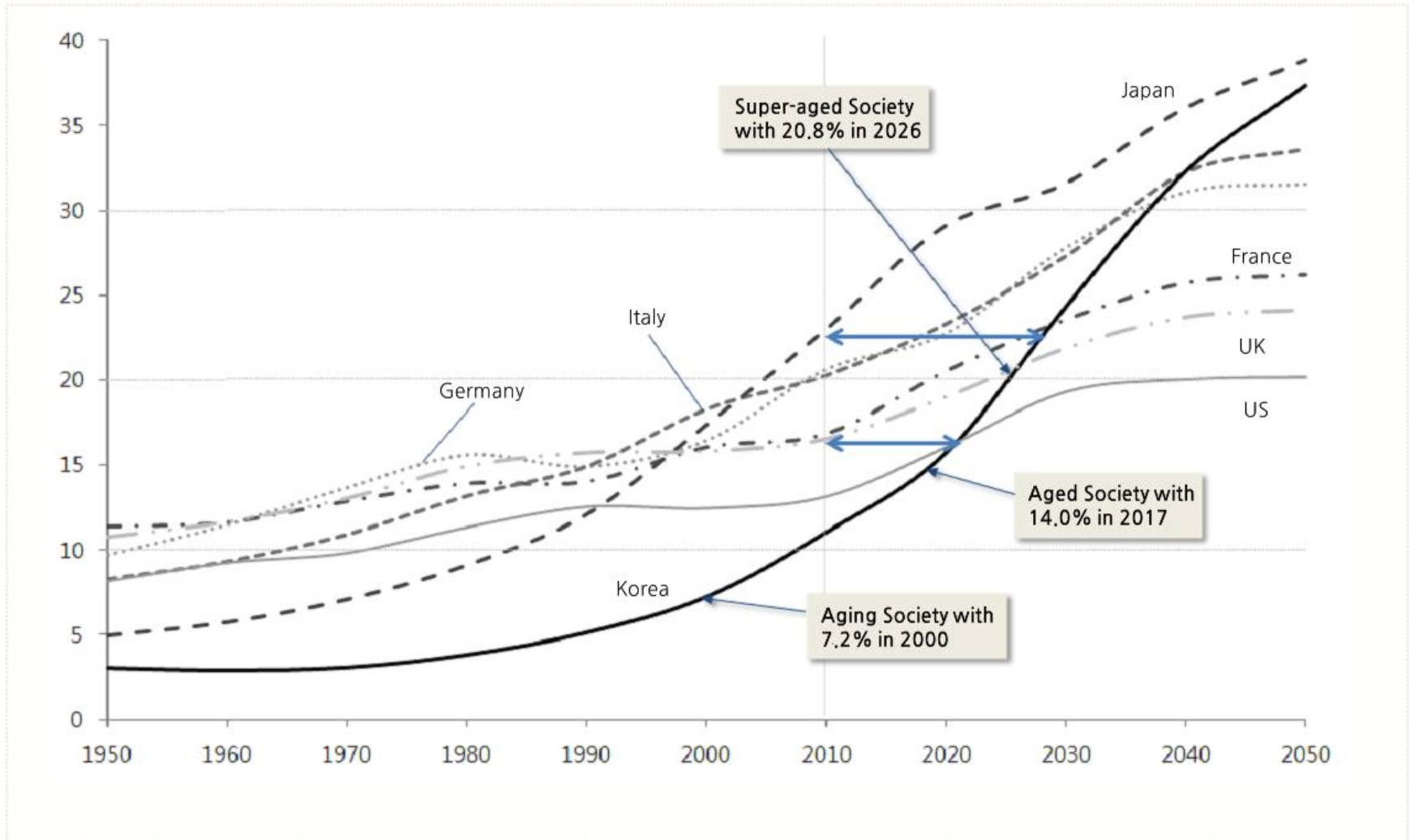
- The Korean society now faces the challenge of increasing women's employment rate and overcoming the low birth rate at the same time.
- In order to promote women employment, it is necessary not only to relieve married women's burden of childcare in supply side, but also to mitigate hours constraints of jobs in demand side, including:
  - Shorter working hours (with reduction of overtime work)
  - Greater flexibility in working time  
(eg. claims for reduction of hours when needed)
  - Expansion of part-time work opportunities in decent jobs

### ***3. Policy Direction of the Middle-aged Employment***

# Population aging and changes in labor market structure

- Korea is forecast to become an aged society with those aged 65 years old or older accounting for 14% of the total population in 2017, to a super-aged society in 2026, and then to one of the oldest nations 30 years later along with Japan, going far beyond that of OECD nations.
- The number of working-age population (aged 15~64) is expected to decline gradually after its peak in 2016, and core productive population (aged 25~49) has already been on the decrease since 2010.
- The average age of the employed has risen at a fast rate from 37.3 years of age in 1982 to 40.3 in 2000, then to 43.7 in 2011.

# Population aging in Korea



# Mandatory Retirement System in Korea

- According to the 2009 status survey released by the Ministry of Employment and Labor, 94.7% of workplaces with 300 employees or more have the mandatory retirement system under operation and 80% of surveyed enterprises have the retirement age set under the official retirement age (60 years old) of the National Pension.
- The average retirement age set by companies is currently 57.2 years old, and it has remained almost the same up until today since 2000.
  - ※ 57.2 yrs. in 2000 → 56.7 yrs. in 2003 → 56.9 yrs. in 2006 → 57.1 yrs. 2008 → 57.2 yrs. in 2009

# The Actual Age of Leaving : Resignation age

- The actual age of leaving appears to be younger than the official retirement age, as corporate restructuring has occurred on a regular and frequent basis, cases of early or voluntary retirement have become common.



# After the Resignation from main jobs

- As for Korean workers, the average age of resignation is around 54 years old, and that of retirement is around 68 years old.
  - Korean workers spend approximately 14 years on average working for the second job.
- However, the labor market for the middle-aged and aged persons consists of mostly self-employed and low-skilled jobs, making it difficult to find jobs that fit their work experiences and skill levels, hence a rapid fall in income.
- It is often the case that they end up with a huge financial loss after attempts of start-ups using their severance pay, which has posed a significant risk to the later life of the aged resigning from their work.

# Existence of a Pension Gap

- At present, the age of eligibility for the National Pension is 61 years of age, which is set higher than the average retirement age, and such inconsistency between the retirement and pension systems has served to produce a pension gap.
- The age of eligibility for the National Pension is scheduled to be extended by one year every five years to reach 65 years old in 2033, indicating that the gap between the retirement age and pension-eligible age could widen further

# Policy Agenda for Employment of the Aged

- Now is the time to put in more active policy efforts to promote the employment stability of the aged in preparation for an aged Korea.
- To remove the pension gap and strengthen the employment stability of the aged requires the reform of the existing system whose retirement age is set at an overly low level, and this needs to be implemented with a priority.
- Enabling the aged workers to work for their main jobs for a longer period of time requires the establishment of the aged-friendly employment system in terms of working hour and pattern.

# Policy Agenda for Employment of the Aged (2)

- It is necessary to consider following policy measures;
  - To support projects for improved working environments to help gradual retirement,
  - To allow more discretion with the choice of working time and to further encourage regular part-time employment,
  - To adopt the right to demand the reduction in working hours at a certain point of time prior to the resignation so as to allow working time adjustment, and
  - To mandate the education for preparing the retirement and to grant paid vacations

**Thank you.**