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**POLICIES TO TACKLE LABOUR MARKET
DUALITY IN KOREA**

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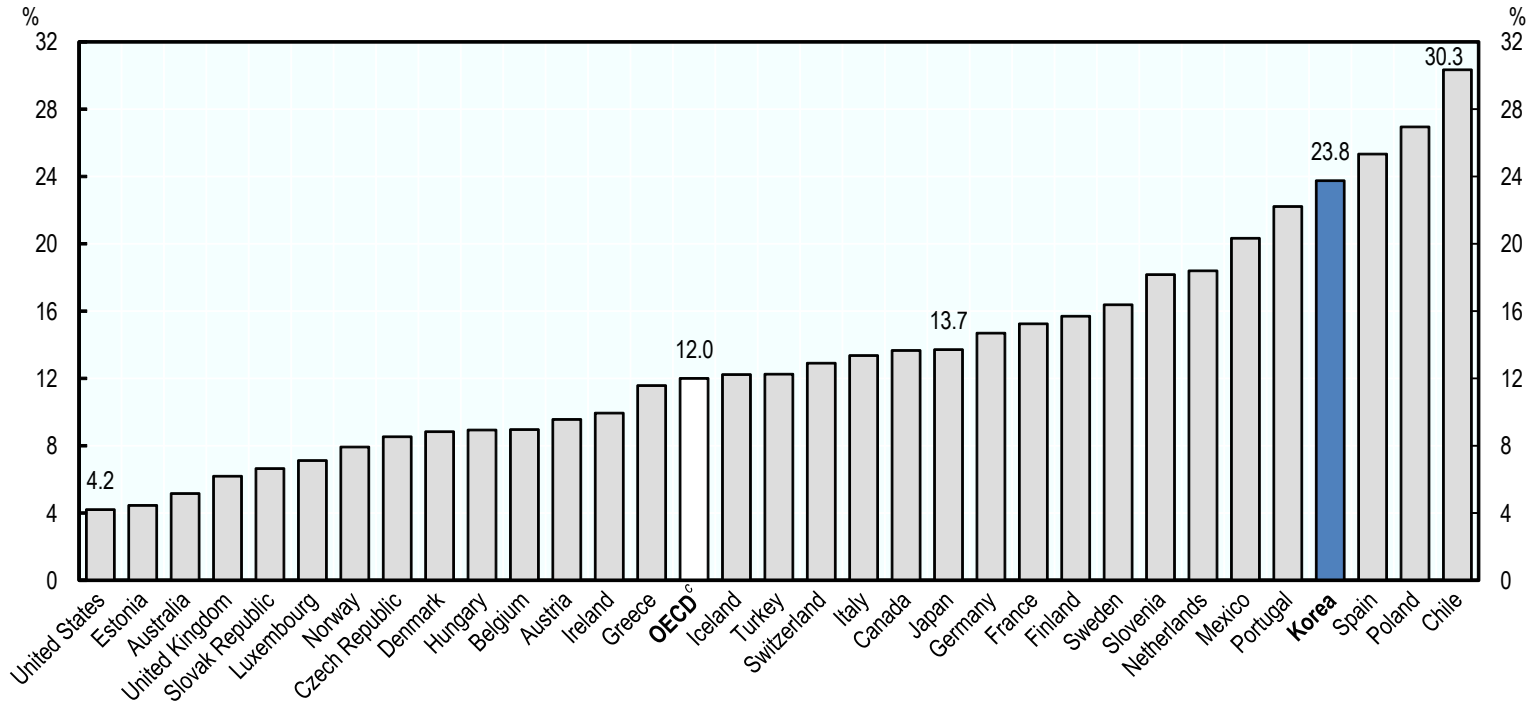
Outline of this presentation

- ❖ Korean labour market dualism in international comparison: the diagnosis
- ❖ Breaking down entrenched labour market dualism in Korea: the cure
 - ❖ Policies to reduce overall dualism
 - ❖ Policies to promote more and higher quality employment for women, older workers and youth



Temporary employment accounts for nearly one job in four in Korea, one of the highest shares in the OECD area

Percentage of dependent employment in 2011

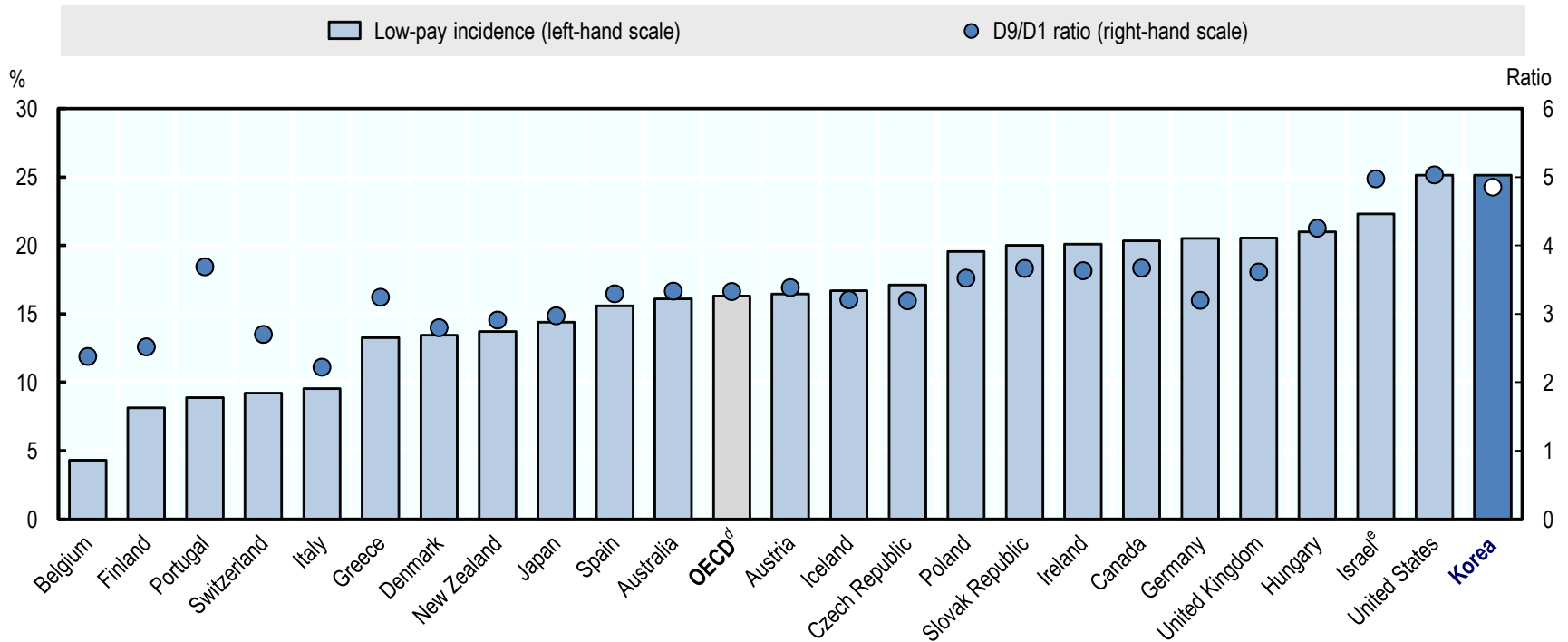


Source: OECD Online Employment Database available at www.oecd.org/employment/database for temporary employment, and OECD calculations using the OECD Job Tenure Database for worker turnover.



Earning dispersion and the incidence of low-paid work in Korea are among the highest observed in the OECD area

In 2011 or latest available year

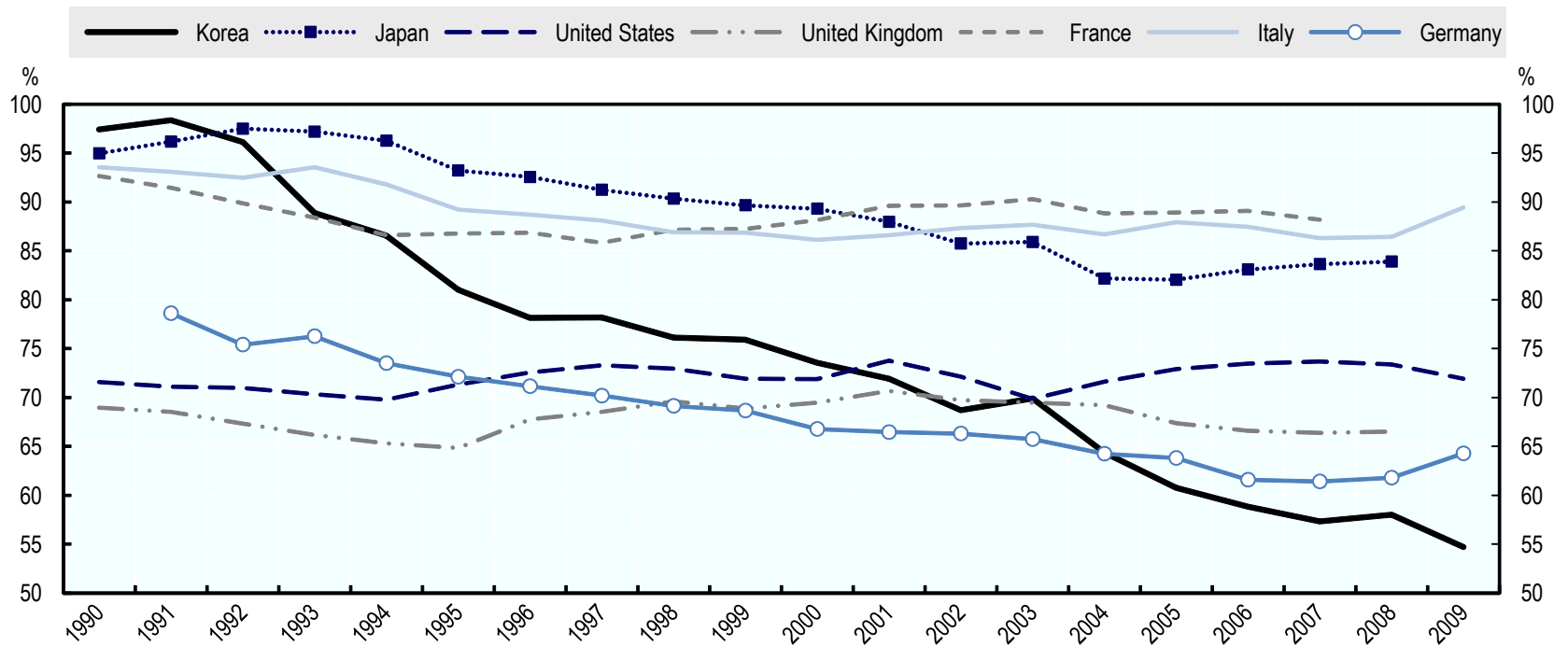


Source: OECD Earnings Distribution Database.



Relative wages for workers employed in the services sector have fallen particularly sharply in Korea

Index: Manufacturing wage = 100

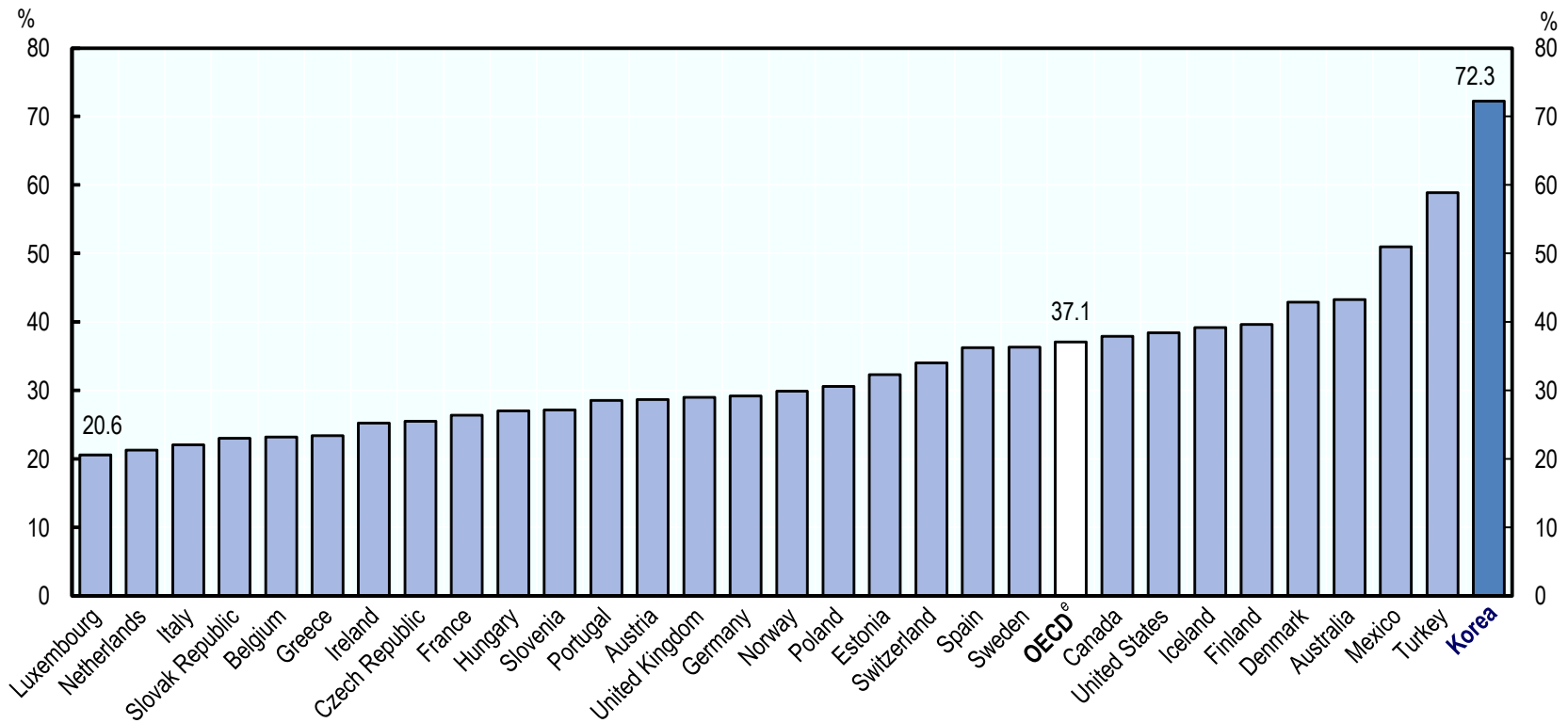


Source: OECD STAN Indicators Database for relative sector wages



Worker turnover in Korea is the highest observed in the OECD area

Sum of gross hirings and separations as a percentage of employment in 2010

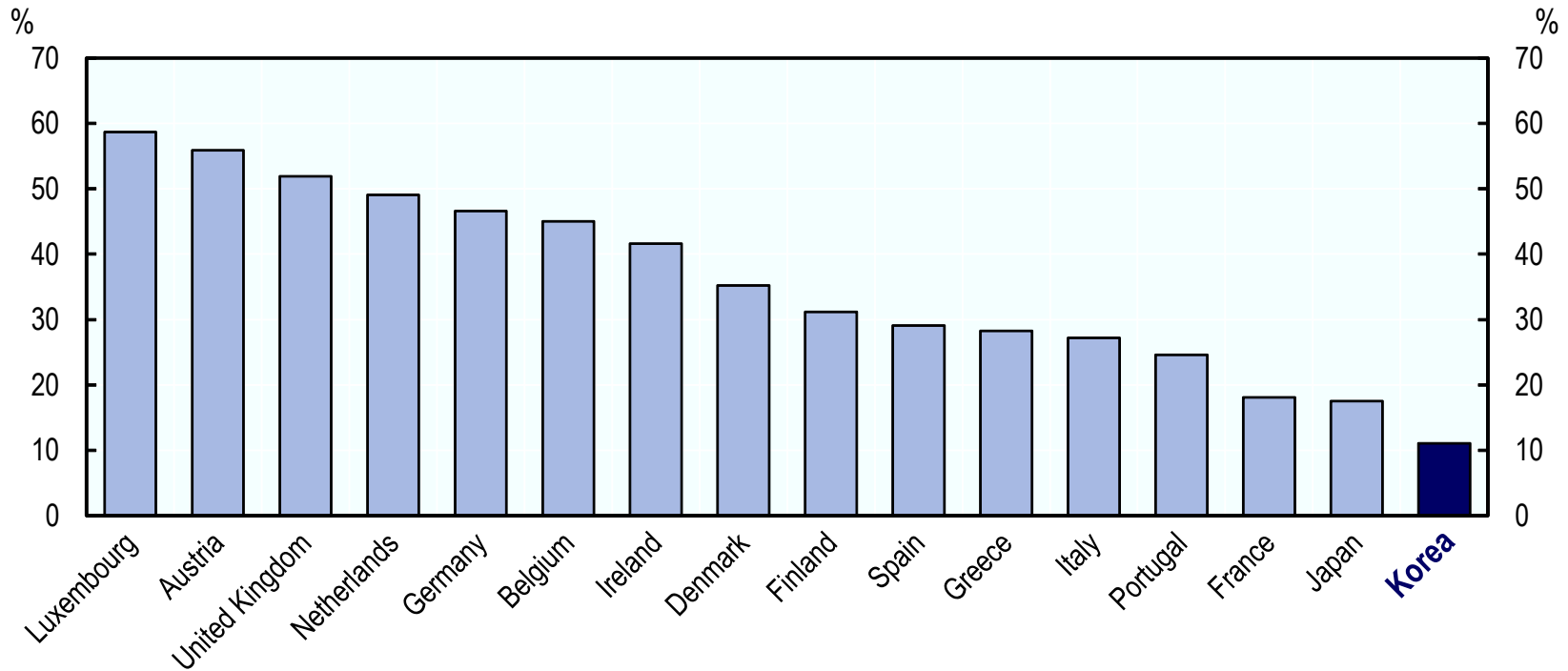


Source: OECD Online Employment Database available at www.oecd.org/employment/database for temporary employment, and OECD calculations using the OECD Job Tenure Database for worker turnover.



Temporary jobs are less often stepping stones to permanent jobs in Korea than in Japan and Europe

1-year transition probabilities from temporary to permanent employment

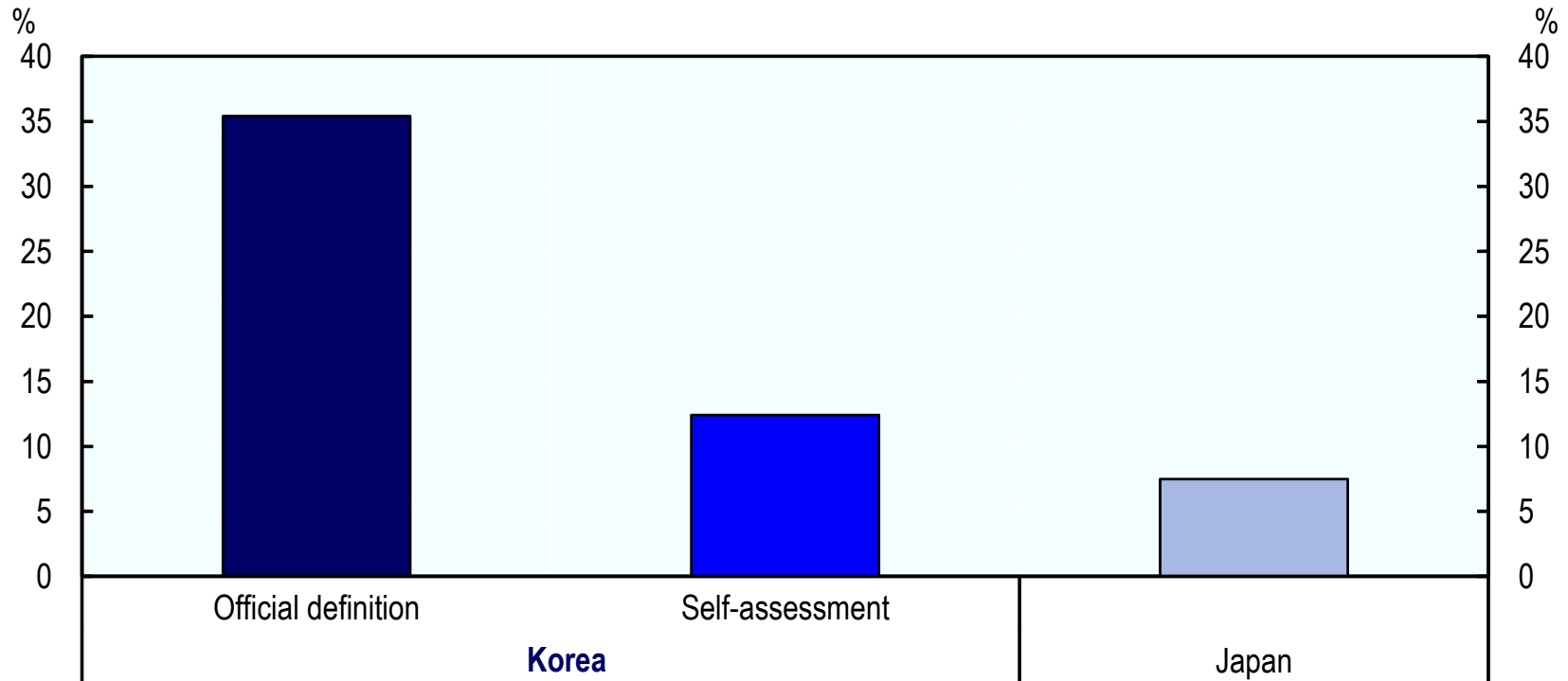


Source: OECD calculations using the Korea Labor and Income Panel Study for Korea (waves 5-12) and the European Community Household Survey for European countries (waves 5-8). Japanese estimate from Shikata (2012).



Upward mobility is greater for non-regular workers in Korea than in Japan, but it is difficult to assess by how much

1-year transition probabilities from non-regular to regular employment



Source: OECD calculations using the Korea Labor and Income Panel Study for Korea (waves 2-12) and the European Community Household Survey for European countries (waves 5-8). Japanese estimate from Shikata (2012).



Summing up: the diagnosis

- **Labour market dualism is particularly strong in Korea**
 - One-third of labour force is in non-regular employment and their pay, job security and career development opportunities are inferior to those of regular workers
 - Low productivity and poor employment conditions in the services sector and SMEs is also an important source of dualism
- **Labour market dualism reflects employer's needs for flexibility and cost competitiveness, but these functional needs can be met in ways that create less inequality and insecurity**
- **Labour market dualism particularly affects women, older workers and youth**
- **Rapid population ageing implies that the cost of dualism will rise unless effective measures are taken.**



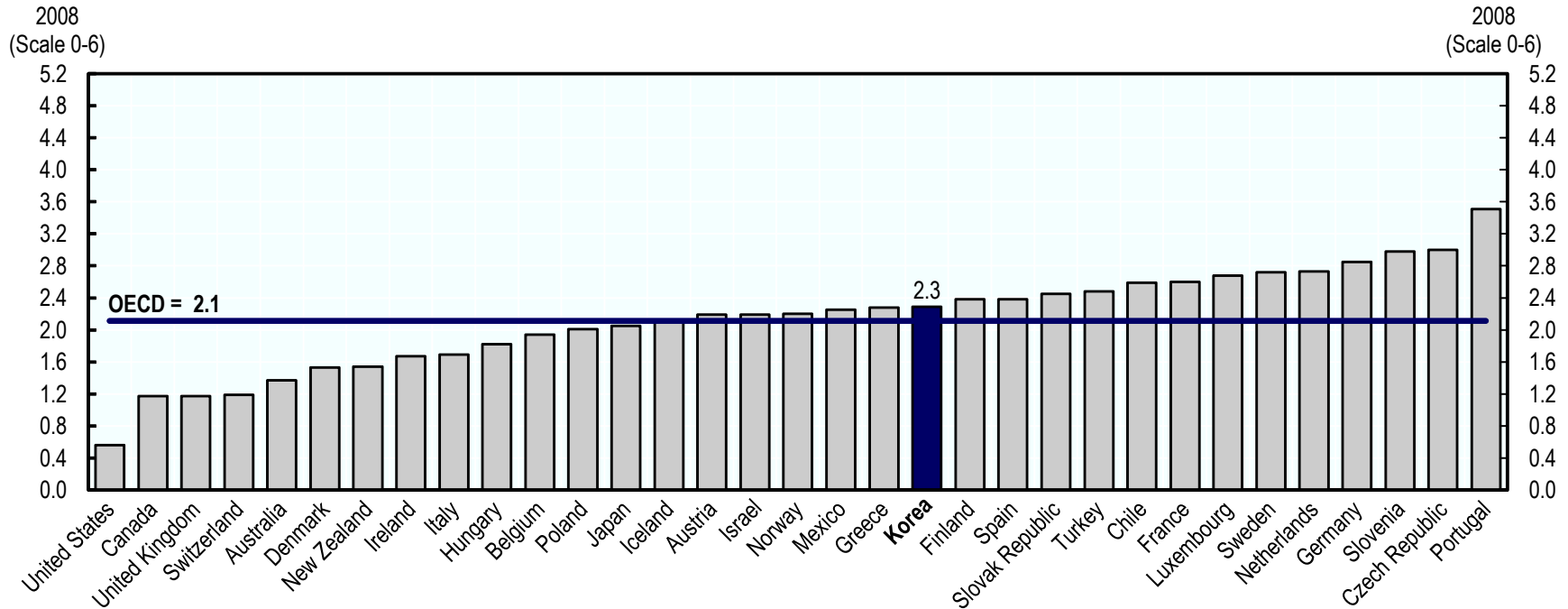
Policies to tackle labour market dualism: Pillar 1

- **Reduce overall dualism in the labour market**
- **REDUCE THE SHARE OF NON-REGULAR WORKERS**
 - Relax EPL for regular workers
 - Increase SI coverage of non-regular workers
 - Promote take-up of the corporate pension scheme by ending tax preferences for retirement allowances



Even though EPL for regular workers in Korea is near the OECD average, it is an important factor reinforcing dualism

Protection of regular workers against individual dismissal



Source: OECD Online Employment Database, and specifically www.oecd.org/employment/protection.



Policies to tackle labour market dualism: Pillar 1 (cont.)

- **Reduce overall dualism in the labour market**
- **IMPROVE WELFARE AND OPPORTUNITIES OF NON-REGULAR WORKERS**
 - Harmonise EPL for different types of non-regular employment
 - Ensure more effective ALMPs
 - Recent measures to enforce application of the minimum wage are welcome. Furthermore, consider introducing a sub-minimum wage tied to training for low-skilled youth



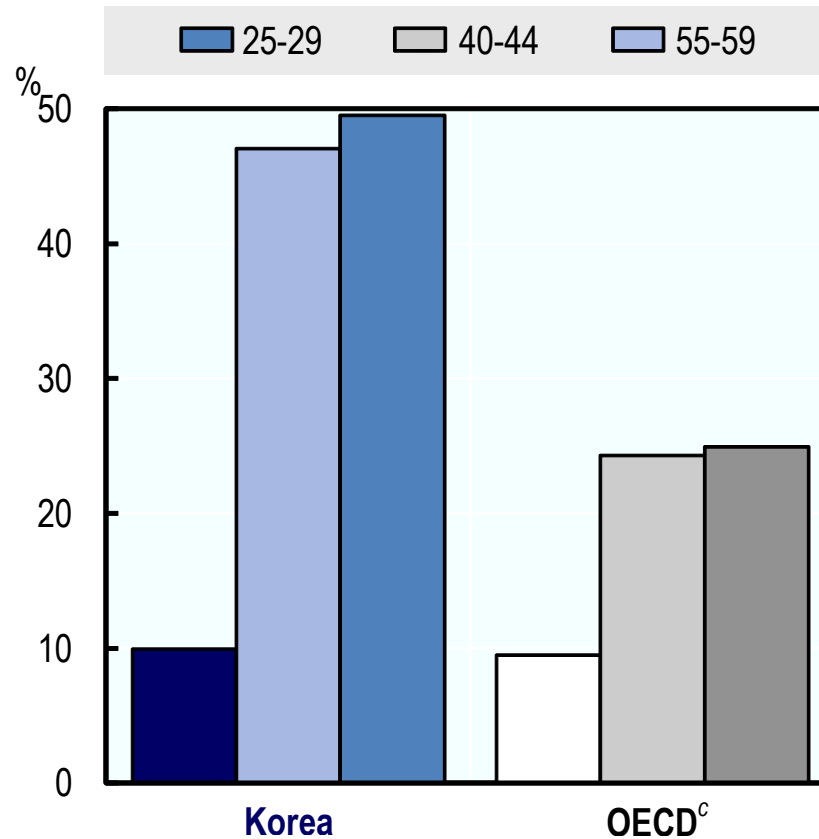
Policies to tackle labour market dualism: Pillar 2

- **Enhance employment opportunities for groups most affected by dualism**
 - **Women**
 - Working time flexibility
 - Quality child care
 - **Older workers**
 - Restrict early retirement
 - Mute seniority wages
 - **Youth**
 - Reduce skill mismatch by further strengthening vocational education and career guidance



In Korea the gender pay gap increases very steeply with age

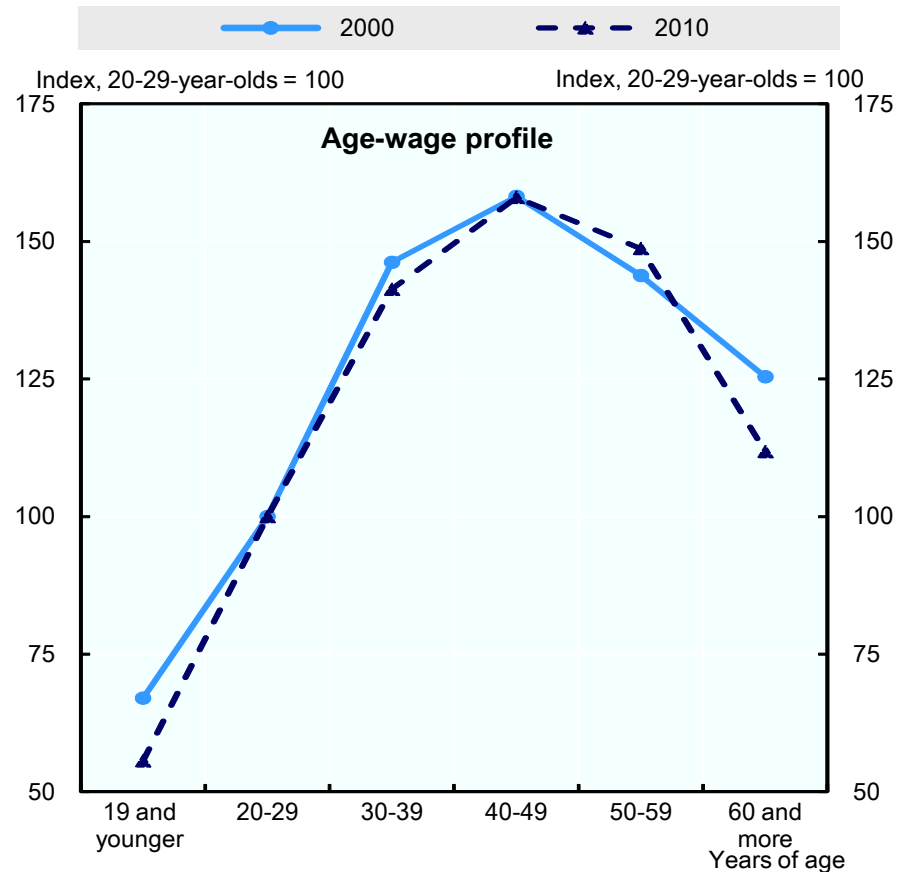
Differences between male and female mean wages divided by male mean wages, 2010



Source: OECD Database on Average Earnings by Gender and Age.



In Korea, wages rise steeply with experience, but peak around age 50 and then decline due to the prevalence of early retirement from regular jobs

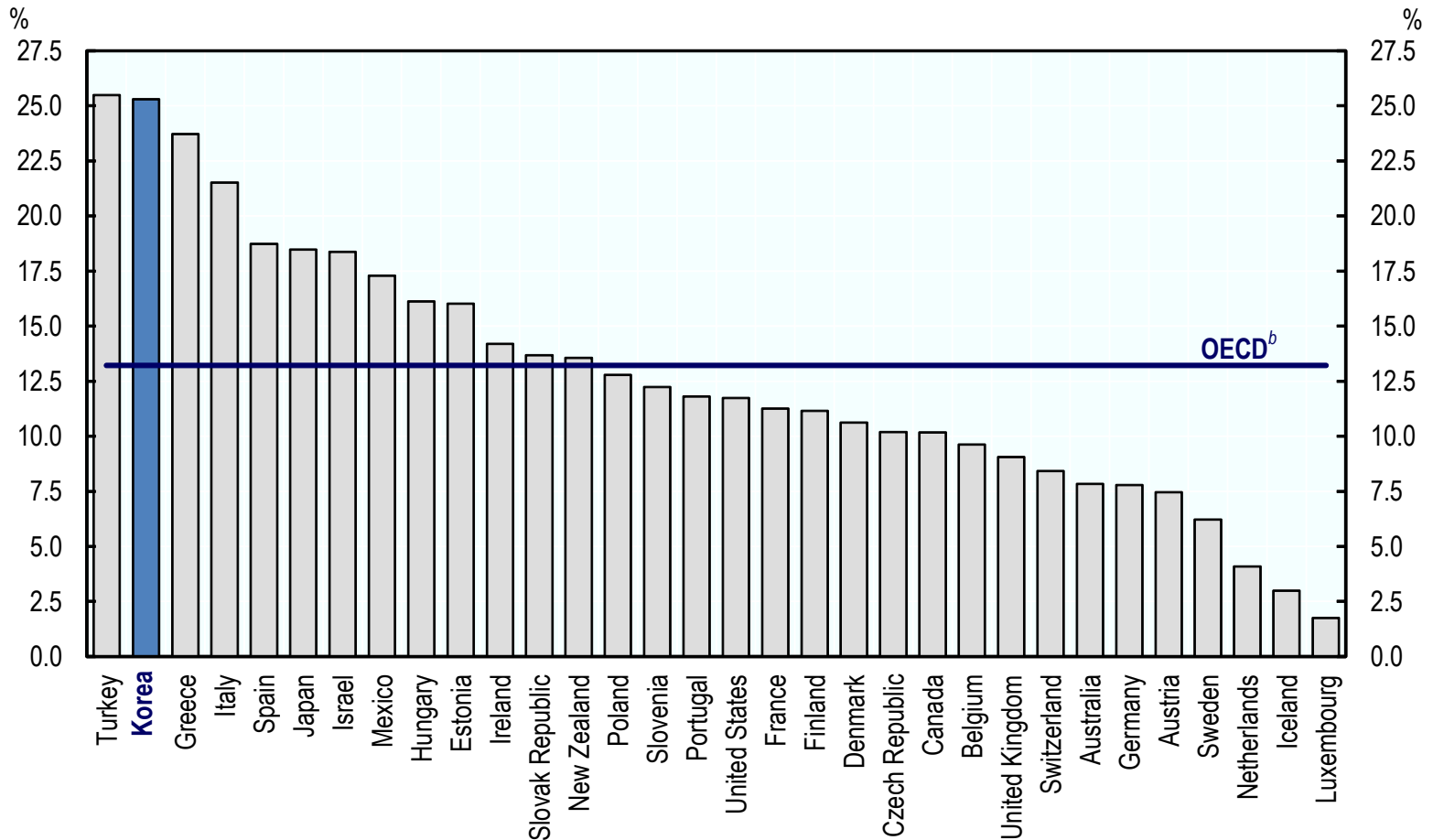


Source: Ministry of Employment and Labour, Wage Structure Survey.



A high share of Korean youth with a tertiary education are not employed, probably due to skills mismatch

NEET rates of tertiary graduates ages 15-29 in 2010 (percentages)



Source: OECD (2012), *Education at a Glance 2012: OECD Indicators*, OECD Publishing, <http://dx.doi.org/10.1787/eag-2012-en>; and Statistics Korea, Economically Active Population Survey.



Summing up: the cure

- **Tackling overall labour market dualism requires a comprehensive approach involving 2 broad pillars**
 - Measures to reduce the share of non-regular workers in the labour force
 - Measures to improve the welfare and opportunities of non-regular workers
- **Targeted policies to expand the access of women, older workers and youth to highly productive employment are also needed**
- **Many promising reforms have been taken recently. Critical to monitor them carefully to ascertain whether they need to be fine-tuned**
- **Additional measures are also required to supplement recent reforms and improve their coherence**



Thank you