



Investing in Youth

KOREA



Investing in Youth: Korea

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Foreword

As highlighted in the OECD Action Plan for Youth, successful engagement of young people in the labour market is crucial not only for their own personal economic prospects and well-being, but also for overall economic growth and social cohesion. Therefore, investing in youth is a policy priority in all countries, including Korea, requiring concerted action to develop education systems and labour market arrangements that work well together.

Following the launch of the OECD Action Plan for Youth in May 2013, the OECD is working closely with countries to implement the plan's comprehensive measures in their national and local contexts and to provide peer-learning opportunities for countries to share their experience of policy measures to improve youth employment outcomes. This work builds on the extensive country reviews that the OECD has carried out previously on the youth labour market and vocational education and training (Jobs for Youth, Learning for Jobs and Skills beyond School), as well as on the OECD Skills Strategy.

The present report on Korea is the eleventh of the series "Investing in Youth", which builds on the expertise of the OECD on youth employment, social support and skills. This series covers OECD countries and key emerging economies. The report presents new results from a comprehensive analysis of the situation of young people in Korea, exploiting various sources of survey-based and administrative data. It provides a detailed assessment of education, employment and social policies in Korea from an international perspective, and offers tailored recommendations to help improve the school-to-work transition. Additional information related to this review can be found on the OECD website (<http://oe.cd/youth-korea>).

This review is the work of the Social Policy Division of the Directorate for Employment, Labour and Social Affairs. Sarah Kups and Veerle Miranda (project leader) prepared the report, under the supervision of Monika Queisser (Head of the Social Policy Division). Lucy Hulett and Lauren Thwaites provided editorial support. The report benefited from useful comments provided by Mark Pearson (Deputy Director for Employment, Labour and Social Affairs) as well as by staff in the OECD Economics Department and the OECD Directorate for Education and Skills.

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Acronyms and abbreviations

EAPS	Economically Active Population Survey
GDP	Gross Domestic Product
ISCED	International Standard Classification of Education
KLIPS	Korean Labour and Income Panel Study
KRW	Korean Won
NCS	National Competency Standards
NEET	Not in Education, Employment or Training
NQF	National Qualification Framework
PIAAC	OECD Survey of Adult Skills
PISA	OECD Programme for International Student Assessment
SMEs	Small and Medium-sized Enterprises
VET	Vocational Education and Training

Executive summary

A slowdown in economic growth is prolonging the transition from school to work for many young Koreans. The youth employment rate stands well below the OECD average and youth unemployment surpasses the OECD average since 2017. Rather than accepting a low-paid or temporary job in a highly segmented labour market, many young people prefer to continue investing in formal and informal education or spend a long time preparing for company entry exams. Korean youth are amongst the most educated and skilled in the OECD area, but the financial costs of education for the government and parents are high, as is the personal investment of young people in terms of time and energy devoted to studying. In addition, their skills do not always match labour market needs and many small and medium-sized enterprises struggle to fill positions as they are unable to offer the same working conditions as larger firms.

Awareness of the skill mismatch issue is high and the Korean government has launched a number of important initiatives in recent years to alleviate it. Measures include additional public funding for career guidance and counselling in secondary schools, (re)introduction of apprenticeships and Meister high schools to strengthen vocational education and training, incentives for tertiary institutions to offer more labour-market relevant degrees and advocacy for competency-based recruitment practices. These reforms follow international best practices and are likely to reduce the gap between skill supply and demand. However, relatively small adjustments could further boost the pay-offs of these reforms.

To further support young adults, the Korean government announced in March 2018 an ambitious plan with a wide range of youth support measures. Many measures are an extension of existing ones, but there are also important new initiatives, with an important shift from indirect measures, such as subsidies for firms that hire young people, towards a stronger focus on measures that directly benefit youth, such as tax exemptions and in-work benefits. To further facilitate access to rewarding employment and prevent social exclusion, Korea would have to expand its social safety net and activation support for young people, and address the country's labour and product market duality.

Key policy recommendations

- Improve educational choices by increasing the effectiveness of career guidance and counselling, and involving employers.
- Promote upper secondary vocational education by improving and deepening the connections with the industrial sector and expanding apprenticeship programmes.
- Ensure quality tertiary education by incentivising students to select better institutions, requiring institutions to publish employment outcomes, and fostering collaboration with employers.
- Support companies in altering their recruitment practices by providing training in competency-based hiring and introducing intermediary matching services for small and medium-sized enterprises.

- Break down the product market polarisation by reforming large business groups and enhancing dynamism in smaller firms to broaden the opportunities of young people in the labour market and spread human capital more equally across economic sectors.
- Improve the social safety net by better enforcing social security legislation, expanding eligibility for Employment Insurance to voluntary job leavers and non-standard forms of employment, and easing access to the Basic Livelihood Security Programme.
- Offer adequate employment support for young unemployed people by applying stricter quality assessment of private employment services, extending the contract duration for well-performing agencies and proactively outreaching to unregistered jobseekers.
- Facilitate access to affordable housing by moving away from support for jeonse deposits towards housing allowances for youth and rental market regulation.

Assessment and Recommendations

Korea's economic growth record over the past half century has been outstanding, reaching on average 7.7% in the 1970s and '80s, boosted by sound macroeconomic policy, heavy investments in human and physical capital and a rapid expansion of the working-age population. Nevertheless, economy growth slowed down to 2.7% in 2018 and is projected to remain around 2.4-2.5% in 2019-20. Weaknesses in domestic demand and international trade are the main causes for the slowdown, but also population ageing and inefficiencies in the product and labour markets play a role. Future growth prospects will depend on how well the country will master these challenges.

How do youth fare in the Korean labour market?

The employment rate of young Koreans aged 15 to 29 stands with 43% in 2018 well below the OECD average of 54%. The low youth employment rate is driven by the high share of young people studying and the low share of students who work during their studies. Indeed, fewer than one in eight Korean students are employed, compared with more than one in four students across the OECD. Young Koreans prefer to invest heavily in their education, both formally and informally, and tend to spend a long time preparing for entry exams of large companies or the public sector, rather than accumulating experience in the labour market.

The Korean labour market is known to be highly segmented, with large differences in employment conditions between regular and non-regular workers and between small and large companies. Yet, young workers perform relatively well. While Korea belongs to the top five of OECD countries in terms of temporary employment incidence, temporary contracts are less frequent among Korean youth than among youth in OECD countries on average, and transitions from non-regular to regular jobs are frequent. In addition, while many 15 to 24 year olds in Korea hold low-paid jobs, by the time they are in their late twenties, fewer of them are in low-paid jobs than in OECD countries on average. The temporary employment and low pay incidences for young people both declined between 2007 and 2017.

Despite the relatively promising and improving outcomes among young workers in Korea, weakening economic growth is translating into increasing youth unemployment and inactivity. The unemployment rate among 25 to 34 year olds rose from 5.0% in 2007 to 6.6% in 2018 and is now higher than the OECD average of 6.2%. For the age group 15-24 years, the unemployment rate is still lower in Korea than in the OECD on average (10.5% and 11.1% respectively in 2018), but it also displayed an increase over the past decade (up from 8.7% in 2007). The observed increases are in contrast with trends in unemployment for middle-age and older workers, as well as with OECD trends in youth unemployment.

In addition, a considerable share of young Koreans are neither employed, nor engaged in formal education or training (the so-called NEETs). In 2017, the NEET rate reached 18.4% for the age group 15 to 29 years,

compared with the 13.4% cross-country OECD average, and a slight increase from the 17.9% NEET rate in 2014. The NEET rate is particularly high among college or university graduates (45% of NEETs in Korea have a tertiary degree), in contrast with most OECD countries, where low-educated youth are much more likely to be NEET than are their higher-educated peers. Both the participation in informal education and the long preparation time for company entry exams explain a significant part of the high NEET rate among highly educated youth in Korea.

While informal education may complement formal education, its widespread use suggests that there is a gap between skills supply and demand. Many students feel that the formal education system does not equip them with the skills they view as prerequisites for success, whereas employers seem to judge the formal education degrees as insufficient measures of someone's skill, preferring their own employment exams to select their employees. Indicators of skill mismatch indeed suggest that there is significant scope for improvement in efficiently using the skills of young people.

The strong societal preference for higher education and eagerness to obtain a job in a large company or public sector generate tough competition among young Koreans to attend one of the top universities. More than eight out of ten Korean teenagers and nine out of ten Korean parents hope that they or their child will obtain a four-year university degree at a minimum. This preference pushes students to attend even sub-par tertiary institutions and puts much pressure on the shoulders of young Koreans. Not surprisingly, the OECD Child Well-Being indicator shows that less than one in five Korean adolescents report high life satisfaction, compared with one in three adolescents on average in the OECD.

A university degree certainly increases the chances of earning a high income and working for a large enterprise. However, when tuition fees and foregone earnings during the years of study are taken into account, the financial pay-off from higher education is negative for a substantial share of university and college graduates: three out of ten college graduates and two out of ten university undergraduates earn less than the average of high school graduates.

Poverty among young Koreans is low, especially compared with elderly, mainly because they continue living with their parents until they find a stable job. However, uncertainties about their future are having profound implications for marriage and family formation, as well as for the country's development as a whole.

Supporting young people in a weakening labour market

To support young adults, the Korean government announced in March 2018 an ambitious plan with a wide range of youth support measures. Many measures are an extension of existing ones, but there are also important new initiatives. In particular, the plan represents an important shift from indirect measures, such as subsidies for firms that hire young people, towards a stronger focus on measures that directly benefit youth, such as tax exemptions and in-work benefits. According to government estimates, the different support measures should bring the real earnings of young people employed by SMEs closer to those working for large enterprises, hereby lowering the implications of labour market duality.

While ambitious and promising, the youth action plan does not address the underlying structural barriers faced by young people to enter the Korean labour market. As put forward in the OECD Action Plan for Youth, a comprehensive range of measures to tackle youth unemployment and promote better outcomes for youth in the longer run are needed to equip them with relevant skills and remove barriers to their employment. In particular, action is required in different fields, including the connection between the education system and the world of work, the role and effectiveness of vocational education and training, the quality of career guidance services, effective labour market policy and institutions that facilitate access to rewarding employment, and social programmes to prevent social exclusion.

Reducing the gap between skill supply and demand

Korea has the most educated youth population in the OECD, with virtually all young people completing high school and more than two thirds obtaining a college or university degree. However, while education is highly valued in Korean society, young people's skills do not always match labour market needs. Graduates spend nearly one year, on average, searching for a job, while 40% of small and medium enterprises struggle to fill positions. At the same time, the financial costs of education for the government and parents are high (reaching 6.5% of GDP in 2016 when expenditure on private after-school teaching academies is included), as is the personal investment of young people in terms of time and energy devoted to studying.

Over-qualification has risen hand in hand with rising education levels. In 2015, 45% of university graduates and 79% of university postgraduates reported that they were over-qualified for their job. At the same time, graduating from upper secondary schools with a vocational focus or tertiary institutions in a field with clearly defined professional pathways, such as pharmacology or engineering, reduces the likelihood of being over-qualified.

Career guidance is a first way to address such mismatches, as it helps students to select programmes that offer good career prospects and correspond to their interests and aptitudes. As a second step, education and training programmes need to equip youth with the skill set they actually need to be successful in the labour market in the short and long-term, that is, to facilitate both the entry and future performance. This recommendation applies equally to vocational and general education programmes and to secondary and tertiary institutions. Furthermore, there is a need to alter companies' recruitment practices to place more weight on competencies instead of education credentials.

Guiding students to improve educational choices

In recent years, the Korean government has invested heavily in career guidance. Its strategy is to create career awareness in primary school, offer career exploration in lower secondary school and stimulate career planning in upper secondary school. The reforms are a good start and follow international best practices that encourages children and teenagers to start thinking about possible careers at an early age. Nevertheless, further changes that ensure the quality of career counselling, engage disadvantaged youth and strengthen community links could boost the payoffs.

- *Increase the effectiveness of career guidance and counselling.* Better training for counsellors and the provision of didactic material to incorporate career-relevant material in all subjects can improve the impact and relevance of guidance in Korean secondary schools. Higher budget allocations for more career services staff would allow schools to provide more individualised guidance. Self-assessment exercises based on benchmark performance measures can serve as a tool for the regular improvement of career counselling.
- *Adapt career counselling to the needs of disadvantaged youth.* Students from disadvantaged backgrounds typically receive less career counselling and are less able to benefit from it. To address these gaps, schools could consider either programmes that are targeted to this group's needs or individual counselling sessions for all students in advance of important education transitions.
- *Involve employers in career counselling.* Students tend to be more interested and engaged in career counselling when enterprises and their employees are directly involved. Schools should better cooperate with employers to offer a mix of different activities, such as information events, workplace visits and job shadowing.

Promoting upper secondary vocational education

Vocational upper secondary schools traditionally educated a large share of Korea's workforce, but their importance declined when higher education expanded rapidly during the 1990s. To counter-act this development, the Korean government has diversified vocational education options in the hopes of attracting more young people and train the type of workers that employers require.

The two most important measures to boost vocational education were the introduction of Meister schools in 2010 and apprenticeships programmes in 2013. Meister schools follow the German/Austrian model of upper secondary schools that focus on practical vocational training in close collaboration with employers, while apprenticeships programmes combine theoretical education at an upper secondary level with practical training in the company that hires the apprentices. Although these two programmes are relatively successful at securing employment for their graduates, very few students currently participate in such programmes. With barely 3% of upper secondary students attending a Meister school or participating in an apprenticeship programme, Korea remains at the bottom of the OECD ranking.

- *Use the success of Meister schools as a template for quality improvements in secondary vocational education.* The government could consider increasing the number of Meister schools, on the one hand, and requiring all vocational schools to create more and deeper connections to industry, on the other hand. Curricula should also be reviewed to reflect National Competency Standards while ensuring sufficiently broad theoretical training.
- *Expand apprenticeship programmes.* More enterprises and youth could benefit from apprenticeships if they were expanded across a number of dimensions. For instance, longer programmes could prepare apprentices for more complex occupations, while introducing apprenticeship programmes in the service sector could provide employers with a skilled workforce. Enlisting large employers as apprenticeship providers could also boost the prestige of apprenticeships. In turn, this approach could improve the benefits that apprentices and employers of all sizes derive from the apprenticeships.
- *Reduce the cost of apprenticeships for employers.* In some sectors, the costs of offering apprenticeships exceed their benefits, despite the subsidies offered to SMEs to offset part of the training costs. The negative balance could be redressed if employer and employee representatives agree on how training requirements can be redesigned. Employers can also reduce their costs by arranging joint training. Sectoral councils could play a central role in both solutions.

Ensuring quality tertiary education

The quality of Korea's tertiary education is not as high as its primary and secondary education and it varies strongly across institutions. In recent years, the Korean government and individual institutions have undertaken efforts to base their admission decisions on other factors than just academic records and standardised test scores and ensure the quality and relevance of college and university teaching. Very low-quality institutions have been shut down and funding directed towards more successful institutions. However, as most tertiary institutions are private and primarily fund themselves through tuition fees, the potential of the funding mechanism is limited.

- *Incentivise students to select better institutions.* In line with the gainful employment regulation in the United States, Korea could refuse federal loans and public grants for students who want to attend institutions where the ratio between students' debt and their later earning is larger than in other institutions offering similar programmes. With nearly one-third of higher education students receiving a need-based grant and more than one-sixth taking out a direct loan, this approach could be quite influential in improving the quality of universities.

- *Strengthen quality through reporting.* The government could require institutions to collect and publish more indicators on the labour market progress of their graduates. In addition to alumni employment rates, the reporting requirements could be expanded to average earnings, time to graduation and five-year earning gains by degree. Although it would take time before changes in a university's quality would be reflected in better outcomes, this strategy could become a powerful way to steer students to institutions with better labour market outcomes.
- *Foster collaborations with employers.* Employer involvement with tertiary institutions can ensure that curricula are better adapted to labour market needs and that students are better prepared for the labour market. Evidence from European countries suggests that collaborations are more durable when employers are engaged through multiple channels. These can include internship programmes, employer advisory boards, research co-operation and others.
- *Integrate entrepreneurship education.* To equip students with the skills they need to realise their entrepreneurial ambitions, tertiary institutions should offer more entrepreneurship-related courses and programmes. These courses should be open to students from different disciplines and combine theoretical teaching with experiential learning. Continuous evaluations can allow universities to improve entrepreneurship education over time.

Supporting companies in altering their recruitment practices

Competence-based hiring is still rare in Korea. Like in Japan, most large employers and public institutions use general recruitment exams to recruit groups of hires. As a result, recent graduates often invest months, and sometimes even years, preparing for those company exams. Yet evidence suggests that job descriptions that clearly define the required competencies are a better predictor for job performance and reduce job turnover.

- *Provide training in competency-based hiring to companies.* The Korean public sector is experimenting with recruiting more of its candidates based on clearly defined job descriptions, eschewing the need to include certificates and qualifications attesting to skills unrelated to the jobs' requirements. To encourage private companies to follow its example, the government can identify sectors where the need is largest and provide necessary training on competency-based hiring to employers.
- *Consider introducing intermediary matching services for small and medium-sized firms.* Smaller firms often have high hiring costs. Under certain circumstances, information sharing between enterprises and intermediary matching services can help reduce these costs.

Improving support for young people

Korea has been continuously expanding public social spending over the last decades, more than doubling the share of GDP it devotes to social spending since 2000. Even so, gross public social spending remains third lowest in the OECD ranking, leaving only Chile and Mexico behind. With only 11% of GDP devoted to pensions, health, social services and active labour market policies, Korean social expenditure remains well below the OECD average of 20% of GDP in 2018.

Expanding the social safety net

Overall, the Korean social protection system provides rather limited support to young people without a job. While the Employment Insurance scheme includes most salaried workers on a mandatory basis, more than one out of three 15-29-year-old workers did not have access to an unemployment safety net in 2017, mainly because their employer did not enrol them into the system even though they are legally bound to do so. In addition, the strict income requirements and family support obligations of the Basic Livelihood

Security Programme keep most young people excluded from the system (barely 1% of the age group 20-39 benefits from the programme).

- *Better enforce social security legislation.* Access to Employment Insurance for young workers could be improved by expanding the resources of the relevant monitoring authorities to observe and sanction offending employers, raising penalties to increase their deterrent effect, and promoting and rigorously applying the arbitration procedure through which non-insured workers can claim Employment Insurance entitlements.
- *Expand eligibility for Employment Insurance to voluntary job leavers.* The full exclusion of voluntary job leavers is rather strict compared with many other OECD countries. Korea could consider a suspension or sanction period for voluntary job leavers to support young workers who are stuck in low-quality jobs and who need time and assistance to find a better job.
- *Incorporate non-standard forms of employment in the Employment Insurance scheme.* Extending social protection to non-regular contracts that are currently uncovered, like in Austria or Italy, could narrow the scope for companies to opt for contractual arrangements that evade social contributions.
- *Ease access to the Basic Livelihood Security Programme.* While the government exempts certain types of households from the family support obligation for living and health benefits since the beginning of 2019, it could go further and phase out the family support obligation completely. Abolishing this rule would bring Korea more in line with other OECD countries in terms of social assistance coverage.

Offering adequate employment support for young unemployed

In 2009, the government introduced the Employment Success Package Programme to provide customised job-search support for jobseekers as well as training to improve employability. The programme's activation strategy is in line with best practices in OECD countries with a good balance of incentives and requirements for participants. While public Employment Centres serve low-income and disadvantaged groups, services for most youth are subcontracted to private providers.

- *Maximise the impact of the Employment Success Package Programme.* In-depth evaluations suggest that the programme is quite effective in bringing participants into employment. However, the number of youth benefiting from the programme remains low. Better and more proactive outreach is needed to promote the programme among young people, possibly by increasing the provided income support to make the programme more attractive. Korea can also build on successful outreach strategies in other OECD countries. Possibly, proactive outreach could become an element in the performance evaluation of private employment services.
- *Strengthen private employment service provision.* Private employment services tend to be very small and low-performing ones can relatively easily remain in the market. Although Korea has an elaborated rating system, there seems to be considerable room for a stricter quality assessment and contract termination for poorly performing service providers. The performance of private providers could be published online on a regular basis to guide jobseekers to the best-performing providers.
- *Reconsider the short duration of private providers' contracts.* One-year contracts are likely to hinder longer-term investment by private providers. To encourage them to expand their services and develop more specialised competencies, Korea could follow the example of Australia and the United Kingdom, who have gradually extended the duration of services contracts to six years.

Monitoring support for in-work poverty

The Earned Income Tax Credit provides in-work support for both salaried and non-salaried low-income workers and their families. The credit was introduced in 2008 and was expanded to single youth households aged under 30 in January 2019. A recent tax reform also increased the maximum tax credit, making the Korean system one of the more generous ones in the OECD.

- *Carefully monitor the impact of the Earned Income Tax Credit.* Given the rapid expansion of the system, it is important to evaluate the effectiveness of the system, in particular with respect to the impact on labour supply as well as the take-up among eligible (young) people.

Facilitating access to affordable housing

Korea has relatively good housing outcomes in an international context. Final housing expenditure in Korea is amongst the lowest in the OECD area and Seoul is not among the most expensive metropolitan cities in the world. Nevertheless, to support young adults in an economic climate with increasing employment insecurity, the Korean government recently expanded the target groups for its housing policies to include young people. The reasoning behind this policy shift is that the housing cost burden in urban areas makes it difficult for young people to get married and start a family, hereby aggravating the country's social challenges of low fertility and ageing population. The most important policies directed at the young generation include subsidised public housing and rental support for the private market.

- *Move away from support for jeonse deposits towards housing allowances and rental market regulation.* The government offers low-interest loans for housing deposits under the jeonse system to young people at a time when landlords consider the jeonse system no longer viable. It might be more realistic to allow the rental market to move away from the jeonse system towards a system of monthly rentals as in most other OECD countries. The government could then support young people through other means, such as (temporary) housing allowances and rental market regulation. Korea may also wish to adopt safe and sustainable mortgage options for young people.

Addressing labour and product market duality

Large differences in employment conditions across Korean workers are related to a number of factors, including the growing dispersion in the performance of firms and the employment conditions they are able to offer, insider-outsider dynamics related to strong labour unions in large companies as well as global trends of globalisation and technological progress. The latter trends are not unique to Korea, but have a polarising effect on the labour markets in many OECD countries.

Korea's large business groups have played a key role in the country's rapid economic development over the past half century. They remain leading players, with the top 30 groups accounting for about two-thirds of exports in Korea's manufacturing and mining sector and a quarter of sales in services. Despite their significant contributions to Korea's economic development, the powerful role of the large business groups and their presence in a wide range of business lines stifle the establishment and growth of smaller firms and polarise the country economically and socially. Productivity in smaller firms in manufacturing has fallen to less than one-third of that in large firms, resulting in wide wage dispersion between small and large firms. Low productivity and wage levels discourage young people from accepting jobs at smaller companies, leading to fierce competition for jobs in large business groups and over-investment in tertiary education.

- *Reform large business groups and enhance dynamism in smaller firms.* Breaking down the country's product market polarisation would broaden the opportunities of young people in the labour market and would spread human capital more equally across economic sectors. Without addressing the labour market duality created by the industrial polarisation, it will be difficult to improve the labour market performance of youth in a sustainable way.

In contrast, the employment protection legislation in Korea seems relatively balanced across permanent and temporary workers. The OECD employment protection legislation index shows that regulations for regular workers are less strict in Korea than in the average OECD country, whereas regulations for temporary employment are stronger than the OECD average. Following a range of reforms to improve employment protection for the different types of non-regular workers, the incidence of temporary employment in total dependent employment radically declined for young and prime-aged workers; only among workers aged 55 and over has the incidence of temporary employment risen between 2007 and 2017.

1 Youth employment and education in Korea

This chapter provides an overview of the educational, employment and well-being outcomes of young people in Korea. It first outlines Korea's economic context. It then compares the educational and employment performance of young Koreans with that of young people across OECD countries, focusing on employment, unemployment and educational attainment. The chapter also describes the size and composition of the population of young people who are not in employment, education or training as well as employment quality and skill mismatches. The chapter concludes with information on the life satisfaction and poverty rates among young people.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1.1. Introduction

Korea has been one of the ‘economic miracles’ of the post-World War II period, but its current growth prospects are much more limited. Within this environment, young people are hitting upon increasing difficulties in finding a stable footing on the labour market. They often invest a lot of time and money in qualifications and certificates and can nonetheless find themselves relegated to unstable and unsatisfactory employment.

This chapter lays out the general educational and labour market outcomes of young people in Korea. It starts out by presenting the general economic environment (Section 1.2). The chapter then outlines the labour market situation of young people, including the employment and unemployment rate, and discusses reasons for the relatively high share of youngsters who are neither working nor in formal education, followed by an analysis of job search and job quality, and a discussion of skill mismatches (Section 1.3). The final sections present youth income poverty and well-being measures (Section 1.4) and a wrap-up of the different findings (Section 1.5).

1.2. The economic context

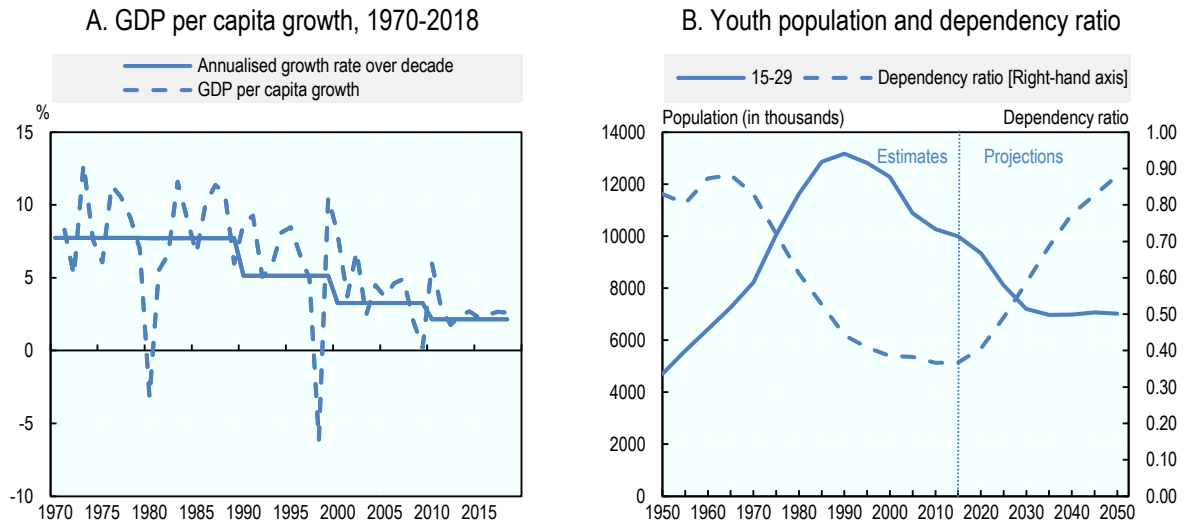
Korea’s economic growth record over the past half century has been astounding, boosted by a successful policy mix and an expansion of the working-age population. In 1966, Korean GDP per capita was around one tenth of Japanese GDP per capita, and only slightly higher than in sub-Saharan Africa. By 2016, it had reached more than half the Japanese and fourteen times the sub-Saharan value. Large conglomerates were a driving factor behind this growth. They established themselves on the international market thanks to an export-oriented industrial policy backed by sound fiscal and monetary policies. The conglomerates were able to hire the increasingly skilled workers needed for complex production processes because the working-age population was growing and the government invested heavily in high-quality education (Jones, 2013^[1]).

Current growth, 2.7% in 2018, is strongly affected by weaknesses in domestic demand and international trade as well as population ageing and dualism in the product and labour market. Future growth will depend in large parts on how well the country will master these challenges. The annualised decennial GDP per capita growth rate has dropped since the 1990s, from 7.7% in the ‘70s and ‘80s to 1.7% in the ‘10s (Figure 1.1, Panel A). Growth now equals the OECD average even though GDP per capita is still significantly lower in Korea than in leading OECD countries (OECD, 2018^[2]). One contributing factor is that the period with a low dependency ratio – the number of children and old people to number of working-age individuals – benefitting Korea over the past four decades is ending (Figure 1.1, Panel B). The population of 15-29 year olds has already been shrinking since the 1990s.

Other potential obstacles for Korea’s future growth are the stark differences between small and large enterprises and between regular and irregular employment. Policies that were successful in the short term contributed to the problem of enterprise and labour market dualism in the longer term (Koh, 2010^[3]). Large firms, concentrated in the manufacturing sector, generate 40% of sales but only employ 14% of workers. Small and medium-sized companies (SMEs), concentrated in the service sector, provide the bulk of jobs. But SMEs’ relative labour productivity has been trending downwards. It now equals around a third of the productivity of large companies, the fourth lowest ratio in the OECD (OECD, 2018^[2]). The labour market bifurcates not only between large and small companies, but also between regular and non-regular employment. Non-regular workers, such as part-time, temporary or dispatched workers, make up around a third of the workforce and frequently work in SMEs. The enterprise and employment dualities fuel income inequality because non-regular workers typically earn less than regular workers do: in 2016, the average hourly wage of non-regular workers was more than a third lower than the average hourly wage of regular workers (OECD, 2018^[4]).

The two dualities lower growth prospects: small companies tend to stay small. Sometimes, they want to continue profiting from subsidies that are only available to SMEs, which in turn, limits employment growth. But the strong concentration of financial and human capital in large firms can also limit the growth of innovative small companies, reducing productivity growth.

Figure 1.1. Korea's economy was boosted by a young population, but ageing is reducing long-term growth prospects



Note: The dependency ratio is equal to the ratio of the number of individuals aged below 15 and above 64 to the number of individuals aged 15-to-64.

Source: United Nations (2017^[5]), *World Population Prospects* and OECD (2018), "Growth in GDP per capita, productivity and UCL", http://dotstat.oecd.org/Index.aspx?DataSetCode=PDB_GR.

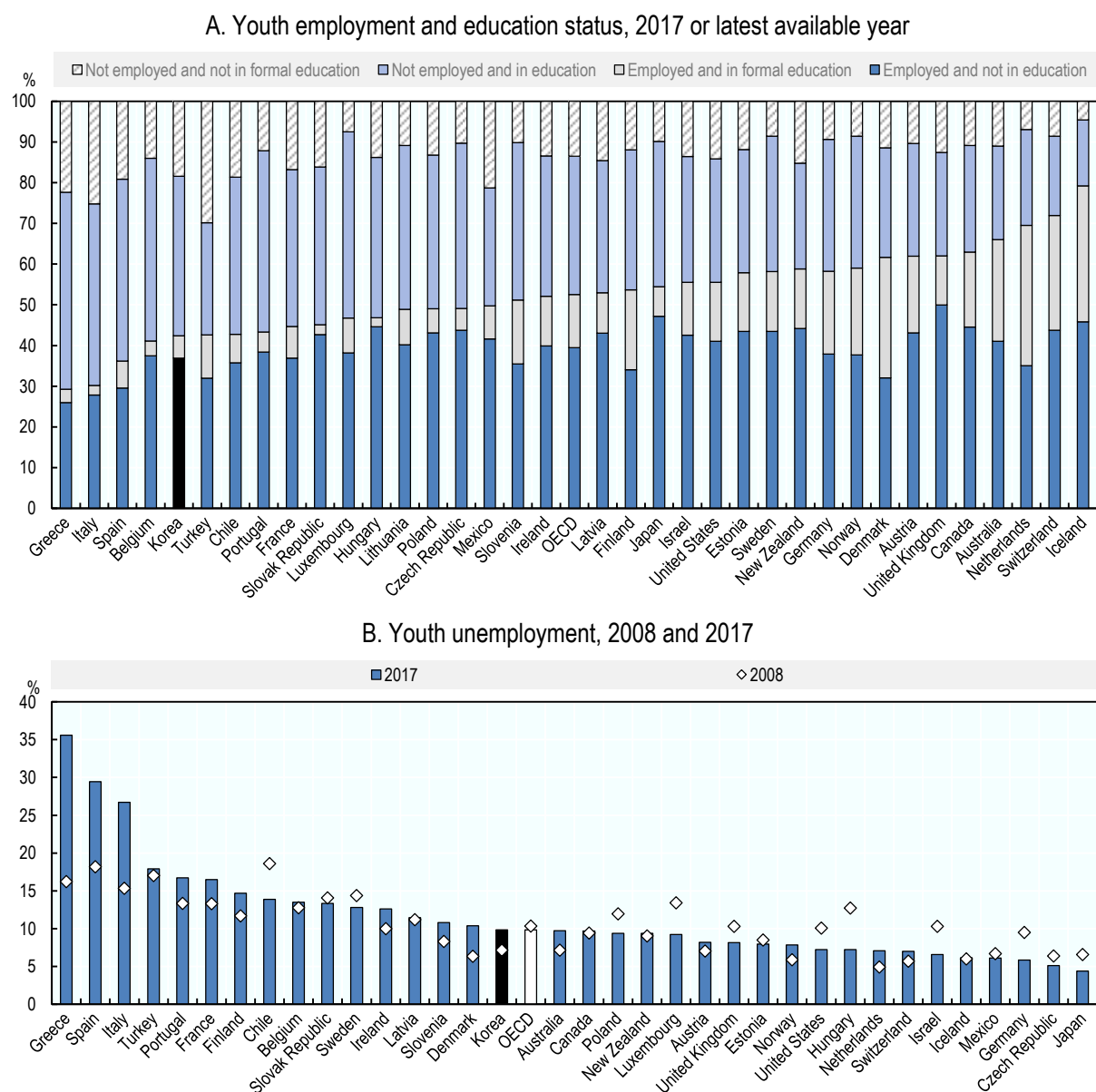
1.3. The education and employment performance situation of Korean youth

The ageing population trend means that young Koreans today are part of smaller cohort than ten years ago. The fact that young workers are becoming increasingly scarce might suggest that they are highly valued on the labour market. However, as this section will show, many youngsters are not employed or have disappointing work conditions, despite their high educational achievements.

1.3.1. Youth labour market outcomes

The employment rate of young Koreans is well below the OECD average. In 2017, 42% of youth aged 15-29 living in Korea were employed (Figure 1.2, Panel A). The 2017 OECD average was about a quarter higher (at 53%). The Korean youth employment rate fell by four percentage points between 1997 and 2017 due to decreases in the employment rates of 15-19 year olds (from 10 to 8%) and of 20-24 year olds (from 58% to 45%) that were partially offset by a slight increase among 25-29 year olds (from 68% to 69%). Youth employment declined more between 1997 and 1998 than between 2007 and 2008, mirroring the stronger employment effects of the Asian Financial Crisis than the more recent Global Financial Crisis (Lybecker Eskesen, 2010^[6]).

Figure 1.2. Fewer than half of young people aged 15-29 in Korea are employed



Note: The reference year in panel A is 2017 except 2013 for New Zealand, 2014 for Japan, 2015 for Chile and Turkey and 2016 for the United States. The calculations exclude individuals with missing educational information or who are in military service. Youth are defined as 15-29 year olds.

Source: Calculations based on Labour Force Surveys by sex and age, OECD (2018^[7]), Education at a Glance 2018, and Labour Force Surveys including the Economically Active Population Survey (Statistics Korea, 2017^[8]).

Low employment rates touch most but not all population groups in Korea. In 2017, 88% of Korean men of aged 30-64 were employed, compared with 83% across the OECD and 91% in Japan. In contrast, aside from young men and women, women aged 30-64 also have a below-average employment rate: at 61%, it was four percentage points lower than the weighted OECD average. Women with young children in particular can find it difficult to combine caretaking activities with the long working hours that still continue to be the norm in Korea (Kang, 2017^[7]), despite recent legal changes in maximum working hours.

Youth unemployment is not an exceptionally strong factor driving the low youth employment rate in Korea: at slightly below ten percent, the 2018 youth unemployment rate was in fact almost equal to the OECD average, though still more than twice as high as in Japan (Figure 1.2, Panel B). However, it is not surprising that the Korean population and politicians are concerned about youth unemployment since it has been trending upwards, from 7.1% in 2008 to 9.5% in 2018.

An important explanation for the low youth employment rate is that few young people combine education and employment. Indeed, fewer than one in eight of Korean students were employed, compared with around one in four across the OECD and even one out of three in Iceland. Their share has also only slightly increased over the last decade, from 11.2% in 2007 to 12.3% in 2017. The employment rate of young Koreans is also low because many of them take part in informal education or spend a long time preparing for company entry exams, accounting for 4.4% of all 15-29 year olds in 2017.

Many young people prefer to invest in further (formal or informal) education or prepare for employment exams to obtain a job in a large company or the public sector rather than accept a job with a small company. Job and wage conditions for regular workers at large companies tend to be much more advantageous than at SMEs (OECD, 2016^[8]). Although the investment may be rational, few young people eventually succeed in obtaining a high-quality job in a large enterprise (see section 1.3.5).

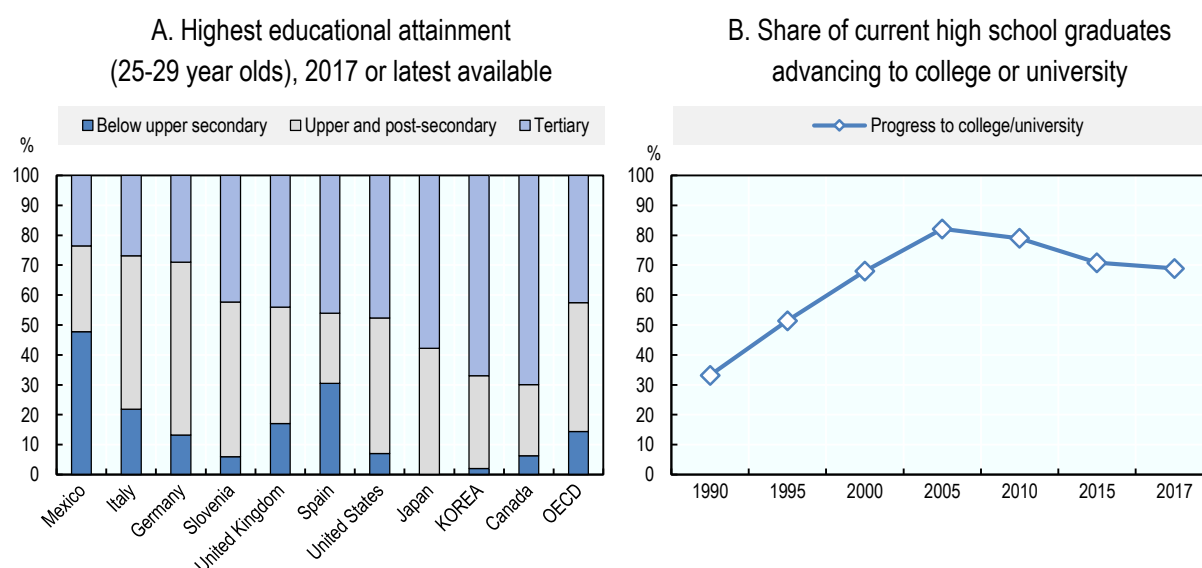
1.3.2. Educational investment

Virtually all young Koreans complete upper secondary education and more than two thirds of Koreans aged 25-29 obtain a college or university degree. As a result, Korea has among the most educated youth population in the OECD area (Figure 1.3, Panel A). Secondary students spend more hours studying than in any other OECD country that participated in the 2015 PISA programme: 51 hours, compared to the 44 hour average (OECD, 2017^[9]). While the quality of colleges and universities varies, young Koreans generally leave school with a high level of skills: among the 24 countries or sub-national regions that participated in the Survey of Adult Skills, the skills of 16-24 year olds were only higher in Japan. In contrast, among Korean 55-65 year olds, they were the third lowest (OECD, 2013^[10]).

The large skills gap between the younger and older groups demonstrates the extraordinary increases in educational attainments that occurred in Korea over the past half century (Cheon, 2014^[11]). This educational expansion now seems to have come to a halt: the share of high school graduates who advanced to college or university reached an all-time high of 82% in 2005, but declined again to 69% in 2017 (Figure 1.3, Panel B).

However, the high educational attainment comes at a substantial financial cost. Combined public and private expenditure on primary through upper secondary educational institutions is among the most elevated in the OECD (Figure 1.4, Panel A). The government bears almost all of the costs for primary and lower secondary education, while households finance around a quarter of the expenditures for upper and post-secondary education and 45% of expenditures for tertiary education (Figure 1.4, Panel B). National universities are predominantly funded by the government while private universities and colleges are predominantly funded by tuition (Jones, 2013^[11]). Since the higher-ranked national universities do not only convey more prestige and better labour market prospects but also cost less in tuition fees, many parents invest in after-school private tuition to increase their children's chance of admission. However, the situation has gone out of hand and expenses on private after-school teaching academies (*hagwons*) and other private tuition now amount to 1.1% of GDP (OECD, 2019^[12]). These expenditures equal more than a fifth of combined public and private spending on regular educational institutions in Korea (5.4% of GDP in 2016, compared to the OECD average of 5.0%) (OECD, 2019^[13]).

Figure 1.3. The majority of Korean young people choose to go to college or university



Note: The shares exclude observations with missing educational information. The latest available year is 2018 for Canada and Mexico and 2014 for Japan.

Source: Calculations based on Labour Force Surveys and *Social Indicators* (Statistics Korea, 2018_[14]) (Statistics Korea, 2017_[15]; Statistics Korea, 2011_[16]; Statistics Korea, 2015_[17]).

1.3.3. The NEET challenge

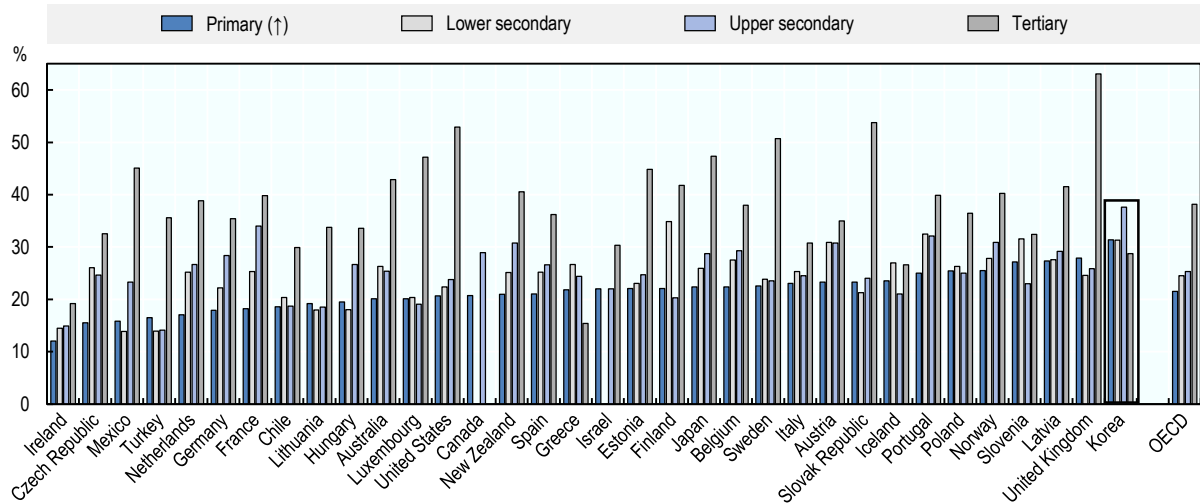
A considerable share of young Koreans are neither employed, nor engaged in formal education or training (the so-called NEETs). In 2017, the NEET rate reached 18.4% in Korea, compared with the 13.4% cross-country OECD average. The share is lower than the 22.1% recorded in Korea in 2000, but represents an increase from the low point of 17.9% in 2014. College and university graduates are more likely to be NEETs than those with lower educational attainments are, whereas the opposite applies in most other OECD countries. (Figure 1.5, Panel A).

About 45% of young Koreans who are neither employed nor attending formal education have a tertiary degree (Figure 1.5, Panel B). This share is much higher than the OECD cross-country average of around 18%, but somewhat comparable to the share in Japan. The shares of young Korean men and women who are in this situation are on average similar, but they are higher for men among under-25 year olds and higher for women among over-25 year olds.

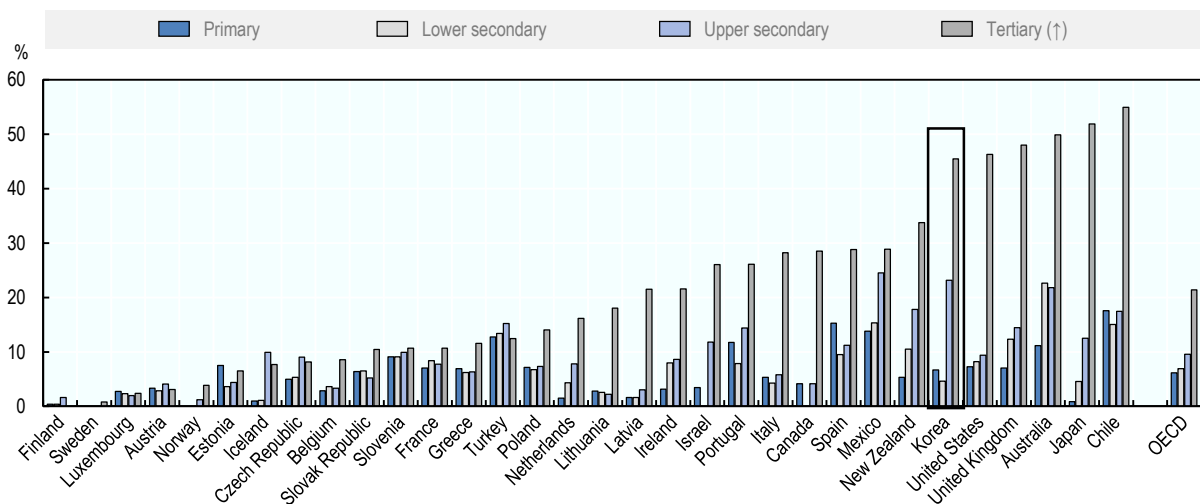
One of the reasons for the elevated share of college or university graduates who are NEET is that they may take breaks to attend *informal* educational institutions. While these young people are considered as NEETs in Figure 1.5 (in line with the OECD NEETs definition), they are actually preparing for university or company entry exams or following informal education courses, such as language courses. Calculations based on the Economically Active Population Survey suggest that 17% of all NEETs are preparing for company entry exams and 6% are preparing for school or university entrance exams (Figure 1.6). A further 16% are enrolled in informal educational activities. The remaining NEETs stay at home to take care of the household or kids (most of these carers are women) or relax (twice as frequently among men than among women).

Figure 1.4. Korean education expenditures are high and households shoulder an important burden for higher education

A. Education expenditure per student as a share of per-capita GDP (2015), by education level



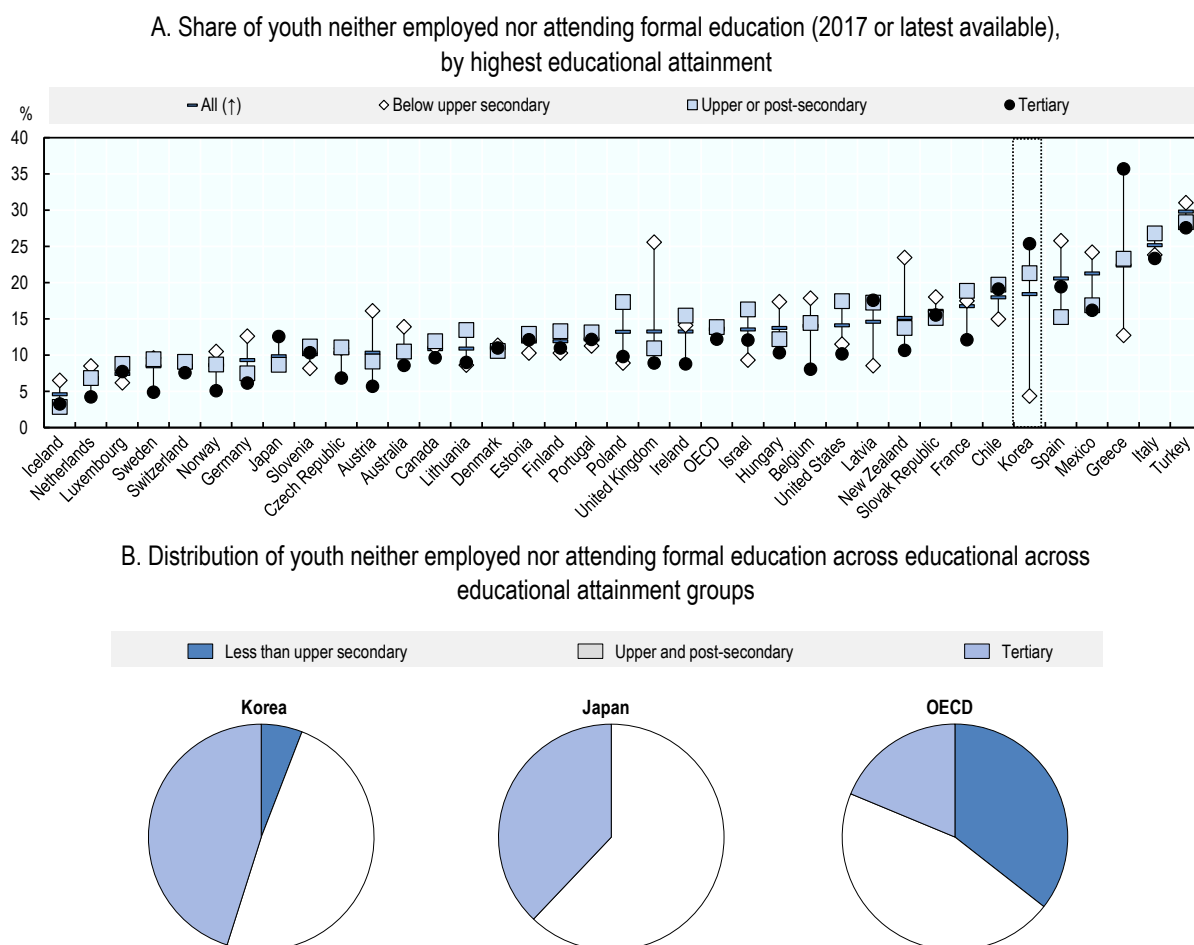
B. Share of education expenditures paid by private households (2015), by education level



Note: Expenditures per level of education are sorted from lowest to highest expenditure on primary education as a share of per-capita GDP. The share of education expenditures paid by private households is sorted from lowest to highest for tertiary education. Data are missing for Denmark and Switzerland (Panel A and B) and in addition for Panel B for Germany and Hungary. The OECD averages are unweighted.
Source: Education Finance Indicators dataset based on *Education at a Glance 2018 – Part C* (OECD, 2018_[18]).

Overall, 4.4% of Korean civilian youth aged 15-29 were enrolled in some form of informal education or exam preparation in 2017 as their primary activity. Excluding these youth would imply a drop in the overall NEET rate from 18.4% to 14.1%, only slightly higher than the OECD average of 13.4%. Among university graduates, the NEET rate would drop from 25.4% to 22.7%, remaining nevertheless well above the OECD average. While these calculations do not include military personnel, it is clear that conscription is one of the factors that increases the age at which young Korean men enter the labour force (see Box 1.1).

Figure 1.5. Korean college or university graduates are more likely to be NEETs than their lower-educated peers

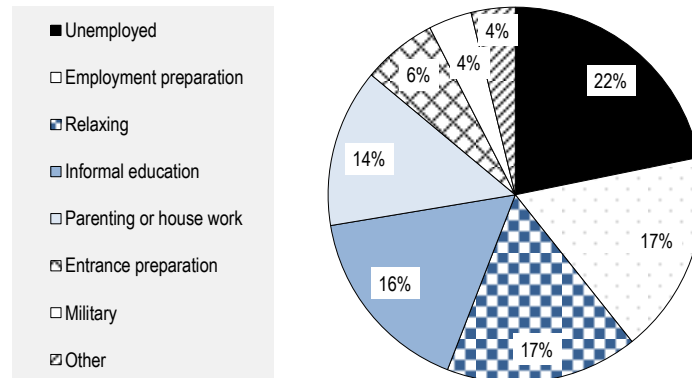


Note: The reference year is 2017 except 2014 for Japan, 2015 for Chile and Turkey and 2016 for the United States. The calculations exclude individuals with missing educational information or who are in military service. Youth are defined as 15-29 year olds.
 Source: Calculations based on Labour Force Surveys and OECD (2018^[18]), *Education at a Glance 2018*.

The comparatively high share of youth in informal education in Korea remains a challenge for several reasons. First, while informal education may complement formal education, its widespread use indicates a gap between skills supply and demand. Many students think the formal education system does not equip them with the skills they view as prerequisites for success (Jang and Kim, 2004^[19]). Employers seem to judge the formal education degrees as insufficient measures of someone’s skill, preferring their own employment exams to select their employees. Second, informal education also exists in other countries: the NEET rates presented above would drop by three to five percentage points for countries such as Denmark, Spain and Sweden if informal education were taken into account (OECD, 2016^[20]).

Figure 1.6. Some Korean NEETs are in informal education

Activities of NEETs, 2017



Source: Authors' calculations based on the 2017 Youth Supplement to the Economically Active Population Survey (Statistics Korea, 2017^[21]).

Box 1.1. Conscription in Korea Almost all young Korean men are required to serve in the military.

Depending on the military branch, the initial military service period ranges from 21 to 24 months. President Moon's July 2018 *Defense Reform 2.0* plan foresees to shorten the service by two or three months (depending on the branch) until 2022 (Channel NewsAsia, 2018^[22]). Former conscripts remain part of the reserve for another six years, during which they have to spend a few days a year in training. In contrast, nearly two thirds of OECD countries no longer actively conscript youngsters (although two have recently re-introduced conscription). And with the exception of Israel, where young women serve for a minimum of 24 months and young men for 36 months, the conscription period is shorter in all other OECD countries (CIA, 2018^[23]). Most Korean men complete their military service obligation during their twenties, often taking a break from their studies.

There are few alternatives to military service. Conscientious objectors can be sentenced and jailed, but the Constitutional Court ruled that the government will have to create an alternative civilian service (Griffiths, 2018^[24]). Currently, alternative service is available only to some highly qualified engineers or scientists working for selected government or industry institutes.

Sources: Channel NewsAsia (2018), "South Korea to reduce length of mandatory military service", <https://www.channelnewsasia.com/news/asia/south-korea-military-service-reduce-length-army-10569914>.

CIA (2018), "Military Service Age and Obligation", The CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/fields/2024.html>. Griffiths (2018), "South Koreans may no longer face jail if they refuse to serve in the military", <https://edition.cnn.com/2018/06/29/asia/south-korea-military-service-intl/index.html>.

1.3.4. Job search and tenure

It can take a while for Korean school leavers to settle into a job. In 2017, the average length of time between leaving school and starting a first job was nearly a year.¹ At the same time, more than half of young people managed to start a job within just three months of leaving education. These durations compare unfavourably with a number of OECD countries such as Australia, Canada, Germany and the United States, but are comparable or lower than durations observed in the Italy, Spain and the United Kingdom in 2011 (Quintini and Martin, 2014^[25]).²

The higher the education level, the shorter does the job search appear to be. Former high school students on average take around sixteen months to start working, college and university students nine months and postgraduate students four months. When those who have not yet found a job are included, the average durations increase by one to two months. The share who started their first job within three months of graduating ranges from 51% among high school graduates to 56% among university, 59% among college and 68% among graduate school graduates.

A longer job search is not inherently negative if it leads to a better match and improved employment conditions. However, in Korea, shorter or longer job search durations are unrelated to having a first job with a short contract duration. But since the group that searches for a job for a long time likely includes both highly qualified applicants that can 'afford' to wait for the best possible job as well as those who have barriers to recruitment, for the individual student, waiting for a better job can be rational. Finally, the comparison may under-state the actual job search duration among tertiary dropouts or graduates: they may delay their graduation date strategically in order to avoid gaps on their resumes (Yang, 2015^[26]).

Despite the lengthy job search, many young Koreans do not stay at their first job for a long time. In 2017, young people kept their first job for an average of around one and a half years. In 2004, the duration was around three months longer. Tertiary graduates stay slightly longer than those who only graduated from high school, but the difference amounts to only three months. Almost three out of five young people left their first job because they were dissatisfied with their work conditions or with their progression possibilities. Overall, Koreans in their early twenties have lower job tenures than youth in other OECD countries. In 2015, employed 20-24 year olds in other OECD countries had held their job for an average of 1.8 years, twice as long as in Korea.³ However, by the time they are in their late twenties, the job tenure rates of Koreans and all OECD youngsters are both equal to 2.1 years.

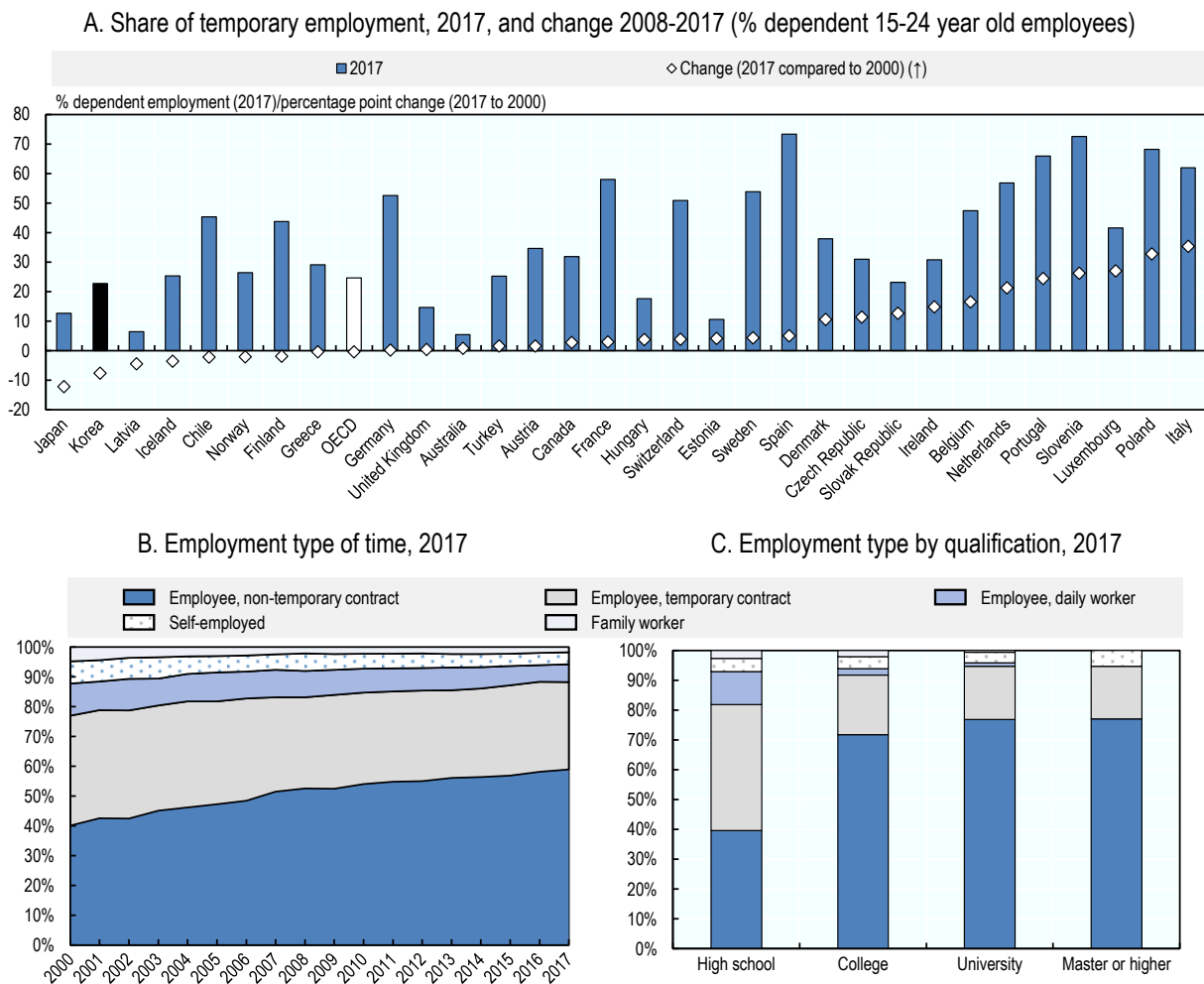
1.3.5. Job quality and earnings

Finding a job is important for a person's well-being and future prospects, but so is the quality of that job – that is, whether it is open-ended or temporary, pays an adequate salary, matches the individual's skills and provides good working conditions.

A decreasing share of young workers have temporary contracts, and particularly so if they are highly educated. Between 2000 and 2017, the share of temporary employees and daily workers among young workers dropped from 47.7% to 35.4% (Figure 1.7, Panel B). Across the OECD, in contrast, the incidence of temporary employment among 15-24 year-old employees stayed almost constant over the same period, around 24.5% (Figure 1.7, Panel A). This average hides that in some countries including Ireland, Italy and Portugal, the incidence drastically increased while in Japan and Korea, it decreased significantly. In 2017, about one in two employed upper secondary school graduates and one in five tertiary graduates were employees with a temporary contract or daily workers (Figure 1.7, Panel B).

Part-time employment, while expanding, is still comparatively uncommon in Korea, especially among highly educated youth. In 2017, only 15.9% of young Korean workers did not work full-time, compared with the latest OECD average of 22.8%. In Korea as well as across the OECD, part-time employment is more common among younger than older workers. Korean youth part-time employment has more than doubled since 2000, when it stood at 6.7%. More than half of these part-time workers are enrolled in formal education. However, it is unclear whether part-time work is voluntary or whether they cannot find full-time alternatives as data is lacking. Part-time work is much more common among upper secondary (26.5%) than among tertiary graduates (7.4%). OECD countries have on average a similar share of part-time work among secondary graduates but twice the share among tertiary graduates.

Figure 1.7. Regular employment is becoming more common and is elevated among highly educated young people



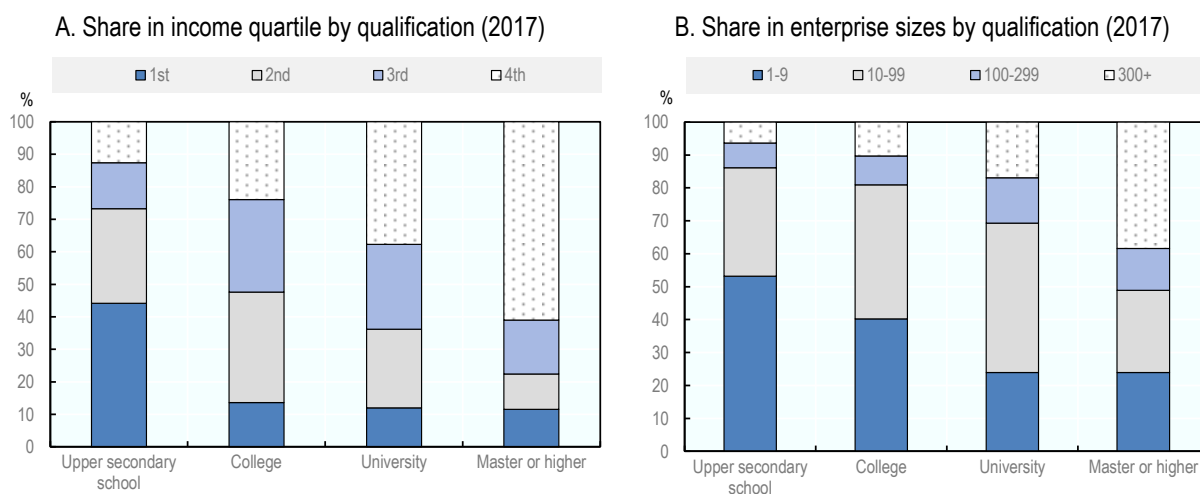
Note: Panel A: The earlier reference year is 2001 for Australia and Poland, 2004 for Korea and 2010 for Chile. With the exception of panel A, the figures are restricted to employed 15-29 year olds. The 'Less than high school' category is omitted because of the low number of observations.

Source: OECD (2018^[27]), "Incidence of permanent and temporary employment" and authors' calculations based on the Economically Active Population Survey (Statistics Korea, 2017^[21]).

An undergraduate or postgraduate university degree significantly increases the chances of earning a high income and working for a large enterprise, but by no means guarantees it. Education earnings premia decreased throughout the 1980s and 1990s (Kis and Park, 2012^[28]) but were stable from 2005 to 2016 (OECD, 2018^[18]). However, the Korean earnings premium for graduates from higher education is below the OECD average (OECD, 2019^[13]) and for a significant share, their investment does not pay off financially. In particular, the 2017 Economically Active Population Survey indicates that 29% of college and 18% of undergraduate university degree holders earned less than the average earnings among high school graduates, backing up earlier results for 2010 (Lee, Jeong and Hong, 2014^[29]). When tuition fees and forgone earnings are considered, the financial pay-off from higher education is likely negative for a substantial share of university and in particular of college graduates.

Earnings and working conditions are often better at large companies than at SMEs (Ha and Lee, 2013^[30]), but the concentration of more educated young people in larger enterprises (Figure 1.8, Panel B) does not explain most of their higher labour income (Figure 1.9).

Figure 1.8. University graduates often earn more and work more frequently in large companies

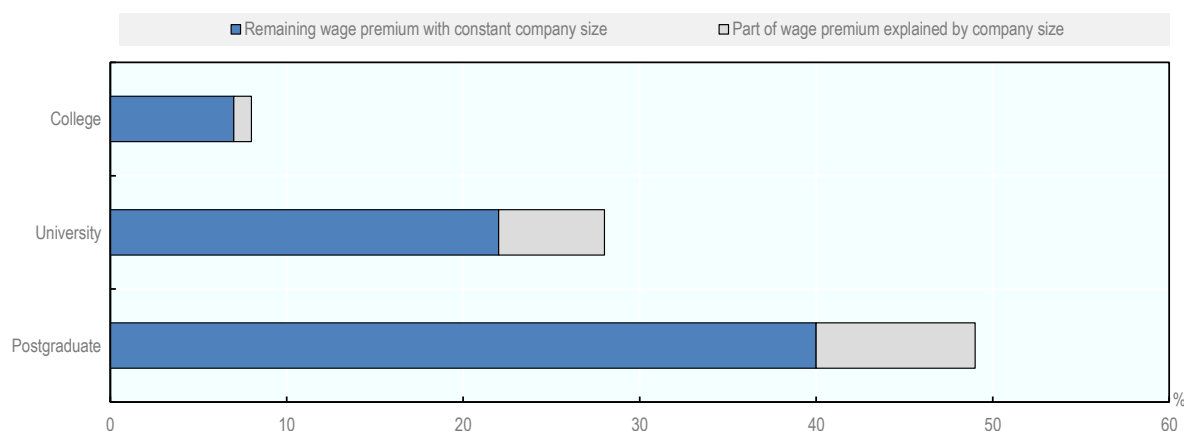


Note: The calculations are restricted to employed 15-29-year olds. The 'Less than high school' category is omitted because of the low number of observations. Each income quartile includes approximately 25% of employed youth.

Source: Calculations based on the 2017 Economically Active Population Survey (Statistics Korea, 2017_[21]).

Figure 1.9. The higher employment rates with large companies only explain a small part of the higher average earnings of university graduates

Wage premium of young tertiary compared to upper-secondary graduates, 2007-2015



Note: These results are based on regression analyses. The dependent variable is the hourly labour income and control variables are age, sex and year. The combined length of the two boxes indicate the results of the regressions that do not include the company size as a control variable; while the length 'Remaining wage premium' boxes alone indicate the wage premium that remains when company size is controlled for.

Source: Authors' calculations based on the 2007-2015 Youth Panel (National Youth Policy Institute, 2015_[31]).

1.3.6. Skill and study mismatch

Indicators of skill mismatch suggest that there is significant scope for improvement in efficiently using the skills of young people in Korea, in particular with respect to the field of study. Data from the 2012 OECD Survey for Adult Skills (PIAAC) reveal that 62.0% of 16-29 year old employed Koreans were mismatched to their job in terms of their field of study, qualification or literacy; a share that is similar to the OECD average of 61.6% across the 22 OECD countries that participated survey (OECD, 2014_[32]). The

qualification mismatch (24.9% in Korea), which indicates whether someone has a level of education above or below the education requirements usual for their occupation, and the literacy mismatch (12.8%), which indicates whether someone has literacy skills above or below those usually required for their occupation, are both below the respective OECD averages of 36.4% and 17.3%. In contrast, the field of study mismatch (46.8%) is ten percentage points higher in Korea than the OECD average and the fifth highest among the participating countries.

Rising education levels have led to falling under-qualification and rising over-qualification. Calculations based on the Korea Youth Panel Survey of the National Youth Policy Institute (2015) illustrate that the share of youth who reported that their current job requires a higher education level than they have decreased from 13.6% in 2007 to 10.0% in 2015.⁴ The share with a higher than required education level increased from 26.6% to 33.2%. In 2015, 44.5% of university and 78.5% of postgraduate degree holders reported that they were over-qualified for their job. At the same time, almost a third of employed high school and more than ten percent of college graduates felt they were under-qualified.

More positively, self-reported field of study mismatch appears to be falling and are lower for the highly educated. In 2007, 30.4% of the employed 15-29 year olds stated that the agreement between their job content and their major was (very) low. By 2015, the share had almost halved to 16.4%. About one quarter of high school graduates, one fifth of college graduates and one eighth of university graduates in 2015 felt that there was a low agreement.

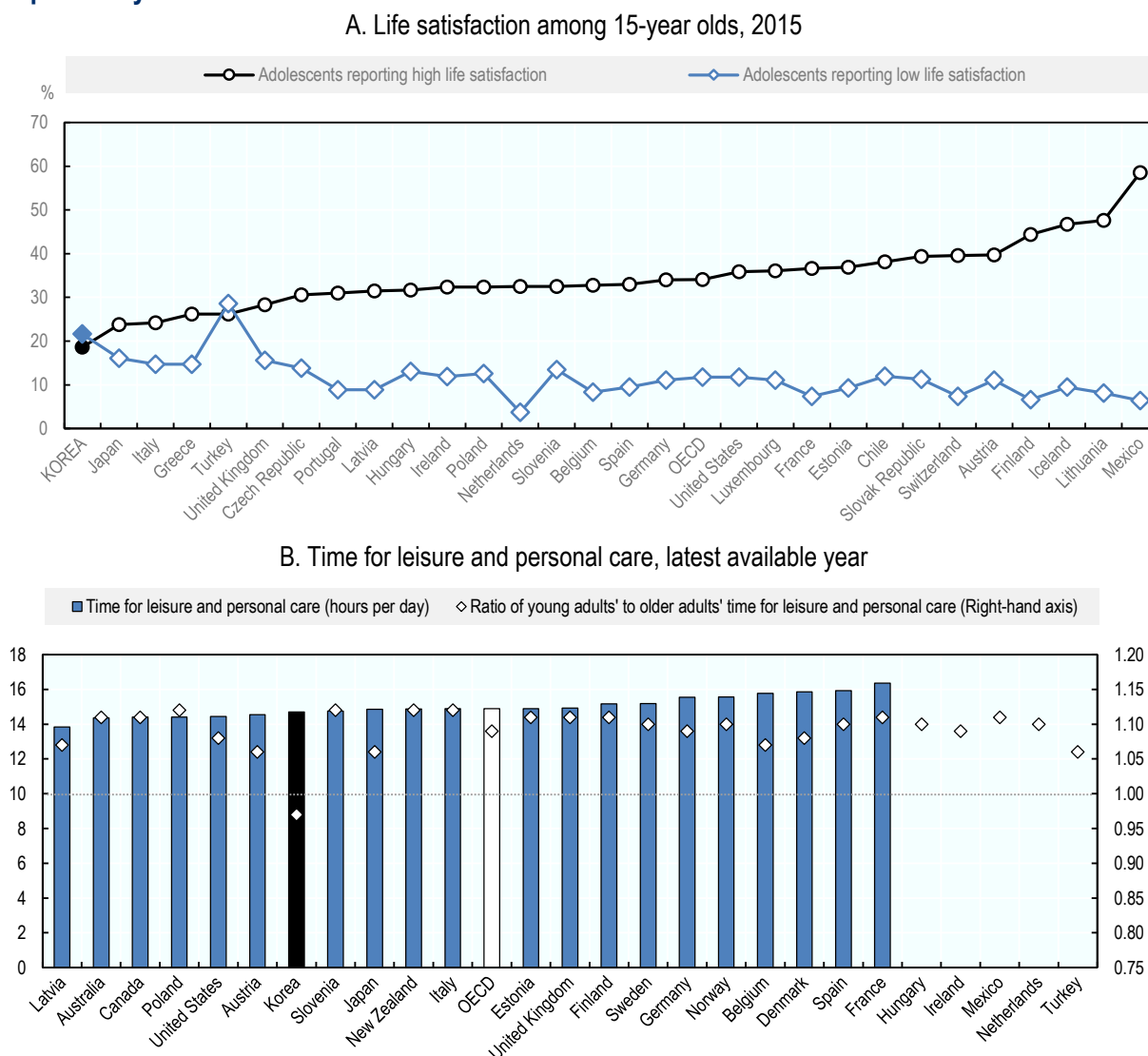
1.4. Youth poverty and well-being

International data sources show that young Koreans are relatively unsatisfied with their life. Data from the 2015 OECD Programme for International Student Assessment (PISA) presented in Figure 1.10 (Panel A) indicate that Korea has the lowest share of young people reporting high life satisfaction among OECD countries and the second-highest share of those reporting low satisfaction. According to the World Values Survey (Inglehart et al., n.d.^[33]), only 31% of the 18-28 year-old Koreans rate their life satisfaction between 8 and 10 on a scale of 1 (completely dissatisfied) to 10 (completely satisfied), compared with 54% on average in sixteen OECD countries.

Domestic data sources indicate life satisfaction levels that vary across age groups and engagement in education or employment. According to the 2014 Korea Labour and Income Panel Survey (Korea Labor Institute, 2014^[34]), 51% of young people are (very) satisfied with their lives, compared with 48% of 30-64-year olds and 37% of seniors. Among young people, NEETs are less satisfied with their lives than others: only 37% are (very) satisfied as opposed to 52% among non-NEETs.

A lack of free time probably contributes to the comparatively low life satisfaction. Korea is the only OECD country where young people devote less time to leisure and personal care than older working-age adults (Figure 1.10, Panel B). The large number of hours devoted to studying – the highest in the OECD (OECD, 2017^[9]) – explains this time scarcity. Paradoxically, students who study particularly long hours tend to be more satisfied with their life than those that study fewer hours (OECD, 2017^[35]). One possible reason could be that these students feel more optimistic about their opportunities later in life.

Figure 1.10. Korean adolescents have the lowest satisfaction among OECD countries and comparatively little free time



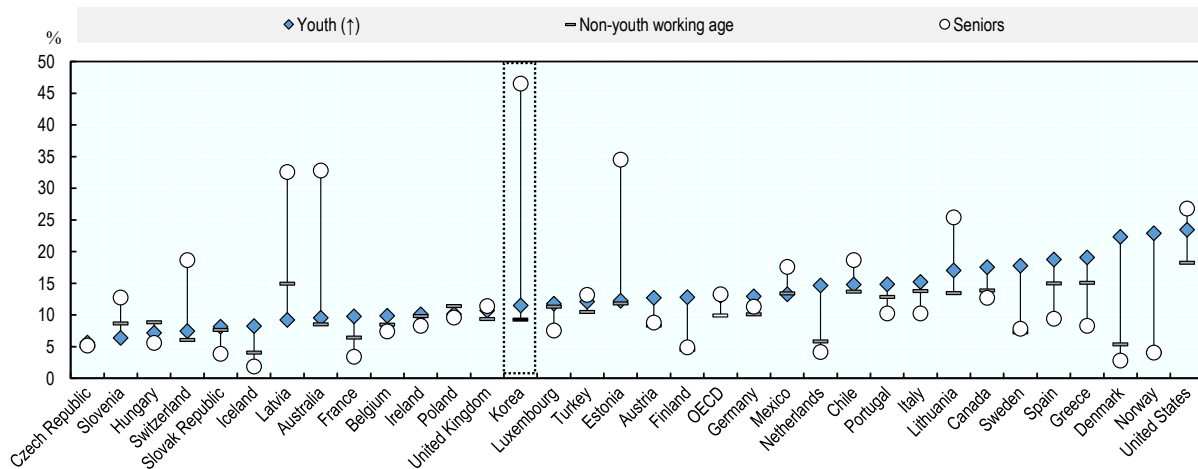
Source: OECD Children Well-Being Dataset and *How's Life* (OECD, 2017^[36]), "Table 2.A.4. Horizontal inequalities in well-being by age group, young vs. middle-aged adults, latest available year."

The share of young persons who are estimated to be poor is much lower than the share among older persons. In fact, the difference in the estimated poverty rates between seniors and working-age individuals is higher in Korea than in any other OECD country (Figure 1.11). When a multidimensional poverty measure is used, taking into account net wealth, housing, health, employment, social and cultural capital and security in addition to income, the poverty rates of 19-34 year olds becomes similar to those of 35-64 year olds (Kim and Kim, 2018^[37]).

The risk of poverty is much higher among young people who are no longer living at home: In Korea, 23% of young people who had moved out from home were poor, compared with only 8% of those who were still living with their parents. On average across the OECD, pattern is the same: 19% of those living with their parents were poor compared to 8% who were not. The share of young people who continue living at home is much higher in Korea (84.2% in 2016) than across the OECD (61.3%). Only in a handful of other OECD countries, including Greece, Italy and the Slovak Republic, do as many young people live with their parents. Part of the reasons may be cultural, but these countries also share a comparably low youth employment rate.

Figure 1.11. Compared with the elderly, few young Koreans live in poverty

Poverty rate by age category, 2017 or latest available year



Note: Individuals are defined as poor if they live in a household with an equivalised household income (household income adjusted by the number of household members) below 50% of the median income. The poverty rate of seniors in Australia is high because many retirees draw their pensions as a lump sum instead of monthly payments. The statistic refers to 2015 for Turkey and 2016 for Belgium, Canada, Hungary, Iceland, Korea, Mexico, the Netherlands, Switzerland and the United Kingdom.

Source: OECD calculations based on the Korea Labor and Income Panel Survey, the European Union Statistics on Income and Living Conditions, the Household, Income and Labour Dynamics in Australia Survey, the Chile National Socioeconomic Characterization Survey, the Canadian Income Survey, the German Socio-Economic Panel, the National Survey on Income and Expenditure Dynamics and the Current Population Survey.

1.5. Wrap-up

Young Koreans are affected by the slowdown in economic growth, as shown by an increase in their unemployment rate. Also the employment rate of young Koreans has declined over the past decade and currently stands well below the OECD average. Instead of working, young people prefer to invest heavily in their education, both formally and informally, and tend to spend a long time preparing for company entry exams. While Korean youth are amongst the most educated and skilled, the financial costs of education for the government and parents are very high, as is the personal investment of young people in terms of time and energy devoted to studying.

Youth unemployment in Korea is equal to the OECD average, but it has been rising slowly in recent years and the share of youth who are neither employed nor attending a formal educational institution (NEETs) is considerably higher than OECD average. The NEET rate is particularly high among college or university graduates, in contrast to the situation in many OECD countries, in part because they frequently attend informal education and prepare for company entry exams. While informal education may complement formal education, its widespread use indicates a gap between skills supply and demand. Indeed, indicators of skill mismatch suggest that there is significant scope for improvement in efficiently using the skills of young people.

A university degree significantly increases the chances of earning a high income and working for a large enterprise. However, when tuition fees and foregone earnings during the years of study are taken into account, the financial pay-off from higher education is likely negative for a substantial share of university and in particular of college graduates.

The Korean educational and labour market contexts reduce life satisfaction. Holding the pole position in hours spent studying puts Korean adolescents firmly at the rear of reported life satisfaction among their

peers in the OECD. Nevertheless, young Koreans are still in a more enviable position than retirement-age Koreans in terms of both higher life satisfaction and lower poverty rates.

Improving the labour market outcomes for young people and making better use of their economic potential as workers requires reforms in a range of policy areas. The remainder of this report explores causes and consequences for skills mismatches and a difficult school to work transition, as well as possible policy remedies to improve the social and labour market outcomes of young Koreans.

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Notes

¹ The results presented in this section are calculations based on the Youth Supplement of the 2017 Economically Active Population Survey (Statistics Korea, 2017_[21]).

² The durations are not directly comparable between Korea and the other OECD countries. The Korean duration is equal to the reported length of time it took to find the first job after graduation. For the other countries, it is the difference between the weighted average of the age of entry into employment and the weighted average of the age of exit from education. The authors note that this measure does appear to match up with evidence from panel data. Given more recent improvements in labour market outcomes for youth across OECD countries, the 2011 values may exceed current ones.

³ The job tenure information by age group is taken from “Employment by job tenure in intervals – average tenure” (OECD, 2018_[27]). Job tenure for the first job by education is calculated based on the 2015 August supplement of the *Economically Active Population Survey* (Statistics Korea, 2017_[21]).

⁴ The mismatch calculations differ between the Survey of Adult Skills (PIAAC) and the Youth Panel. The qualification mismatch indicator in PIAAC compares the respondents' education level with the self-reported qualification that 'someone would need to get their type of job'. In the Youth Panel, the respondents' education level is compared to the self-reported minimum level of education 'required to carry out the current job'. The PIAAC field of study mismatch measure is based on a comparison of the occupation (at the 3-digit ISCO classification level) with the field the worker specialised in. It is hence not self-reported. The Youth Panel field of study is based on the question how the current job content compares with their major.

2 Reducing the gap between skill supply and demand in Korea

This chapter analyses stages of young Koreans' educational and labour market trajectories that can contribute to skill mismatches. It first provides an overview of Korean students' choices concerning general and vocational education and discusses career guidance policies. In the following two parts, the chapter focuses on initiatives to strengthen the quality and labour market relevance of upper secondary vocational and tertiary education, respectively. Finally, it presents current practices and advantages of competency-based hiring.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Korean youth and their parents value education highly, but their skills do not always match labour market needs. Many graduates spend a long time searching for a job or report that their qualification exceeds their job requirements. At the same time, small and medium enterprises (SMEs) struggle to fill positions.

Mismatches can emerge during different phases of skills acquisition and recognition. A first inception moment occurs when students' field of study choice follows personal, parental or even societal preferences and disregards labour market needs. A second source is education and training that fails to equip youngsters with solid and relevant knowledge and competences, potentially because institutions fail to keep up with rapid changes in labour market needs. A third cause arises when candidates or businesses have inefficient job search or hiring practices. Finally, rapid structural and technical change can render previously in-demand skills obsolete.¹

This chapter analyses the sources of skill mismatches in Korea and proposes policy remedies. Section 2.1 discusses students' educational choices and possible improvements to secondary-level career counselling. Section 2.2 reviews Korea's upper secondary vocational education and training (VET) system and proposes ways to strengthen the system further. Section 2.3 focuses on existing and potential links between tertiary institutions and employers. Section 2.4 describes hiring practices and suggests ways to bolster competency-based recruitment.

2.1. Guiding students to improve educational choices

Many Koreans consider a bachelor's degree as the lowest acceptable qualification level. More than eight out of ten Korean teenagers² and nine out of ten Korean parents (Jones, 2013^[1]) hope that they or their child will obtain a four-year university degree at a minimum. This preference, which partially stems from society's disdain of vocational education (Park et al., 2010^[2]), pushes students to attend even sub-par tertiary institutions.

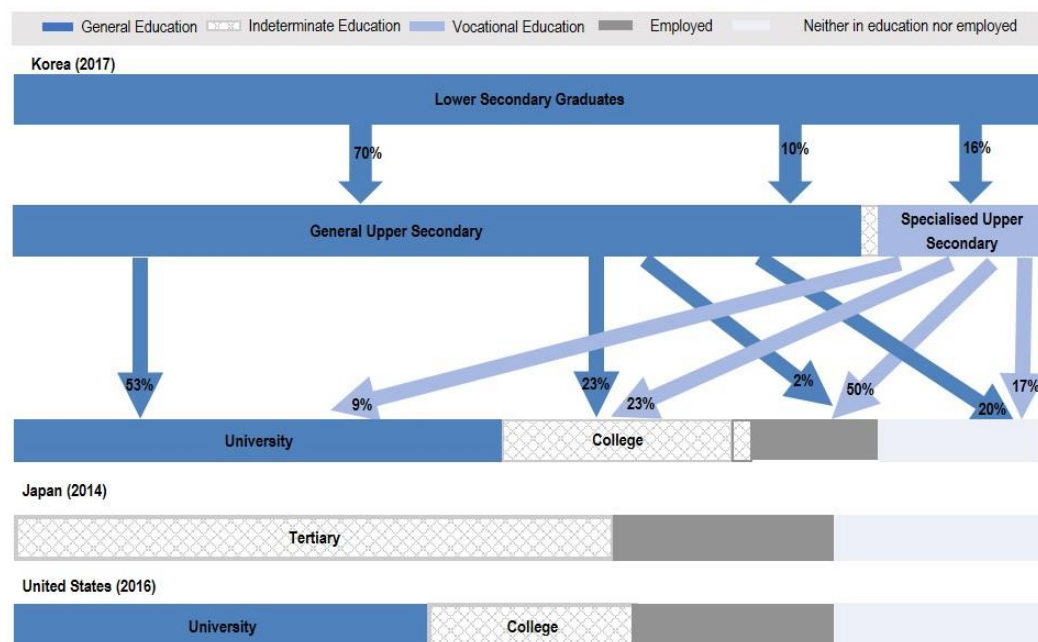
Building on Chapter 1's findings, this section shows that young Koreans do not always benefit from higher education as the default choice and proposes ways in which the Korean government can reinforce its recent investments in career counselling at the secondary school level.

2.1.1. *Strong societal preference for general education*

Two key decisions determine the education and training path of young Koreans. The first decision occurs when students complete their lower secondary education and choose between general or vocational upper secondary education.³ The second decision happens after they complete upper secondary education: they can enter the labour market, pursue a general or vocational two-to-three year college degree or enter university in pursuit of a four-year bachelor's degree. At both junctures, the majority chooses general over vocational education (Figure 2.1). In fact, over the past two decades, the share of upper secondary students attending a vocational school has roughly halved from one third in the year 2000 (Park, 2011^[3]) to around 16% in 2017. However, compared to only a few years ago, upper secondary vocational students are now more likely to start a job than to advance to college or university. Nevertheless, the orientation towards education over labour market entry remains stronger than in Japan and the United States (Figure 2.1).

Figure 2.1. The majority of young people select general upper secondary education and advance towards tertiary education

Distribution of graduates advancing towards different educational and labour market options



Note: The arrows indicate the percentage of graduates from the respective lower or upper secondary institution that advance to the different further education or employment options. The length of each bar represents the overall percentage distribution. For the upper secondary level, the types of schools that not directly named are autonomous high schools, special high schools and special-purpose high schools (including Meister high schools and high schools with other special focuses, such as foreign languages). Specialised upper secondary are general upper secondary vocational schools. The options not shown for the post-upper secondary phase are non-tertiary post-secondary education and military service. 'Non-employed' refers to all upper secondary school graduates who are neither in education nor enlisted or employed. The United States figures are based on a weighted average of 2016 upper secondary graduates and 2013-2014 upper secondary dropouts.

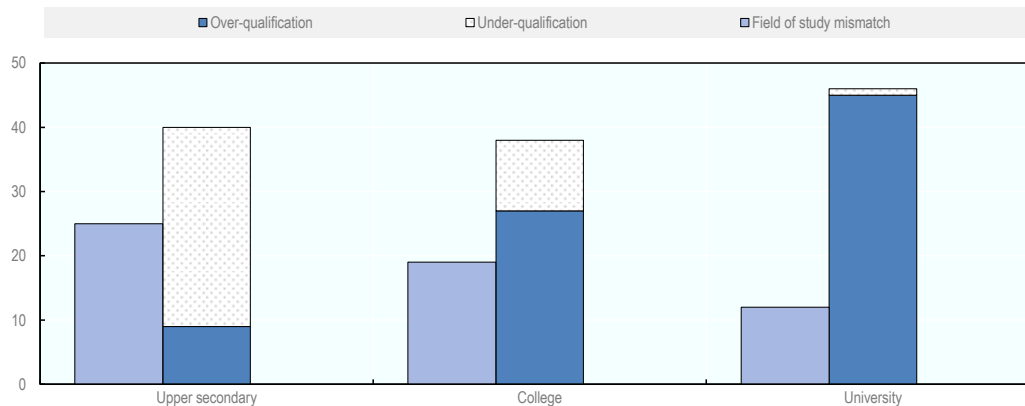
Source: Korean Educational Statistics (n.d.^[41]), *2017 Educational Statistics*: "Number of students in kindergarten/elementary and secondary school" and "Situation after graduation from high school"; Bureau of Labor Statistics (2017^[5]), *College Enrolment and Work Activity of High School Graduates News Release*; and Statistics Japan (2016^[6]), *Statistical Yearbook*.

Individuals' choices influence whether they end up in a job that matches their interests and skills. Figure 2.2 shows that over-qualification rates rise with education, with 45% of university students being over-qualified for their current job. At the same time, graduating from upper secondary schools with a vocational focus or from a tertiary institution in a field with clearly defined professional pathways is associated with a significantly lower likelihood of being over-qualified. For instance, graduates from pharmacology departments are 26 percentage points less likely to report being over-qualified for their job than similar tertiary graduates of other departments are.

However, the skills of over-qualified workers may not be as high as their additional qualifications suggest. Indeed, across the OECD and in Korea, few over-qualified workers have literacy skills that exceed their job's requirements (OECD, 2016^[7]). Calculations based on the Korean Youth Panel also show over-qualification is prevalent among students who rank lowest in their class. A possible explanation is that low-ranked students have little aptitude for their chosen path. However, low self-reported class rank might also reveal low self-confidence that can push graduates to apply for jobs below their qualification level.

Figure 2.2. University graduates are more frequently over-qualified than those with less education

Mismatch rates by highest educational attainment (2015)



Note: Individuals are classified as over-/under-qualified if their highest educational achievement is above/below the self-reported minimum level of education required to carry out the job. Field-of-study mismatch occurs when respondents say that there is (very) little agreement between their current job content and their major.

Source: Authors' calculations based on *Youth Panel* (National Youth Policy Institute, 2015^[8]).

Workers who are more qualified and skilled than their job requires on average make less money than well-matched workers do. This finding is true across the OECD and in Korea for all age groups (OECD, 2016^[7]). Settling for a lower-level job at the beginning of one's career can also increase the probability of having a mismatched job several years down the line (Meroni and Vera-Toscano, 2017^[9]), lead to permanently lower wages (Korpi and Tählén, 2009^[10]) and lower job satisfaction (Quintini, 2011^[11]).

Career guidance can address such mismatches: it helps students select programs that offer good career prospects and correspond to their interests and aptitudes. It can also boost student's confidence in their abilities and choices. Over time, guidance may even be able to change societal perceptions about desirable career options. The following two sections discuss the government's existing career counselling measures at the secondary level and propose further improvements.

2.1.2. The government has increased investments in career counselling

Quality career counselling can help youth make informed educational choices and transition more easily from school to work. To take informed decisions about their future, secondary students need to know what occupations exist, what kind of training and education they require and how much demand the labour market has for these occupations. They also need to assess how their own interests, strengths and weaknesses fit in with different occupations in a realistic way. Unfortunately, the people they turn to for advice – parents, siblings, teachers – may not be knowledgeable about career options and may discount vocational occupations in particular (Musset and Mytina Kurekova, 2018^[12]). Career information and counselling can address these information deficits.

In recent years, the Korean government has invested heavily in career guidance. Its strategy is to create career awareness in primary school, offer career exploration in lower secondary school and stimulate career planning in upper secondary school (ICCDPP, 2017^[13]):

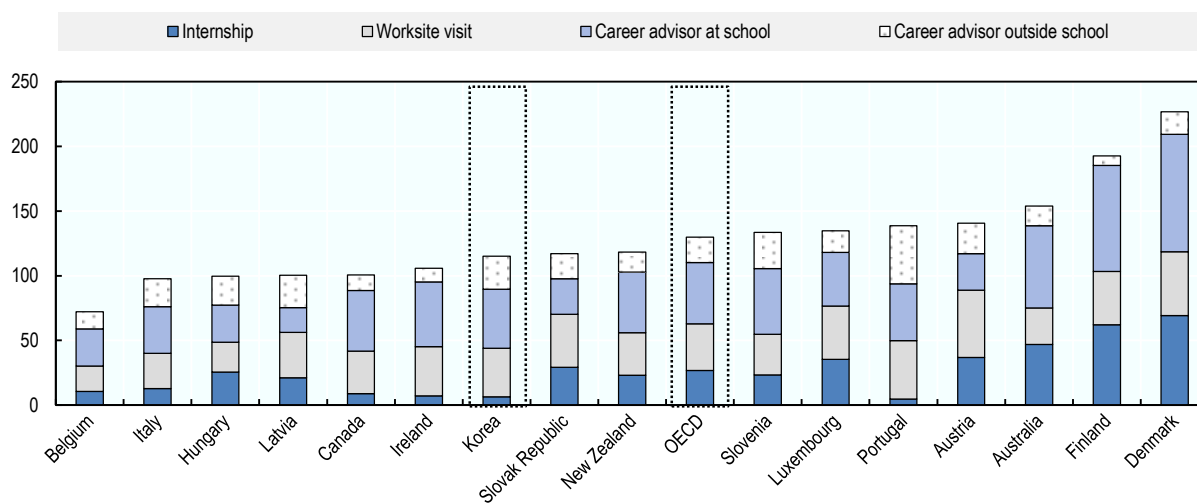
- The Ministry of Education recruited more than 5 000 career counsellors for lower and upper secondary schools, covering nearly 95% of schools by 2014.
- A weekly letter informs parents about career options.

- Students can access occupational information and aptitude tests from a variety of sources, including *Career-net* provided by the Korea Research Institute for Vocational Education and Training's (KRIVET) Career Development Centre and *Work-net* and *HRD-net* provided by the Ministry of Employment and Labour.
- The 2015 *Career Education Act* offers the possibility to create Regional Career Education Centre under the auspices of the National Career Education Centre ((n.a.), 2015^[14]).
- In 2016, the Ministry of Education launched the *Free Learning Semester* nation-wide. It usually takes place in the first semester of lower secondary schools. The semester allows students to explore subjects beyond the core curriculum. Since there are no exams during the semester, students can visit workplaces on days usually reserved for exams (OECD, 2017^[15]).

Nonetheless, there remains room for further improvements in career guidance in Korea. In 2012, the share of 15-year old PISA test takers who had participated in a workplace visit (37%) or seen a career advisor at school (46%) were close to the OECD cross-country averages (36% and 46%, respectively), but considerably below countries like Denmark, Finland and Australia (Figure 2.3). Given the recent initiatives, the share probably improved since 2012. But one area where Korea was underperforming in 2012 is unlikely to have seen drastic improvements: internships for lower secondary students. Only 6% of 15-year olds had completed an internship, compared to the OECD average of 27% and 69% in Denmark. The recent career guidance initiatives do not encompass internships in lower secondary schools.

Figure 2.3. In 2012, few Korean secondary students had completed internships

Percentages of 15-year olds who report having accessed different types of career guidance, selected OECD countries, 2012



Note: Countries are sorted in ascending order of the sum of the percentage of students who accessed the different types of career guidance. These sums can exceed 100 because the same student can access multiple forms of career guidance.

Source: OECD PISA 2012, www.oecd.org/pisa/pisaproducts/pisa2012database-downloadabledate.htm.

2.1.3. Relatively small adjustments could boost career counselling's pay-offs

Korea's recent investment in secondary-level career counselling is a good start. It follows international best practice in that it encourages children and teenagers to start thinking about possible careers at an early age (OECD, 2017^[15]). Nevertheless, further changes that ensure the quality of career counselling, engage disadvantaged youth and strengthen community links can boost the payoffs.

Safeguarding the quality of career counselling

Career counsellors' skills and knowledge are a key ingredient to successful career guidance. If counsellors do not know enough about available academic and non-academic education and training pathways and in-demand skills, they are unable to provide students with the information they need to make informed choices about their further trajectory (OECD, 2011^[16]). At the same time, even knowledgeable and skilled career counsellors require support from other teachers and will have a limited influence on their students' outcomes if they are stretched too thin.

Korea imposes minimum training requirements for in-school career counsellors and offers expanding training options. Currently, career guidance counselling teachers in secondary school have completed a full teaching degree as well as an additional 570 hour training. Despite the mandatory training, the skills of counsellors vary from school to school (Yoon and Pyun, 2017^[17]). The Korean government is aware of potential skill deficits among school-based career counsellors. It therefore introduced graduate-level courses in career counselling for current primary and secondary school counsellors at ten graduate schools from 2017 onwards (Yoon and Pyun, 2017^[17]).

In some OECD countries, post-secondary education and continuous training are mandatory for school-based career counsellors. For example, in the Australian state of New South Wales, career advisers are secondary teachers who have completed an additional post-graduate certificate (NSW Department of Education, 2017^[18]). It is difficult to evaluate the effects of different levels of initial and continuing training on the quality of career guidance and the eventual educational and labour outcomes of students. But given the range of skills and knowledge a career counsellor needs to possess to be able to connect with students and provide high-quality guidance, a professionalization of the role appears necessary (OECD, 2004^[19]). It therefore makes sense for Korea to maintain its mandatory training requirements and expand post-graduate training in career counselling.

A quality assurance mechanism can be an additional tool for schools to establish high quality career guidance. One possible initiative is a self-administered benchmarking tool such as the ones that Careers New Zealand developed. The benchmarking tool asks schools to rate themselves on detailed career guidance outcomes and inputs, allowing them to identify their strengths and weaknesses (Careers New Zealand, 2016^[20]). Evidence suggests that schools that did not receive specific assistance from Careers New Zealand reviewed fewer dimensions of their career guidance services and did so less confidently than schools that cooperated with Careers New Zealand (Education Review Office, 2015^[21]). These findings indicate that self-assessment tools are most useful when the government body that develops them helps to train school staff on their use. Korea could consider adopting similar benchmark indicators and involving the Regional Career Education Centres in training schools in their use for self-assessment exercises.

Korean secondary schools are required to have at least one *Career Guidance Counselling* teacher. These teachers have numerous duties, including teaching the *Careers and Occupations* class, providing group and individual career counselling, and carrying out psychological assessments. This multitude of duties, as well as the fact that there is an average of nearly 430 students per school (at the lower secondary level) (Korean Educational Statistics, n.d.^[4]), often leads to a high workload for the career guidance teacher, who usually carries out his or her tasks without support staff (Yoon and Pyun, 2017^[17]).

The first potential solution to decrease the workload of counselling teachers to a manageable level is to hire more personnel – either counselling teachers or support staff. This approach obviously has large cost implications. It may also be difficult to implement if qualified staff are scarce and training facilities limited. The approach's advantage is that it would increase the capacity to offer individualised counselling rather than group-level guidance. Evidence from Utah suggests that lower counsellor-to-student ratios can improve students' career planning (Carey et al., 2012^[22]). Given the high costs, a pilot program or staggered rollout could provide evidence on whether increasing the number of counselling teachers improves graduate outcomes.

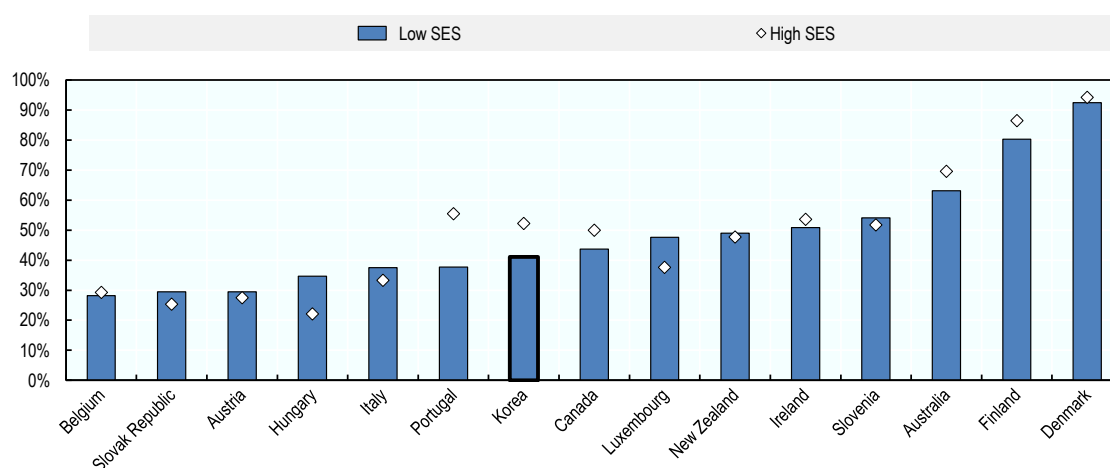
Another possibility is to integrate career education into regular classes. Out of nine OECD countries, in 2015, Korea was the leader in incorporating career guidance and counselling training in its initial teacher education and professional activities (Musset and Mytna Kurekova, 2018^[12]). However, subject-matter teachers may still be reluctant to integrate career education into their classes (Yoon and Pyun, 2017^[17]). This difficulty is not restricted to Korea: teachers may generally fear that career education takes time away from teaching their core curriculum (Yates and Bruce, 2017^[23]), and may not know how to integrate career topics into their classes (The Gatsby Charitable Foundation, 2014^[24]). Targeted tips on how to improve lesson planning can help: in North Carolina, a pilot programme provided lower secondary teachers with a half-day group training and ten sample lesson plans tailored to their subjects. This intervention successfully increased the presentation of career-relevant material and boosted student scores in mathematics, but not in other subjects (Rose et al., 2012^[25]; Woolley et al., 2013^[26]). One possible interpretation is that in other subjects, teachers would require more initial training. Korea should maintain its practice of including counselling training in initial and continued teacher training and could consider adapting successful lessons from other contexts, such as the North Carolinian programme.

Adapting to the needs of disadvantaged youth

The effectiveness of career counselling depends on the (potential) advisee's participation in and engagement with the process, but both are affected by the advisee's socio-economic background. Paradoxically, it can mean that the students most in need of career guidance – those who are less aware of different professional options, have lower career aspirations or face economic barriers – receive the least amount of counselling. Indeed, in most OECD countries, more disadvantaged students participate less in career guidance activities than advantaged students do (Figure 2.4). The difference is larger in Korea than in all other participating OECD countries except Portugal. The gap further widens at university level, where employment support programs are more effective for students from higher socio-economic backgrounds (Shin et al., 2012^[27]).

Figure 2.4. Disadvantaged students receive less career counselling

Percentage of students who met with a career advisor at school, by socio-economic status (2015)



Note: The shares are estimated based on survey results from the 2015 wave of the PISA survey.

Source: Musset and Mytna Kurekova (2018^[12]), Figure 4.3. School-based career activities and participation by SES.

Career counselling design needs to acknowledge this reality and actively pursue a more equitable approach. While Korea's *Career Education Act* of 2015 mentions that state or local governments need to

implement measures to provide career education to students who are disabled, from low-income families or North Korean refugees ((n.a.), 2015^[14]), the act does not specify what policies should flow from this prescription.

Possible interventions could either take the form of programmes targeted towards disadvantaged or at-risk groups, or general programmes designed in such a way that they assure adequate participation of these groups. The two approaches have different advantages. Targeted programs can directly address the stronger needs of disadvantaged students, while general programs do not need to single out these same students in a way that may be uncomfortable for them. Among targeted interventions, the Swiss LIFT programme is a positive example. The program assists students from ninth to eleventh grade who are considered 'at risk' because of their school performance or social background with targeted support including work experience (3-5 hours per week) and counselling. Although there was no experimental design demonstrating how the intervention affected the participants, young people who completed the program had a higher probability of advancing towards an apprenticeship (Balzer, 2017^[28]). Non-targeted programs can be more equitable in terms of the amount of career guidance students receive (but not necessarily in outcomes) if many components are mandatory. A non-targeted programme that is believed to be effective is compulsory one-on-one career counselling for students approaching important transition points of lower to upper secondary education and of graduation from upper secondary school (OECD, 2010^[29]).

Involving employers

Making schools a venue in which students, parents and employers come together can change society's perceptions about the relative worth of different education and career trajectories and can improve students' engagement in and outcomes from career counselling. Students may perceive workers' testimonials as more reliable and insightful than information provided by career professionals, publications or websites. Empirical evidence suggests that young people value contacts with businesses and that these school-facilitated encounters may increase their later earnings (Mann and Percy, 2014^[30]; Kashefpakdel and Percy, 2017^[31]). More realistic expectations and confidence in the occupation selection and job search processes could explain this outcome. Employers may benefit from the prestige associated with being a 'good citizen' participating in community-minded events and, potentially, from steering young people towards occupations with current shortages. However, since these benefits are more difficult to measure and can take a long time to materialise, co-operation programmes should make it as simple as possible for employers to participate. For example, to get a job shadowing programme in North Carolina off the ground, a toolkit was developed that assisted employers in their tasks (Musset and Mytna Kurekova, 2018^[12]).

In practical terms, employer involvement in career education can take various forms, including:

- *Information events or career fairs at school:* These events are usually easier to organise and less expensive than other programmes.
- *Workplace visits:* Such visits may be particularly interesting for young people and are also not very costly to set up. If parents are involved, these visits may also help change their perceptions: For example, when Siemens invited parents and high school students to visit one of its new plants in North Carolina, many parents changed their mind about whether their children had a future in manufacturing (Mourshed, Farrell and Barton, 2013^[32]).
- *Job shadowing:* In a job shadowing programme, students visit a workplace for multiple days and observe the day-to-day work of one or several workers. Compared to longer internships, job shadowing takes less time. These programmes may be particularly appropriate for lower secondary school students to get a first feel for the reality of workplaces and are less costly for employers than internships. Several OECD countries, including France and Norway, have made job shadowing mandatory for students in the last years of lower secondary education.

- *Mentorship programmes*: Of the different forms of employer engagement, mentoring programmes may be the hardest to organise on a school-wide basis. Mentors have to remain engaged in the process and finding a sufficient number of motivated individuals to take up this function may be difficult. A possibility would be to target mentoring programmes to at-risk youth. This approach was, for example, taken in a German programme called “Coaching for the transition to work” that improved the career planning and transitions of young people (Musset and Mytna Kurekova, 2018^[12]).
- *Internships*: Longer internships go beyond the ‘taste’ of work life that shorter work-shadowing programmes provide. They offer students the opportunity to carry out some limited tasks themselves and therefore stand between work shadowing programmes on the one hand and apprenticeships (see Section 2.2) on the other hand. There is little evidence on whether internships offer more benefits to secondary-level students than shorter work shadowing programmes, especially for students at the lower secondary level. If students have to secure their own internships, disadvantaged students may not have access to the same quality of internships as students from more advantaged backgrounds who can use their parents’ networks to find an interesting opportunity.

To ensure that students learn about a sufficiently broad spectrum of occupations and sectors, it is important that schools initiate these school-employer co-operations rather than relying on employers to step forward. For instance, in the United Kingdom, the different regional governments have enshrined schools’ obligation to create employer engagement programmes in law (Mann and Percy, 2014^[30]). Nevertheless, local governments and other government institutions can also assist schools in creating employer engagement programmes. For instance, since creating internship programmes can be labour-intensive, local governments or employment agencies may create their own programmes. An example is New York City’s summer internship programme. This programme is open to 14-24 year olds from disadvantaged backgrounds since the 1960s. It is very popular and appears to have positive social and labour market impacts (OECD, 2016^[33]).

2.2. Promoting upper secondary vocational education

Encouraging young people to consider whether occupations with current or projected labour supply shortages are right for them is only the first step towards easing skill mismatches. As a second step, education and training programs need to equip youth with the skill set they actually need for their chosen occupation. This requirement applies equally to vocational and general education programs and to secondary and tertiary institutions. This section shows why SMEs suffer more from skill shortages than large companies and proposes ways in which further changes to upper secondary vocational education and training can ameliorate this situation. Section 2.3 then takes up the issue of the quality of tertiary education.

2.2.1. Skill shortages are common in SMEs and for occupations requiring an upper secondary education

Skill mismatches do not only affect workers, but also companies unable to fill vacancies appropriately. While under-qualified workers are typically less productive (Mahy, Rycz and Vermeylen, 2015^[34]), the effect of unfilled positions can be even more negative (Bennett and McGuinness, 2009^[35]; Tang and Wang, 2005^[36]).

In Korea, skill shortages exist and affect SMEs in particular, but it is unclear whether the problem is worse than elsewhere. A Korean survey (OECD, 2014^[37]) suggests that 40% of SMEs experienced skill shortages, while a 43-country survey that did not include Korea reported skill shortages among 45% of small and 56% of medium-sized enterprises (Manpower Group, 2018^[38]). While the two surveys are not

directly comparable, they do not suggest that the skill shortage problem is particularly bad in Korea. However, both Korean surveys (Ministry of Employment and Labour, 2018^[39]) and cross-national surveys (Manpower Group, 2018^[40]) indicate that in Korea, SMEs report skill shortages more frequently than large firms, while in most other OECD countries, the opposite is true.

Skill shortages vary across sectors and occupations. Results from the Occupational Labour Force Survey (Ministry of Employment and Labour, 2018^[39]) indicate that some sectors including transportation, manufacturing and information and communication are harder hit by skill shortages (as measured by the ratio of unfilled to total job openings) than others. The same survey shows that most of the unfilled job openings in occupations with large skill shortages – such as driving, food processing and machine operating – have low or intermediate skill requirements.⁴ Overall, in 2018, 37% of unfilled job openings required an upper secondary degree, more than the unfilled job openings for all levels of tertiary education put together. Strengthening vocational education at the upper secondary level that prepares students for direct labour market entry could help address these skill shortages.

The higher concentration of unfilled vacancies in lower-skilled occupations and in SMEs put forward two conclusions: First, skill shortages could decrease if more students chose vocational over general education at the upper secondary level. Second, since increasing their comparatively low wage levels is not an option for many SMEs (see Chapter 3), investing in the training of apprentices can slightly alleviate their difficulties in filling vacancies with skilled workers. Recent initiatives of the Korean government related to reforms of upper secondary vocational education and to apprenticeships suggest that the government agrees with these conclusions.

2.2.2. Several initiatives aim to make upper secondary vocational education more attractive

Vocational upper secondary schools traditionally educated a large share of Korea's workforce, but their importance has declined. Reforms in the 1990s expanded higher education. Along with a general preference for higher education among Korean parents and youth, these reforms contributed to the shift from vocational to general education (Cheon, 2014^[41]).

To counter-act this development, the Korean government has diversified vocational education options in the hope of attracting more young people to the field and training the type of workers employers require. Previously, upper secondary vocational students generally attended 'specialised high schools'. Training at these schools usually focused on comparatively simple tasks and employer engagement was limited. As a result, many employers regarded graduates from vocational schools as low-skilled workers (World Economic Forum, 2014^[42]). The two most important measures aiming to address this weakness are the introduction of Meister schools and apprenticeships:

- Meister schools, a type of special purpose upper secondary schools focused on practical vocational training, were introduced in 2010. Unlike other upper secondary schools, these schools select their students and are tuition-free. As a result, they are far more costly for the government than regular vocational upper secondary schools (Lee, Kim and Lee, 2016^[43]). Meister schools develop their curriculum jointly with industry representatives and internships are a mandatory part of the programme. During the first year, Meister schools focus on basic skills, such as computer literacy and soft skills, and introduce students to different industries. From the second year onwards, students specialise and receive more occupation-specific training (World Economic Forum, 2014^[42]). Around 1% of upper secondary students attended a Meister school in 2017.
- Apprenticeships, introduced in Korea in 2013, combine theoretical education at an upper secondary level⁵ with practical training in the company that hires the apprentices. The degrees awarded to graduates are based on National Competency Standards (see Box 2.1). In October 2016, 8 345 companies were participating in the programme. More than

25 000 apprentices had either already graduated or were currently attending an apprenticeship programme (Kang, Jeon and Lee, 2017^[44]).

The two programmes are relatively successful at securing employment for their graduates. For example, Meister school graduates are more likely to be employed than graduates of regular upper secondary vocational schools are. However, they do not necessarily earn more than regular vocational school graduates do (Lee, Kim and Lee, 2016^[43]). The majority of apprentices already hold unlimited contracts during their apprenticeship (Kang, Jeon and Lee, 2017^[44]).

Despite these promising outcomes, very few students participate in these programmes. In 2012, only 1% of students enrolled in upper secondary and short post-secondary education were participating in an apprenticeship programme. Although the share nearly doubled since 2012, Korea remains at the bottom of the OECD ranking and far below the OECD 2012 (23 countries or regions) average of 6% (Figure 2.5).

Box 2.1. The development of a National Qualification Framework and National Competency Standards

In a joint initiative between the Ministry of Employment and Labour and the Ministry of Education, Korea is currently creating a framework based on National Competency Standards (NCS). The framework highlights the equivalence of different qualifications and work experience, defines the knowledge and skills required for each competence, and provide the basis for NCS learning modules. The process of developing competency standards and pilot-testing them has been ongoing since 2013 and is now almost complete. The incorporation of competence standards in the development of school curricula, in the creation of certificates and in the hiring practices of enterprises is work in progress.

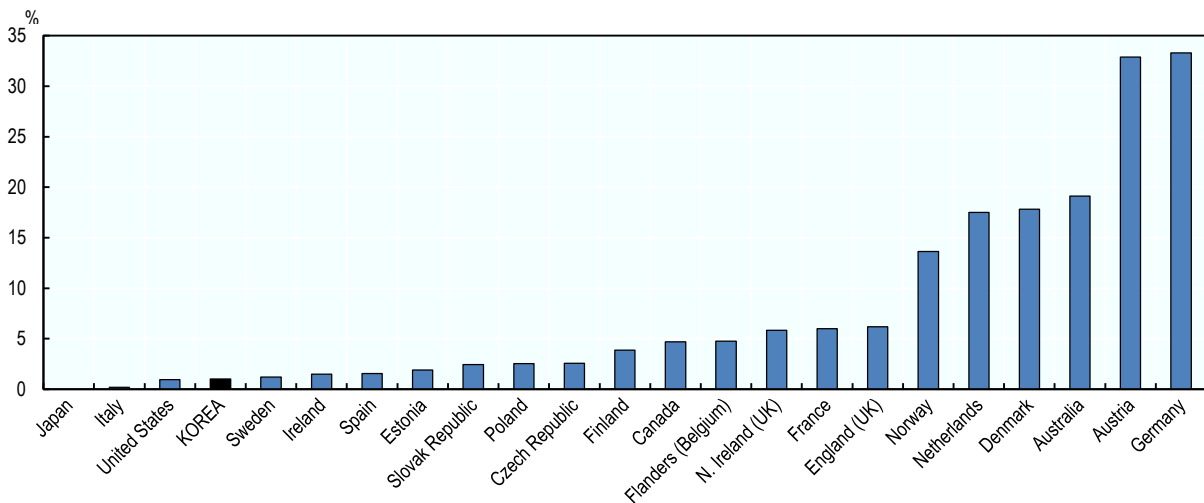
The National Competency Standards are developed in the context of a National Qualification Framework (NQF). Governments all over the world are adopting such frameworks as a means of transitioning towards a competency-based skill development and recognition system. These frameworks define qualification levels, classify different qualifications according to those levels and outline criteria for acquiring a given qualification. Countries have different goals when introducing National Qualification Frameworks, including promoting lifelong learning, raising the prestige of vocational education and assuring the quality of education and training programmes (Tuck, 2007^[45]). Supporting policies need to accompany the introduction of the frameworks to achieve these aims.

In Korea, in a reversal of the typical order of qualification framework development, working groups consisting of ministry representatives and industry, education and qualification experts first developed the different standards and defined qualification levels only afterwards (OECD, 2017^[15]; Kim, Kim and Kim, 2014^[46]).

Source: OECD (2017), *OECD Skills Strategy Diagnostic Report: Korea 2015*, OECD Skills Studies, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264300286-en>; Kim, S., M. Kim and S. Kim (2014), *An Implementation Plan for the National Qualifications Framework (NQF) for Lifelong Vocational Competency Development*, Korea Research Institute for Vocational Education and Training, Seoul; Tuck, R. (2007), *An Introductory Guide to National Qualifications Frameworks: Conceptual and Practical Issues for Policy Makers*, International Labour Office, Geneva.

Figure 2.5. Apprenticeships are far less common in Korea than in many other OECD countries

Apprentices in programmes leading to upper secondary or short postsecondary qualifications as a share of all students enrolled in upper secondary and short postsecondary education aged 16-25, 2012



Note: 16-25 year-olds pursuing a programme at ISCED 3 and ISCED 4C level.

Source: Kuczera, M. (2017^[47]), "Striking the right balance: Costs and benefits of apprenticeship", OECD Education Working Papers, No. 153, OECD Publishing, Paris. <http://dx.doi.org/10.1787/995fff01-en>

Despite these promising outcomes, very few students participate in these programmes. In 2012, only 1% of students enrolled in upper secondary and short post-secondary education were participating in an apprenticeship programme. Although the share nearly doubled since 2012, Korea remains at the bottom of the OECD ranking and far below the OECD 2012 (23 countries or regions) average of 6% (Figure 2.5).

2.2.3. The relevance of upper secondary vocational education needs to be strengthened

Korea is making considerable efforts to promote vocational education. Certain indications, such as the declining share of upper secondary graduates who immediately enrol in college or university, suggest that the initiatives are paying off in terms of reducing over-investments in education. Nevertheless, the programmes can be even more impactful.

Boost the relevance and quality of vocational upper secondary schools

Korea's upper secondary vocational education system is in the middle of a full re-organisation. In addition to the establishment of Meister Schools and the re-introduction of apprenticeships, the government is also reducing the number of regular vocational upper secondary schools and aiming to align curricula to National Competency Standards (see Box 2.1). Given the scope of these changes, it makes sense to assess systematically how successful the reforms have been. In the meantime, the thrust of reforms can be further supported.

A first potential measure is to create additional Meister schools in service-related occupations. Existing Meister schools already cover an impressive number of activity areas ranging from advanced urban agriculture, mechanical engineering and shipbuilding over information science, semiconductors and robotics to food science and horse-related occupations (Ministry of Education, 2018^[48]). While the government may reasonably wish to limit the number of Meister schools for financial reasons and to preserve their special status, a few additional schools could cover the training needs of other sectors. This recommendation applies in particular to service sector occupations, for which the Korea Employment Information Service forecasted an under-supply of new entrants with upper secondary education over the 2014-2023 period (KEIS, 2015^[49]).

Moreover, regular vocational upper secondary schools can incorporate elements of the Meister schools. Key among them is a stronger connection with industry. For example, schools can cooperate with companies to create internship opportunities for their students. Temporary placements with companies can also ensure that teachers' skills remain updated. Evidence from Finland suggests that such placements can raise the quality of vocational education and should occur in intervals of at most five years (Frisk, 2015^[50]).

Finally, the way in which competence-standard based curricula are created may have to be adjusted. Currently, a study of ten vocational training institutes revealed increased administrative costs and teaching requirements that included 'unnecessary' at the expense of 'necessary' material (Lee, Ra and Ryu, 2016^[51]). In addition, another study suggests that competency standards-based curricula often do not develop students' theoretical knowledge sufficiently (Chio et al., 2015^[52]), a criticism that has also surfaced in other OECD countries such as the Netherlands (Mulder, Weigel and Collins, 2007^[53]). This situation increases the risk that acquired skills and knowledge do not transfer to other occupations and that they become obsolete more quickly. Australia's experience suggests that leaving some flexibility in curricula in terms of what training elements are required can strengthen their acceptance by educators (Allais, 2010^[54]).

Broaden the scope of apprenticeships

The Korean government recognises that apprenticeship can ease the school-to-work transition and improve the functioning of the labour market. In fact, countries in which more youth are apprentices tend to have a lower prevalence of skill mismatches (Quintini, 2011^[11]). Offering a broader range of apprenticeships – in terms of length, occupations and types of employers - can increase the demand for and supply of apprenticeships and hence involve a larger number of young people.

Korean apprenticeships are shorter than in many other OECD countries. Three quarters of Korean apprentices train with a company for twelve months (Kang, Jeon and Lee, 2017^[44]). While a few other OECD countries, such as France and Lithuania, also offer short apprenticeship programmes, in many others, including Germany, Switzerland and the United States, the majority of programmes are longer (G20/OECD/EC, 2014^[55]) (Figure 2.6). Under the right circumstances, apprentices acquire a broader set of sets and deeper knowledge if they train longer. Moreover, employers can recover more of their initial investment by working with more experienced apprentices. Indeed, in several OECD countries with longer apprenticeships such as Austria, Germany and Switzerland, 70% or more of the time apprentices spend with a company is productive work the company benefits from directly, as opposed to time spend on theoretical or practical training (Kuczera, 2017^[47]).

Korea can benefit from expanding the duration of the typical apprenticeships. However, any expansion needs to bring real benefits to the apprentices in the form of a more thorough training. A 2012 reform that set the minimum length of an English apprenticeship to one year for example had mixed effects: it decreased the number of apprentices that started and completed the programme on the one hand, but increased the earnings of those that graduated (Nafilyan and Speckesser, 2017^[56]).

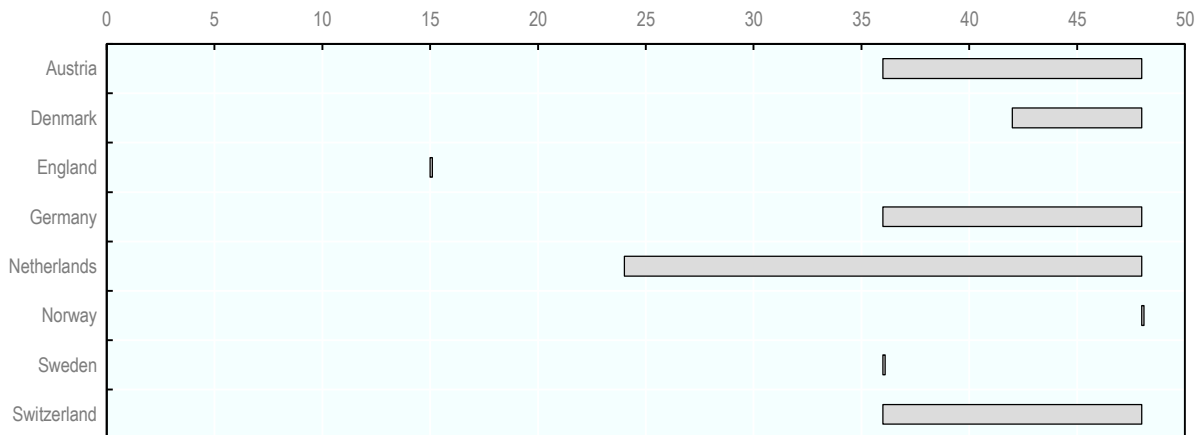
Most Korean employers offering apprenticeships are in the industrial rather than service sector. Companies in the machinery and robotics sector alone account for more than one third of apprenticeship providers, and companies in information and communication technology, electronics and chemistry for another third (Kang, Jeon and Lee, 2017^[44]). Elsewhere, the service sector is much more active. For example in Australia in 2009, the five most common apprenticeship programmes were in service occupations, jointly accounting for about 60% of apprenticeship positions (Steedman, 2010^[57]).

More service-related apprenticeships could lower the need to attend college for students who want to work in this area and provide service-sector employers with appropriately skilled workers. It is even possible (though far from guaranteed) that this extension could contribute to a reduction in the productivity gap between the manufacturing and service sectors: In Italy, a reform that increased the number of

apprenticeships increased firms' productivity (Cappellari, Dell'Aringa and Leonardi, 2012^[58]). However, productivity gains could vary across sectors. A report by a UK-based consulting firm suggests that the productivity gains from completing an apprenticeship are below average in the retail sector, although this may be due to shorter apprenticeships (Centre for Economics and Business Research, 2013^[59]).

Figure 2.6. In several OECD countries, apprenticeships last multiple years

Range of the usual duration of apprenticeships (in months), selected countries



Note: The value for England indicates the average duration of apprenticeships.

Source: Kuczera (2017^[47]), *Striking the right balance: Costs and benefits of apprenticeship*, "Table 3. What is the duration of an apprenticeship and how much work placement does it involve?".

The overwhelming majority of Korean apprenticeship providers are SMEs: 96% of providers have fewer than 299 employees (Kang, Jeon and Lee, 2017^[44]). In other OECD countries, SMEs also predominate among apprenticeship providers, though often less dramatically so. For example, in France, SMEs (which in France include enterprises with up to 250 employees) provided three quarters of new apprenticeships (BusinessEurope/CEEP/UEAPME, 2016^[60]).

Korea should continue to support SMEs in offering apprenticeships, but could also consider involving large employers. This option would have several benefits. First, the number of apprenticeship spots could increase. Second, educational institutions could recruit training partners at lower costs. Third and most importantly, the prestige of apprenticeships could rise. Large companies would also benefit by having young workers with more targeted skills than those recruited from general college or university programmes. In practical terms, the government could continue to restrict apprenticeship subsidies to SMEs but simultaneously encourage upper secondary vocational schools and other educational institutions offering apprenticeships to reach out to large companies in addition to continuing their recruitment efforts with SMEs.

However, any efforts to involve larger employers in apprenticeship schemes need to be undertaken carefully. Evidence from Germany and the Netherlands suggests that apprentices in larger firms have better basic skills. One possible reason is that these firms attract apprentices with higher innate ability (Kuczera, 2017^[47]). If this 'skill magnet hypothesis' is correct, it represents a problem if large enterprises 'empty' the pool of *existing* qualified applicants. On the other hand, if apprentices at large enterprises are higher-ability workers that would otherwise not consider becoming apprentices, then the effects would be positive. Therefore, it would be advisable to carry out a pilot programme in one sector or region first.

Lower the costs and increase the pay-offs from apprenticeships

A company will only offer apprenticeships if the perceived short- and long-term benefits exceed the immediate costs. The main short-term benefit is the apprentices' productive work. The main long-term benefits are reduced recruitment costs and an improved skill fit among workers. The principal costs, in addition to the apprentices' wages, are the wage costs of the employees providing the apprentices' training and, depending on the sector and occupation, training equipment costs. Apprenticeship wages are frequently set at the sectoral level, are below the wages of skilled workers and rise over the training period. Overall, the net costs are higher when enterprises predominantly develop their apprentices' general rather than firm-specific skills. This effect is particularly true if a large share of former apprentices does not stay on with the firm that trained them.

Governments have various instruments at their disposal to increase benefits and reduce or defray costs. Under certain conditions, some countries including the Netherlands and the United Kingdom allow apprenticeship wages to be set below the minimum wage. Other countries, such as Denmark, exempt apprenticeship wages from employer social security contributions or subsidise these contributions, such as in Austria (Kuczera, 2017^[47]). The Korean government already provides subsidies to SMEs that offset part of the training costs. Without these subsidies, providing apprenticeships would not be viable for some firms (Jones and Fukawa, 2016^[61]). In addition to these existing subsidies, the government can consider additional options including a review of training and administrative requirements and financial assistance for the creation of joint training centres.

Experiences from other OECD countries illustrate how a review of training and administrative requirements can balance employer and apprentice interests and keep training requirements up-to-date. For example, Norwegian advisory bodies of vocation education and training composed in principle of employer and employee representatives can call for reviews of training lengths or curricula that entail the development and approval of new curricula (Kis, 2016^[62]). Regular reviews can ensure that apprentice's occupational profiles respond to technological change. For example, Denmark and Germany recently carried out review initiatives to respond to adapt apprenticeships for the needs of advanced manufacturing (Eurofound, 2018^[63]). Korea's own experience demonstrates how important it is to involve employer representatives in designing apprenticeships: The 1990s attempt to establish apprenticeships failed in part due to a lack of involvement of employers' organisations.

A further option to reduce training costs is to create training centres or alliances. Training centres could, for example, be located on polytechnic campuses (Jones and Fukawa, 2016^[61]). In fact, a few sector councils are already active in this regard: they search for firms interested in being involved, develop programmes and operate joint training centres (Ryu, 2017^[64]). Korea also has a precedent for pooled training: the SME Training Consortium Program created in 2011 and since renamed the National Human Resources Development Program. Through the programme, the government financially assisted groups of SMEs that hired a joint training manager to train their existing workforce (Lee, 2016^[65]). Despite these consortia and proportionally higher subsidies, SMEs still offer less training (OECD, 2017^[15]).

Multiple OECD countries have models of joint apprenticeship training. In some, apprentices can train with multiple companies. For example, in Australia, group training organisations formally employ apprentices and hire them out to one or more companies. This way, apprentices can acquire a broad range of skills. Austrian training alliances facilitate exchanges or unilateral transfers of apprentices between companies. In other countries, joint training centres directly offer part of the training. For instance, in Switzerland, in addition to theoretical education complementary to what vocational schools teach, autonomous training centres provide the initial practical training before apprentices move on to company-based training (Kuczera, 2017^[66]).

In Korea, Sector Councils can continue playing a role in exploring options for joint training models. Depending on local and sectoral conditions, joint training alliances could even involve co-operations

between small and large companies. These could be particularly useful if several conditions are met: First, where SMEs are important suppliers for large companies, large companies have an interest in ensuring that SMEs have an educated workforce. Second, large companies need to be able to fulfil the training needs of the SME apprentices. At the same time, the occupational profile of workers with completed apprenticeships needs to be sufficiently distinct from the worker needs of the large companies. Otherwise, SME apprenticeship providers would have to fear that large companies poach their newly qualified workers.

2.3. Ensuring quality tertiary education

While the benefits of a college or university education should not consist of material gains alone, most (prospective) students would probably agree that studying longer should not leave them financially worse off. Even so, Chapter 1 illustrated that the financial pay-off from higher education is negative for a substantial share of university and college graduates. The following parts describe contributing factors to low pay-offs from tertiary education and the government's efforts to address these factors, and propose further reform possibilities.

2.3.1. Korean tertiary education institutes vary greatly in quality

The quality of Korea's tertiary education is not as high as its primary and secondary education and it varies strongly across institutions. In 2013, Korea ranked 25th out of 60 countries in overall educational competitiveness but only 41st in university education (Kim, 2016^[67]). The best universities excel across a broad range of subjects. Their students are more frequently employed than students from lower-ranked institutions are. At lower-ranked institutions, students have access to fewer faculty members and are more likely to drop out (Lee, Jeong and Hong, 2014^[68]). However, it is difficult to assess whether the differences are larger than in other OECD countries. In England, for example, experimental data from the Longitudinal Education Outcome dataset suggest that graduates from the lowest-ranked institutions are employed or advance to further education at rates equal to graduates from the highest-ranked institutions (Department of Education, 2017^[69]). In Italy, in contrast, the employment rates of humanities graduates vary strongly across faculties even when taking into account their parents' educational achievement and occupational prestige (though not the students' abilities) (De Battisti, Nicolini and Salini, 2008^[70]).

The balance between different types of institutions is shifting. Between 2000 and 2012, lower-ranked universities expanded their enrolment, at the expense of lower average admission scores among their admitted students (Lee, Jeong and Hong, 2014^[68]). Enrolment at higher-ranked institutions has remained relatively constant while the number of colleges has declined (Jones, 2013^[11]). Moreover, universities now more frequently offer degrees traditionally conferred by colleges, and colleges do the same with traditional upper secondary degrees. An example is a four-year bachelor degree in cosmetology.

Stark quality differences across higher education institutions generate important costs for Korean youth and the society as a whole. In particular, upper secondary students spend large amounts of time and money to prepare for admission to higher education. Some secondary graduates even prefer to sit out a year so they can re-take the College Scholastic Aptitude test and attend a higher-ranked institution. The system encourages students to focus on getting into the 'best' possible institution rather than fully considering all alternatives, hereby contributing to the skill mismatch.

While graduates from lower-ranked tertiary institutions have poorer outcomes, including lower average earnings (Yeom, 2016^[71]; Jung and Lee, 2016^[72]), it is unclear how much lower student ability, lower institutional quality (such as poorer teaching, less individualised attention and less career counselling) and reputation effects respectively contribute to these worse outcomes. Certain studies on the United Kingdom and the United States (Broecke, 2012^[73]; Hoekstra, 2009^[74]) suggest that the earnings impact of attending

a more selective institution persists even when the ability of students are taken into account, pointing to at least some quality or reputation effects. Others, however, do not find the same result, except for students from low-income families (Dale and Krueger, 2002^[75]).

In recent years, the Korean government and individual institutions have undertaken efforts to create more holistic admission criteria and ensure the quality and relevance of college and university teaching. The next sections describe these efforts and suggest further possible initiatives.

2.3.2. The Korean government seeks to align tertiary education offers and market demands

Creating a higher education system in which institutions distinguish themselves more by their educational focus than by their rank and in which quality is more uniform can lower the singular focus of upper secondary students to gain admission to the most prestigious institutions and create a better match between graduates' skills and labour market needs.

Since a less quality-stratified system can only be achieved over the long term, the Korean government already introduced measures to reduce the reliance on the standardised aptitude test and school records in college or university admission. Since 2008, tertiary institutions may use interviews, essays and tests as additional selection criteria (Choi and Park, 2013^[76]). A side effect appears to be that top universities increasingly select students from certain autonomous schools and schools in affluent areas (Jin, 2016^[77]). One possible reason is that graduates from autonomous schools, which unlike other schools can select their students and can thus pick the brightest ones, have higher academic ability (Yoon, 2015^[78]). Other possible reasons are social prestige, more school resources and higher investments in private tutoring.

General initiatives to increase the quality of tertiary education have focused on reducing the number of students at low-quality colleges and universities and increasing transparency and accountability. The 2014 *Action Plan for University Structural Reform* aimed to lower college and university quotas by 160 000 between 2015 and 2023. Under this plan, very low-quality higher education institutions have to shut down and low-ranked institutions are forced to accept fewer students (Kim, 2016^[67]). Moreover, colleges and universities now have to report their graduate employment rates. Prospective students can consult these rates online (Korean Council for University Education, n.d.^[79]). The intention behind this requirement is to increase institutions' performance through guiding students and directing funding towards the more successful ones (Kis and Park, 2012^[80]). However, as most Korean tertiary institutions are private and primarily fund themselves through tuition fees, the funding mechanism's leverage is limited.

2.3.3. Quality assurance in tertiary education can be strengthened

The variety of initiatives named above underlines the desire of the government to make it easier for young people to transition from college or university to the workplace and for businesses to find workers with the skill sets they need. Yet while single initiatives can be worthwhile, policies boosting the quality and labour market relevance of tertiary education overall can bring even more benefits.

Continue to broaden university entry requirements

There is no one best practice on how university admissions should weight achievements in upper secondary education, standardised aptitude tests and other criteria. Each decision has downsides and upsides in terms of efficiency (selecting the 'most able' students), equity (taking into account systematic (dis)advantages of different groups) and the admission system's administrative costs. Nevertheless, it is preferable to avoid criteria that require considerable investments from students without helping them to perform better in their studies or work life (Hoareau McGrath et al., 2014^[81]).

The Korean government can therefore continue to support universities in using alternative admission standards rather than the standardised aptitude test. One issue appears to be that the public perceives the alternative admission standards as the less respected easy way in (Diamond, 2016^[82]). To address this perception, a starting point could be to undertake systematic analyses on the relative academic and labour market success of students admitted through different mechanisms. Such analyses could reveal how high the predictive capability of the standardised aptitude tests is at different institutions; and influence public perceptions. Colleges and universities where the predictive value of test scores on performance is low could consider reducing or eliminating their role in admission decisions. In the United States, several colleges – including highly ranked ones - have made SAT scores optional, in accordance with a 2008 recommendation (National Association for College Admission Counseling, 2008^[83]). This change led to more applications by traditionally under-represented students without compromising graduation rates (Syverson, Franks and Hiss, 2018^[84]).

Strengthen quality and labour market relevance through reporting

One of the options to assure the quality of tertiary education is to set minimum performance standards and to close down institutions that do not fulfil them. As described above, the Korean government is not shying away from doing so. However, if it were to decrease quotas too drastically or to close too many colleges or universities, it would have to fear a backlash. Families might be concerned that the country was returning to a system where few students have access to tertiary education. Moreover, the approach would raise the question as to whether the relevant regulatory authority is truly able to identify the institutions that do not serve the needs of their current and future students.

The Korean government is also using a second quality improvement instrument: it directs more funding to institutions that perform well or that shift to degrees that are more ‘employable’. But as noted above, the impact of these initiatives are limited by the fact that the majority of tertiary institutions are private and government funding represents a small share of their budget. Moreover, performance-based funding may have disadvantages even in contexts where they are likely to be more impactful (Kis, 2005^[85]). First, it is difficult to measure the quality of teaching. Even poor labour market outcomes can be a mistaken indicator: graduates may have received a high-quality education relevant to the students’ chosen occupation, but there may be a temporary slump in the demand for these graduates either within a given region or nationwide. Second, colleges and universities can be tempted to fudge their numbers. Third, depending on the selected performance indicators, the policy may incentivise colleges and universities to change the degrees they offer in unintended ways. For example, in the United States, performance funding created more short degrees that were easier and quicker to complete but that had limited use on the labour market (Li and Kennedy, 2017^[86]). Performance-based accountability across US states does not appear to have improved either graduation rates or research output (Shin, 2010^[87]). Fourth, cutting funding to under-performing institutions may precisely prevent them from making necessary improvements.

A less drastic third alternative that can nonetheless improve quality of institutions over time is the ‘gainful employment’ regulation, as is used in the United States: students are unable to take out federal loans to attend institutions where the ratio between students’ debt and their later earnings is too unfavourable (Cellini, Darolina and Turner, 2016^[88]). Presumably, this will incentivise students to select universities with better labour market records. In 2011, the Korean government already implemented a similar programme, although the criteria were related to the universities’ management rather than labour market outcomes (Kim, 2011^[89]). With nearly a third of higher education students receiving a need-based grant and more than one-sixth taking out a direct loan (KOSAF, 2017^[90]), this approach could be quite influential in improving the quality of universities. However, it should adjust for the mix of programmes to not penalise quality institutions specialising in degrees with less labour market demand.

A fourth possibility is to steer students to institutions with better labour market outcomes through requiring colleges and universities to publish more relevant information. Reporting requirements for Korean higher education institutions could be expanded from alumni employment rates to include average earnings. The ‘Launch my Career’ websites developed by the American Institutes for Research, the U.S. Chamber of

Commerce, Gallup and the governments of Colorado, Tennessee and Texas are a positive example. The websites provide information on the average cost of attending, time to graduation and twenty-year earning gains for each institution and degree (American Institutes for Research, 2018^[91]). To create a similar website for Korea, significant additional data would have to be collected, even if tracking earning gains over a shorter time period, such as five years, would be sufficient. But if prospective students started to shun institutions with decent employment rates but below-average earnings, the potential pay-off could be substantial. One possible drawback is that recent changes in universities' teaching methods, collaboration with industries and job placement support are not immediately reflected in long-term labour market outcomes, and would need to be reflected in the information provided on the website.

Focalise institutions' profiles and further co-operation with employers

Closing institutions, making funding dependent on performance and increasing reporting requirements aim to push universities to improve their performance and re-direct students to better-performing programmes. However, they do not necessarily improve the employability of students and the match between supply and demand of skills. Initiatives that may be able to address these issues include improved co-operation with employers and a sharpened profile for colleges through the implementation of NCS-based curricula.

In recent years, the Korean government has already launched a number of initiatives aiming to create curricula that are responsive to industry needs and to facilitate the school-to-work transition:

- *National Competency Standards*: Certain colleges and universities are developing degree programmes based on competency standards (see Box 2.1). The large volume of articles in Korean professional journals on the creation of such curricula suggests that the process is labour- and time-intensive.
- *Convergence Technology Campus*: This offer affiliated with Korea Polytechnic offers non-degree programmes to young tertiary graduates unable to find employment in their original field. Professors coming directly from industry retrain them in one of three areas (data/life sciences/embedded systems). During the intensive ten-months programme, participants receive tuition aid and a stipend.
- *Leaders in Industry-University Co-operation*: The initiative (launched in 2012) clusters research projects and aims to tailor education to local needs. Participating higher education institutions can for instance receive funding to buy equipment needed to incorporate training adjusted to specific companies' needs (OECD, 2017^[15]; Chung, 2012^[92]).
- *Program for Industrial Needs-Matched Education*: The Ministry of Education introduced the programme in 2016. It aims to restructure nearly two dozen universities that are supposed to offer fewer degrees with poor labour market prospects. The programme's funding represents more than half of some of the participating institutions' budgets. In practice, most participating institutions planned to expand engineering and science and shrink or close humanities departments. Critics noted that the planning and transition periods were too short and that demand for engineering and science graduates is over-stated, ultimately implying that the program could even increase skill mismatches (Do, 2016^[93]; Lee and Byeon, 2016^[94]).
- *Apprenticeships*: Even though the majority of apprenticeships are at the upper secondary level, some colleges and universities also teach apprentices (Jones and Fukawa, 2016^[61]). In addition, the 'uni-tech' programme combines practical training during three years in upper secondary education and two years in college. Graduates have an employment guarantee with a participating business (Lee et al., 2017^[95]).

To ensure the labour market relevance of degrees, colleges and universities should continuously review their course offerings in light of evidence on in-demand and shortage skills. They can gather evidence from enterprise and graduate surveys, qualitative forecasts such as Delphi studies, scenario-based predictions or from labour market indicators such as relative wage growth and unemployment rates as presented in

the OECD Skills for Jobs Database (OECD, 2018^[96]; Galán-Muros and Davey, 2017^[97]). For example in Sweden, higher education institutions rely on Statistic Sweden's skill needs forecasts to plan how many places they are going to offer in different programmes (OECD, 2016^[98]). These forecasts predict future skill needs and demands based on an analysis of the current education system and projections about the development of total employment demand, different industries, occupational trends and educational demand (Statistics Sweden, 2017^[99]).

The government has different options for incentivising universities to consider skill demand when deciding how many spots to offer in different programmes. A number of OECD countries including Australia, England and Lithuania provide subsidies for programmes preparing for certain shortage occupations. In some cases, however, the government intervenes directly. For example, in 2014 Denmark introduced caps for programmes whose graduates were significantly more likely to be unemployed. In Poland, programme quotas can rise more quickly than average if there is a ministerial decision that a field is a strategic priority for national development (OECD, 2017^[100]).

Once promising skill areas and occupations are identified, tertiary institutions need to ensure that students pursuing degrees leading up to those occupations learn the necessary skills. If employer organisations actively contribute to developing and updating the National Competency Standards (see Box 2.1), these standards can be an appropriate basis for part of the curriculum design. Even degree programs not leading up to a particular occupation can benefit. For instance, graduates in humanities or social sciences often have jobs for which they need strong written and oral communication skills. Curricula can hence be evaluated according to how well they allow students to develop these and other relevant skills. Nevertheless, curricula should not be based on competency standards alone. Even occupation-specific degree programmes should impart broader theoretical and practical skills than might be strictly necessary for the particular occupation. Workers with a broader knowledge and skills may find it easier to retrain later in life should their occupation drastically change or disappear.

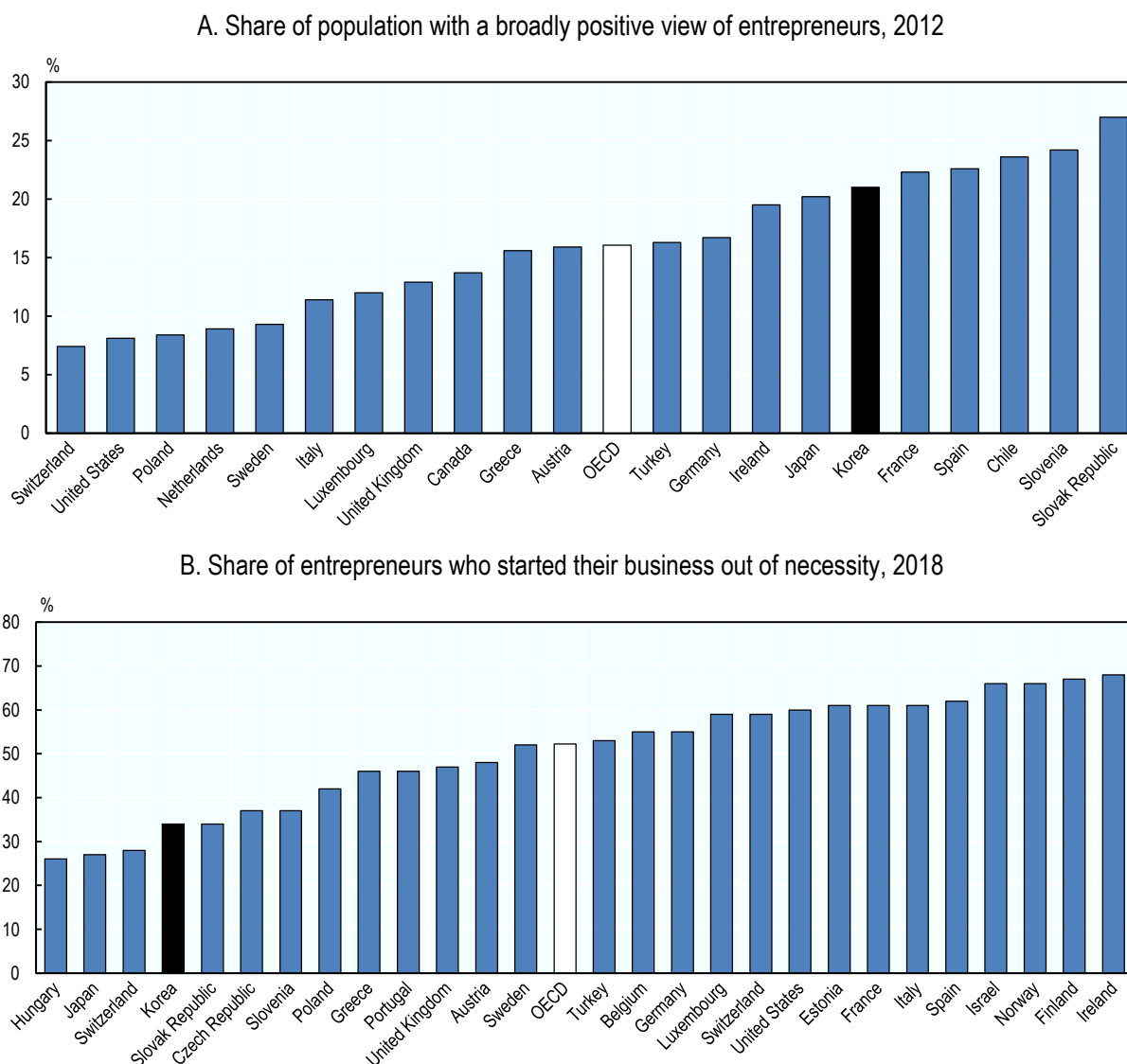
Employer involvement with tertiary institutions can ensure that students are prepared for the labour market, but requires efforts to be sustained. The Korean government and different institutions have various programmes to encourage partnerships between educational institutions and employers, but collaborations are often short-lived (Choi, 2013^[101]). Evidence from several European countries suggests one possible way to make collaborations more durable: companies that cooperate with universities on multiple activities tend to be more engaged (Melink and Pavlin, 2014^[102]). This evidence suggests that universities should try to create multiple engagement channels with employers. These can include internship programmes, employer advisory boards to jointly design curricula, research and teaching co-operation, and others (Galán-Muros and Davey, 2017^[97]). One example from Korea is Korea Polytechnic University's co-operation with more than 3 000 SMEs. In addition to worksite placement, the co-operation also provides companies access to experimental equipment (Korea Polytechnic University, 2016^[103]).

Integrate entrepreneurship education into tertiary curricula

Integrating entrepreneurship education into their curricula is a further way through which colleges and universities can prepare students for the world of work and stimulate the economy. New company creation can drive economic and job growth and represents a viable alternative to dependent employment for young labour market entrants.

Currently, the role of entrepreneurship in Korean society is more limited than appears desirable. Many of the self-employed are older workers who lost their job and have little or no social protection to rely on. Both a cause and an effect of this concentration of self-employment among older workers, Koreans view entrepreneurs less positively than is the case in most other OECD countries (Figure 2.7, Panel A). Another effect is that a comparatively high share of Korean entrepreneurs became self-employed because they were not able to find another job (Figure 2.7, Panel B). This type of 'necessity entrepreneurship' has much less positive effects on economic growth than 'opportunity entrepreneurship' (Acs, 2006^[104]).

Figure 2.7. Entrepreneurs in Korea are not as well regarded and as opportunity-oriented as elsewhere



Source: OECD (2016^[33]), *OECD Economic Surveys: Korea*, and Bosma and Kelly (2018^[105]), *Global Entrepreneurship Monitor 2018/2019 Global Report*.

More young people express an interest in starting their own company than those that end up doing so. In the 2015 Youth Panel Survey, around 6% of tertiary students aged 20-29 stated that the type of company they wanted to work for was their own, but only 3% of workers in the same age group were actually self-employed. Overall, the share of self-employed among workers in that age group is among the lowest third of OECD countries, but higher than for example in Norway or the United States.

While entrepreneurship education cannot eliminate all obstacles that prevent young people from realising their entrepreneurial aspirations, it can equip students with the skills to surmount them. In essence, entrepreneurial education is supposed to equip students with the competencies to identify entrepreneurial opportunities and to start and run a business. These competencies include attitudes such as entrepreneurial passion and perseverance, knowledge to identify promising ideas, and practical skills such as marketing and creating a business plan (Lackéus, 2015^[106]).

The Korean government has realised the importance of entrepreneurship education. It is now mandatory in Korean primary and secondary schools (OECD, 2016^[33]). At the tertiary level, the Ministry of SMEs and Start-ups contributed to creating entrepreneurship graduate schools (Byun et al., 2018^[107]) and the Korea Entrepreneurship Foundation. Among other activities, the foundation collaborates with universities' entrepreneurship centres in creating teaching materials

Prior experiences from other OECD countries can help Korean universities design impactful teaching content related to entrepreneurship, by making entrepreneurship education accessible across disciplines; balancing theory and practice; and monitoring, evaluating and adjusting entrepreneurship education (see Box 2.2).

2.4. Supporting companies in altering recruitment practices

Inefficient recruitment practices can exacerbate skill mismatches if they force candidates to invest a lot of time in preparing their application and do not necessarily attract the best match for the job.

2.4.1. Companies rarely use competency-based hiring

Competency-based hiring is still rare in Korea. A survey of nearly 450 human resources managers from private enterprises and public institutions found that few companies use job posting with detailed information on required competencies or carry out structured job interviews. At the same time, many managers judge these interviews to be the best predictor for job performance. The majority of interviewees had also never heard of the National Competency Standards (Chang, Jung and Chang, 2015^[108]). Companies that have heard of the Standards often do not rate them highly (Lee, Ra and Ryu, 2016^[51]). One reason may be that industry involvement was relatively passive and that there are insufficient review mechanisms (Chio et al., 2015^[52]).

Instead, many large employers and public institutions in Korea, like in Japan, have their own recruitment exams, with a strong focus on written tests. They often recruit groups of hires rather than hiring for a particular position. Small and medium-sized employers, in contrast, are not able to rely on the same selection mechanisms. The different standing and unequal work conditions in SMEs and large enterprises (see Chapter 3) encourage recent graduates to invest months preparing for employment exams rather than launching into the working life. Many candidates prefer to work for a large enterprise than for an SME, even if they end up being over-skilled, hereby contributing to the skill mismatch.

Box 2.2. OECD lessons for the integration of entrepreneurship education into tertiary education

Make entrepreneurship education accessible across disciplines

Business schools tended to be the first university departments within universities that taught entrepreneurship-related content, but universities in different OECD countries are increasingly opening up relevant courses to students in other disciplines. For example, the Limerick Institute of Technology in Ireland offers the “Market-Link Entrepreneur” programme consisting to a series of business workshops to students from all faculties (OECD/EU, 2017^[109]).

Balance theory and practice

As in other realms of education, student learning benefits from having a balance between theoretical and practical teaching approaches and from experiential learning. Students may be more likely to eventually take the leap into entrepreneurship if they learn to develop and implement ideas through practical experiences such as role playing and business plan competitions. Where possible, involving employers in these activities can provide more practical insights and further strengthen ties between universities and companies and between students and their potential future employers (or customers) (OECD/EU, 2017^[110]).

Monitor, evaluate and adjust entrepreneurship education

Teaching entrepreneurship-related content is a recent innovation at most colleges and universities. This means that knowledge about ideal teaching styles and about outcomes are still limited. Carrying out evaluations and making adjustments when necessary can ensure that the quality of these programmes reaches its full potential. Internationally validated assessment tools such as OctoSkills, the EU's Entrepreneurial Skills Pass or LoopMe could be adjusted to the Korean context and integrated into such evaluations (OECD/EU, 2018^[111]). Similar to the role of the Danish Foundation for Entrepreneurship, a central body such as the Ministry of SMEs and Start-ups or the Korea Entrepreneurship Foundation could coordinate or carry out these monitoring and evaluation activities.

2.4.2. National Competency Standards may help job candidates exhibit their skills and companies lower their recruitment costs

The Korean government has expanded competency-based hiring in the public sector. Under the new system, hiring managers create job description that clearly define required competencies. Candidates do not have to present credentials unrelated to these requirements. This new approach has positive pay-offs: for example, when candidates did not have to provide English test scores for a position for which these were irrelevant, more upper secondary and college as opposed to university graduates were hired than was typically the case. From the employer perspective, the most positive outcome was that first-year turnover declined (The Korea Herald Editorial Report, 2016^[112]). Evidence from a project focused on unemployed youth in New Mexico also suggests that competency-based hiring reduced turnover and hiring costs (Carlton and Blivin, 2016^[113]).

While the government hopes that the private sector will follow its example, in actuality, it is still quite rare. In 2015, only 23 out of a sample of 449 recruitment professionals indicated that they had already made positive experiences with competency-standards based hiring. Managers believe that human resources staff need more training to implement such hiring. They also indicated that it would require that companies move away from open to job-specific recruitment and decrease job rotation (Chang, Jung and Chang, 2015^[108]). Other evidence suggests that it may take 600-1 000 hours to train the use of competency standards (OECD, 2017^[114]).

Across OECD countries that created national qualification frameworks with competency standards, the evidence on their effectiveness in changing recruitment practices is sparse. A positive example is the Scottish Credit and Qualifications Framework Partnership. The partnership provides employers with multiple tools to define required skills and qualifications and to recruit suitable candidates (Pevco Grm and Bjørnåvold, 2017^[115]). These tools include an employer guide on recruitment practices and workshops for employers interested in in-house training (Scottish Credit and Qualification Framework, n.d.^[116]).

These pieces of evidence suggest that the government needs to assist enterprises if it wishes to encourage competency-based hiring. In fact, the Ministry of Employment and Labour already had a pilot project in 2013-14 that provided 200 companies with core competencies assessment models, consulting services and interviewer training related to six job groups (OECD, 2017^[115]). Providing such guidance and potentially even subsidies for the training of human resource professionals could help strengthen competency-based hiring. Going forward, the government could ask sector councils whose members have particular hiring difficulties to identify themselves. Specialists from the Ministry of Employment and Labour and representatives from the Sector Councils could collaborate in detecting the largest hiring hurdles, assessing whether competency-based hiring could remedy some of the obstacles and developing tools to assist enterprises in reforming their hiring practices.

Another option to lower SME's recruitment costs is to use intermediary organisations. This may be particularly pertinent in situations where hiring costs are comparatively high compared to the firms' expected pay-offs but where competition between firms for qualified candidates is somewhat limited, as

may be the case for apprenticeship hiring. For example, the German Ministry of Economic Affairs and Energy established an intermediary matching service for SMEs in 2007. The service interviewed both prospective apprentices and SMEs to suggest which apprentices would be a good fit for the skill needs and training offerings of a particular employer. Recruitment costs dropped by an estimated 40-50% (OECD/ILO, 2017^[117]).

Finally, information sharing between SMEs may reduce the skill shortages they face. Research on firms located in the Seoul Digital Industry Complex suggests that firms that share recruitment information with other establishments based on the complex have fewer labour shortages than otherwise similar firms (Park et al., 2014^[118]). However, it is clear that in situations where there is intense competition for candidates, companies are unlikely to share such information.

2.5. Round-up and policy recommendations

Over-education and skill mismatches make Korean enterprises and youth worse off. Companies – especially small and medium enterprises – are less productive than they could be if they could hire workers with skills that fit their positions' requirements. At the same time, young people and their parents invest years and substantial amounts of money gaining qualifications and preparing for university admission and employment exams without seeing pay-offs in term of well-paid, stable employment.

Awareness of the skill mismatch issue is high and accordingly, the Korean government has launched a number of important initiatives in recent years to alleviate it. These policies include additional public funding for career guidance and counselling in secondary schools, the (re-)introduction of apprenticeships and Meister high schools to strengthen vocational education and training, incentives for tertiary institutions to offer more labour-market relevant degrees and advocacy for competency-based recruitment practices.

In many cases, it is too early to say whether these policies significantly contribute to reducing skill mismatches. The changes to secondary-level vocational education and training are an exception. They appear to have reversed the trend of higher shares of vocational upper secondary graduates advancing towards tertiary education.

Nonetheless, additional measures can already support the recently established policies:

Create more intensive, inclusive and cooperative career counselling and guidance

- *Increase the effectiveness of career guidance and counselling.* Better training for counsellors and the provision of didactic material to incorporate career-relevant material in all subjects can improve the impact and relevance of guidance in Korean secondary schools. Higher budget allocations for more career services staff would allow schools to provide more individualised guidance. Self-assessment exercises based on benchmark performance measures can serve as a tool for the regular improvement of career counselling.
- *Adapt career counselling to the needs of disadvantaged youth.* Students from disadvantaged background typically receive less career counselling and are less able to benefit from it. To address these gaps, schools can consider either programmes targeted to this group's needs or mandating individual counselling sessions for all students in advance of important education transitions.
- *Involve employers in career counselling.* Students tend to be more interested and engaged in career counselling when enterprises and their employees are directly involved. Schools can aim to cooperate with employers to offer a mix of different activities, such as information events, workplace visits and job shadowing.

Redesign secondary vocational education and training to provide more practical skills

- *Use the success of Meister schools as a template for quality improvements in secondary vocational education.* The government could consider increasing the number of Meister schools, on the one hand, and requiring all vocational schools to create more and deeper connections to industry, on the other hand. Curricula should also be reviewed to reflect National Competency Standards while ensuring sufficiently broad theoretical training.
- *Expand apprenticeship programmes.* More enterprises and youth could benefit from apprenticeships if they were expanded across a number of dimensions. For instance, longer programmes could prepare apprentices for more complex occupations, while introducing apprenticeship programmes in the service sector could provide employers with a skilled workforce. Enlisting large employers as apprenticeship providers could boost the prestige of apprenticeships. In turn, this could boost the benefits that apprentices and employers of all sizes derive from the apprenticeships.
- *Reduce the cost of apprenticeships for employers.* In some sectors, the costs of offering apprenticeships exceed their benefits. The balance could be redressed if employer and employee representatives agree on how training requirements can be redesigned. Employers can also reduce their costs by arranging joint training. Sectoral councils can play a central role in both solutions.

Ensuring quality tertiary education

- *Incentivise students to select better institutions.* In line with the gainful employment regulation in the United States, Korea could refuse federal loans and public grants for students who want to attend institutions where the ratio between students' debt and their later earning is larger than in other institutions offering similar programmes. With nearly one-third of higher education students receiving a need-based grant and more than one-sixth taking out a direct loan, this approach could be quite influential in improving the quality of universities.
- *Strengthen quality through reporting.* The government could require institutions to collect and publish more indicators on the labour market progress of their graduates. In addition to alumni employment rates, the reporting requirements could be expanded to average earnings, time to graduation and earning gains by degree of a sufficiently long period. Although it would take time before changes in a university's quality would be reflected in better outcomes, this strategy could become a powerful way to steer students to institutions with better labour market outcomes.
- *Foster collaborations with employers.* Employer involvement with tertiary institutions can ensure that curricula are better adapted to labour market needs and that students are better prepared for the labour market. Evidence from European countries suggests that collaborations are more durable when employers are engaged through multiple channels. These can include internship programmes, employer advisory boards, research co-operation and others.
- *Integrate entrepreneurship education.* To equip students with the skills they need to realise their entrepreneurial ambitions, tertiary institutions should offer more entrepreneurship-related courses and programmes. These courses should be open to students from different disciplines and combine theoretical teaching with experiential learning. Continuous evaluations can allow universities to improve entrepreneurship education over time.

Altering companies' recruitment practices

- *Provide training in competency-based hiring to companies.* The Korean public sector is experimenting with recruiting more of its candidates based on clearly defined job descriptions, eschewing the need to include certificates and qualifications attesting to skills unrelated to the jobs' requirements. To encourage private companies to follow its example, the government can identify sectors where the need is largest and provide necessary training on competency-based hiring to employers.
- *Consider introducing intermediary matching services for small and medium-sized firms.* Smaller firms often have high hiring costs. Under certain circumstances, information sharing between enterprises and intermediary matching services can help reduce these costs.

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Notes

¹ Life-long learning initiatives can address skill mismatches that arise from rapid technological change. However, since this report focuses on young Koreans who are still in or have recently completed their initial education and training rather than on adults who left the education system a longer time ago, it does not discuss this policy option.

² The calculation is for youth aged 15 to 19 and based on 2005-2011 data from the Korean Youth Panel (National Youth Policy Institute, 2015^[8]).

³ Upper secondary education is voluntary. Nevertheless, almost all Korean teens obtain their upper secondary diploma (Jones, 2013^[1]).

⁴ Across occupations, the correlation between the share of unfilled to all job openings and the share of unfilled job openings that require the two lowest (out of five) skill levels is equal to 0.5 and statistically significant.

⁵ Professional training centres, companies and tertiary institutions can also provide the theoretical training. However, in practice, they rarely do. For example, in 2016, only 6% of participating companies co-operated with a college.

3

Supporting youth in a weakening labour market

This chapter looks at the policies and programmes that Korea has in place to support young people in a weakening labour market. The chapter starts by comparing labour market outcomes of youth with those of older generations, as well as with youth in other OECD countries. It then assesses the coverage and adequacy of the programmes and policies aimed at re-engaging young jobseekers in employment and at providing them with comprehensive income and housing support. The chapter finishes with a discussion on how to address labour market duality and facilitate access to rewarding employment.

3.1. Youth performance in a weakening labour market

Korea's labour market is known to be highly segmented, with large differences in employment conditions between regular and non-regular workers and between small and large companies. Numerous studies have documented how this labour market duality has resulted in earnings inequality and economic inefficiency (OECD, 2013^[1]; Ha and Lee, 2013^[2]; Hong, 2017^[3]; Schauer, 2018^[4]). As discussed in Chapter 2, young Koreans have been investing heavily in education to increase their chances for a high quality job and many spend a lot of time preparing for company entry exams. While their employment conditions have improved over the past decade, weakening economic growth is translating into increasing youth unemployment and longer school-to-work transitions.

With one in five employees working under a temporary contract, Korea belongs to the top five of OECD countries in terms of temporary employment incidence. However, Figure 3.1, Panel A, reveals that the high share of temporary employment is largely driven by older generations, reaching nearly 60% of all employees aged 65 and more. In contrast, the incidence of temporary employment among Korean youth was below the OECD average in 2017, at 22.8% versus 24.6% respectively. Across all age groups, with the exception of older workers, the incidence of temporary employment significantly declined between 2007 and 2017.

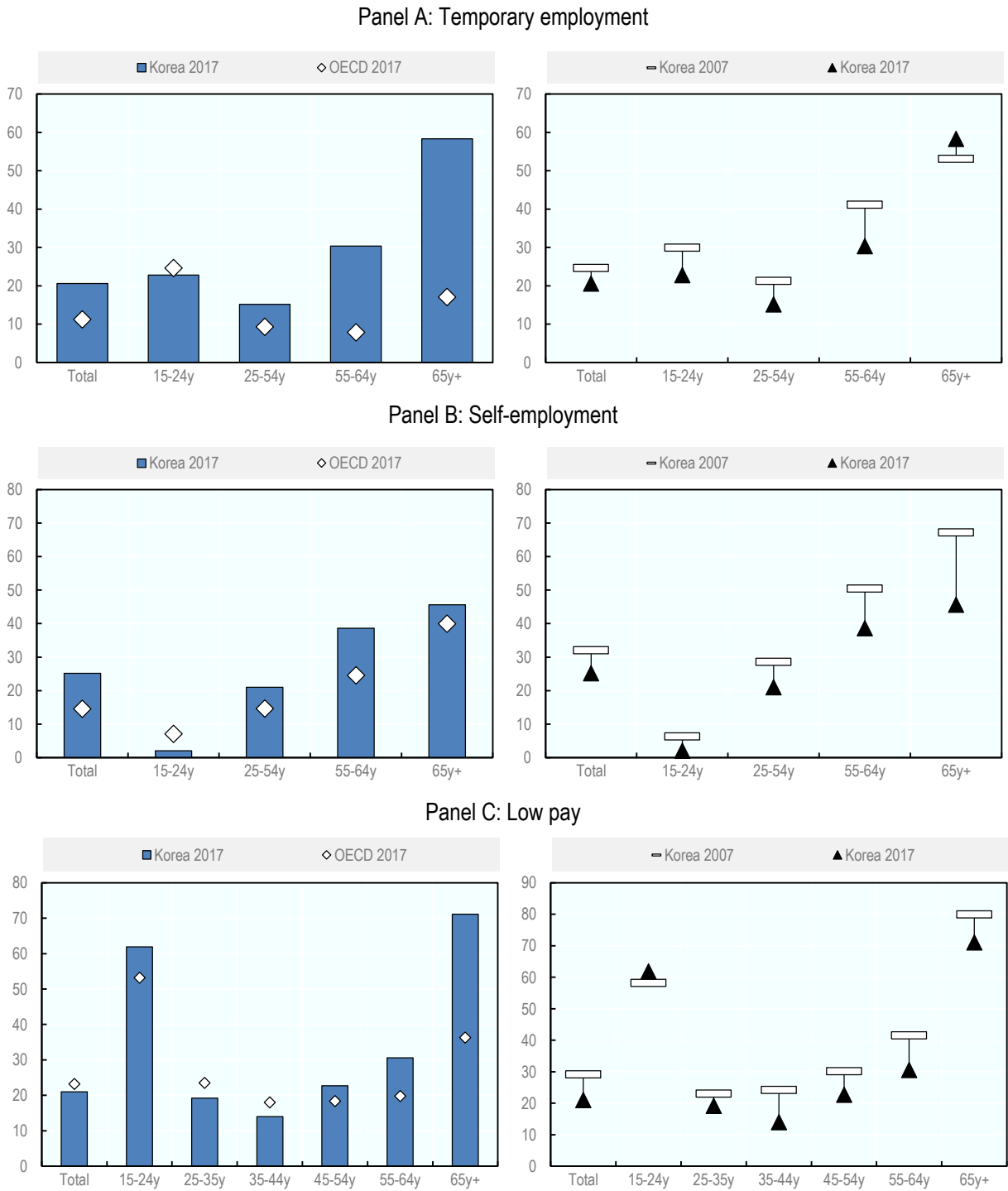
Transitions from non-regular to regular jobs are also more frequent among youth than they are among older generations. Calculations based on the longitudinal data of the Korea Labor and Income Panel Survey reveal that one out of three young workers with a non-regular contract move into a regular one within a time span of three years (Figure 3.2).¹ In contrast, transition rates are very low for prime-age workers (13%) and even lower for older workers (5%). A significant share of unemployed or inactive youth (28%) manages to obtain a regular job within three years. The majority of youth who have a regular contract maintains that situation three years down the lane (79%).

The incidence of self-employment is also exceptionally high in Korea, ranking fourth among OECD countries. However, as with temporary employment, it is mainly older workers who work as self-employed: 38.6% among 55-64-year olds and 45.6% among those aged 65 and over (Figure 3.1, Panel B). Among youth aged 15-24, the incidence of self-employment in Korea is only one third of the OECD average (2.1% versus 7.1% respectively). For all age groups, the share of self-employment in total employment has significantly declined over the past decade.

While the existence of different employment arrangements is not an inherent concern in itself, labour market duality becomes a problem if it results in inefficiencies and welfare losses. As discussed in (OECD, 2013^[1]), earnings inequality has risen particularly rapidly in Korea since the mid-1990s, at the same time that non-regular work was expanding. The incidence of low-paid work is particularly high among the youngest and oldest workers, reaching 62% and 71% of the age groups 15-24 years and 65 years and more (Figure 3.1, Panel C).² By the time young people are in their late twenties, the incidence of low pay is lower in Korea than OECD countries on average. The low pay incidence for this group also declined between 2007 and 2017.

Despite the relatively promising labour market outcomes among youth compared with older generations, weakening economic growth is translating into increasing youth unemployment (Figure 3.3). While the unemployment rate among 15-24 year olds is still lower in Korea than in the OECD on average (10.5% and 11.1% respectively in 2018), the rate has markedly increased over the past decade. The observed increase is in contrast with other age groups, as well as with OECD trends. For the group 25-34 year olds, the unemployment rate was close to the OECD average in 2018, at 6.6% and 6.7% respectively, but higher than the 5.0% in 2007.

Figure 3.1. Young workers are less likely to have temporary contracts or to work as self-employed than their peers in OECD countries

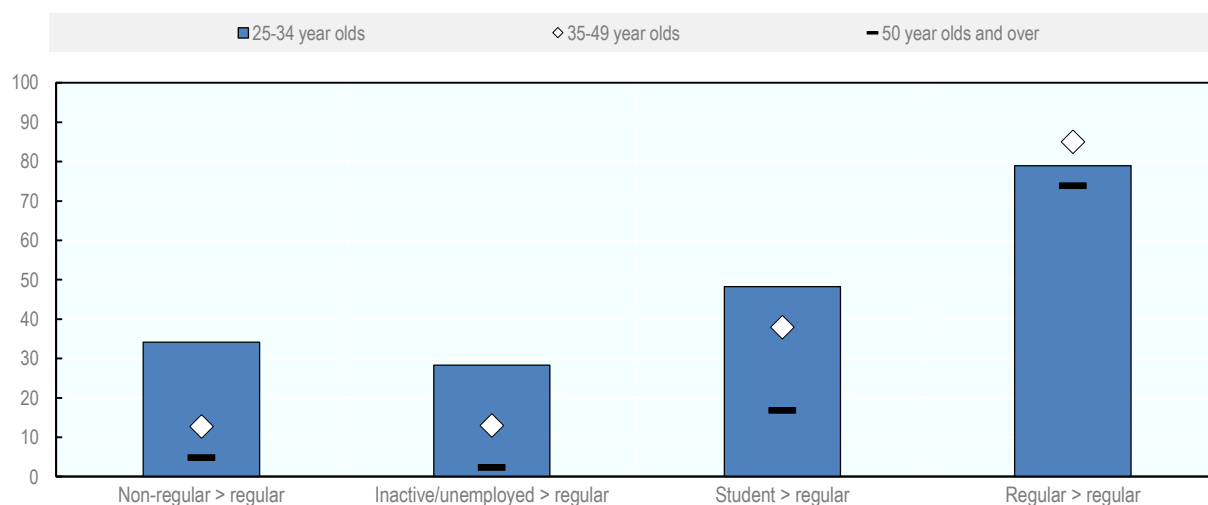


Note: Temporary employment is expressed as a share of total dependent employment and self-employment as a share of total employment. The incidence of low pay refers to the share of full-time employees and self-employed workers earning less than two-thirds of median earnings for full-time workers (working 30+ hours). OECD averages are weighted averages of all OECD countries. The OECD low pay statistic excludes Canada, Japan, Lithuania and New Zealand.

Source: OECD Labour Force Statistics for Panel A and B; and authors' calculations based on household surveys for Panel C.

Figure 3.2. Transitions from non-regular to regular jobs are frequent among youth

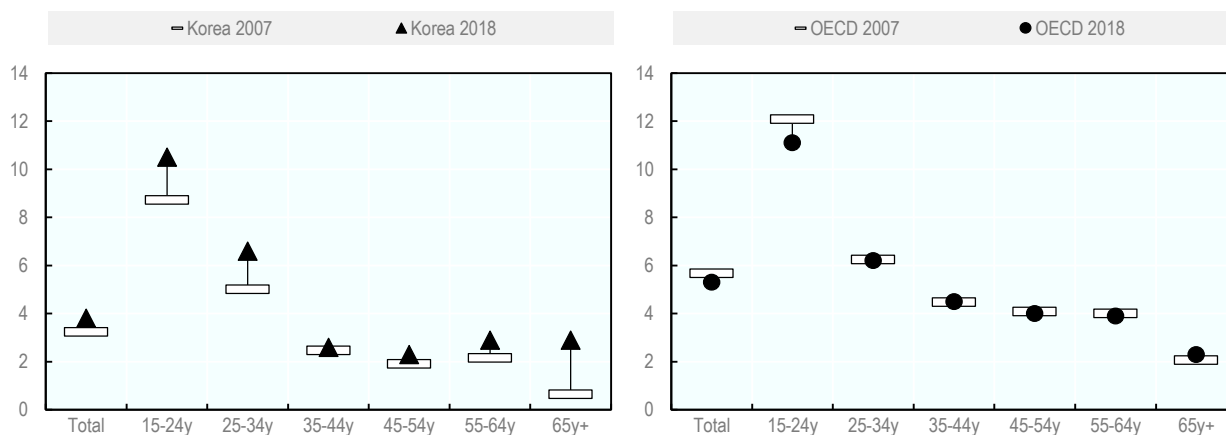
Transition rates (over a three-year span) into regular employment, by initial situation, 2005-2014



Note: A non-regular worker is defined as a person who is working but not as a permanent full-time employee.

Source: OECD calculations based on the 2005-2014 waves of the Korea Labor and Income Panel Survey (Korea Labor Institute, 2014^[5]).

Figure 3.3. Youth unemployment in Korea is still below OECD average but it is rising



Source: OECD Labour Force Statistics.

The outcomes presented in Figure 3.1-Figure 3.3 suggest that labour market conditions affect younger and older generations in different ways. Unlike older workers who may have no alternative but accepting low quality jobs, many young people can rely on family support and prefer to wait for better opportunities. Rather than accepting a non-regular job, they have the possibility to prolong their search for a good-quality job. In the meantime, they remain unemployed or continue studying.

3.2. Improving support for young people

3.2.1. OECD Action Plan for Youth

Tackling weak aggregate demand and promoting job creation through macroeconomic policies are essential for bringing down youth unemployment and giving young Koreans a better start in the labour market. However, as put forward in the OECD Action Plan for Youth that was agreed upon by OECD Ministers in 2013 (see Box 3.1 for more details), a brighter economic outlook may not solve all of the difficulties youth face in gaining access to productive and rewarding jobs; cost-effective measures addressing structural issues are also needed.

Chapter 2 already discussed the need to improve the connection between the education system and the world of work, the role and effectiveness of vocational education and training, and the quality of career guidance services to strengthen the long-term employment prospects of youth. This chapter looks at the different aspects of the Korean social welfare and activation system, with a particular focus on the wide range of measures that the Korean government has put in place in recent years. The chapter also discusses how to reshape labour market policy and institutions to facilitate access to rewarding employment and tackle social exclusion.

Box 3.1. Key elements of the OECD Action Plan for Youth

Tackle youth unemployment

- Tackle weak aggregate demand and boost job creation.
- Provide adequate income support to unemployed youth until labour market conditions improve but subject to strict mutual obligations in terms of active job search and engagement in measures to improve job readiness and employability.
- Maintain and where possible expand cost-effective active labour market measures including counselling, job-search assistance and entrepreneurship programmes, and provide more intensive assistance for the more disadvantaged youth, such as the low-skilled and those with a migrant background.
- Tackle demand-side barriers to the employment of low-skilled youth, such as high labour costs.
- Encourage employers to continue or expand quality apprenticeship and internship programmes, including through additional financial incentives if necessary.

Strengthen the long-term employment prospects of youth

- Strengthen the education system and prepare all young people for the world of work
 - Tackle and reduce school dropout and provide second-chance opportunities for those who have not completed upper secondary education level or equivalent.
 - Ensure that all youth achieve a good level of foundation and transversal skills.
 - Equip all young people with skills that are relevant for the labour market.
- Strengthen the role and effectiveness of Vocational Education and Training (VET)
 - Ensure that vocational education and training programmes provide a good level of foundation skills and provide additional assistance where necessary.
 - Ensure that VET programmes are more responsive to the needs of the labour market and provide young people with skills for which there are jobs.

- Ensure that VET programmes have strong elements of work-based learning, adopt blends of work-based and classroom learning that provide the most effective environments for learning relevant skills and enhance the quality of apprenticeships, where necessary.
- Ensure that the social partners are actively involved in developing VET programmes that are not only relevant to current labour market requirements but also promote broader employability skills.
- Assist the transition to the world of work
 - Provide appropriate work experience opportunities for all young people before they leave education.
 - Provide good quality career guidance services, backed up with high quality information about careers and labour market prospects, to help young people make better career choices.
 - Obtain the commitment of the social partners to support the effective transition of youth into work, including through the development of career pathways in specific sectors and occupations.
- Reshape labour market policy and institutions to facilitate access to employment and tackle social exclusion
 - Ensure more equal treatment in employment protection of permanent and temporary workers, and provide for reasonably long trial periods to enable employers to give youth who lack work experience a chance to prove themselves and encourage transition to regular employment.
 - Combat informal employment through a comprehensive approach.
 - For the most disadvantaged youth, intensive programmes may be required with a strong focus on remedial education, work experience and adult mentoring.

Source: OECD (2013^[6]), The OECD Action Plan for Youth: Giving Youth a Better Start in the Labour Market, Meeting of the OECD Council at Ministerial Level, 29-30 May 2013, Paris. <http://www.oecd.org/employment/Action-plan-youth.pdf>

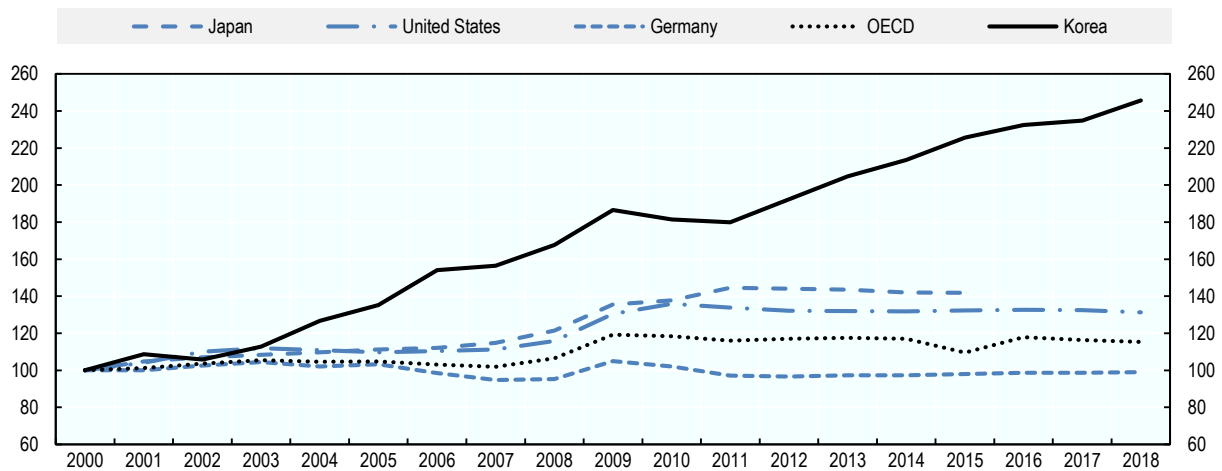
3.2.2. Small but growing welfare system

Korea has been continuously expanding public social spending over the last decades, more than doubling the share of GDP it devotes to social spending since 2000 (Figure 3.4, Panel A). The increase in Korean social expenditure outpaced that of most OECD countries and is mainly driven by pension benefits and health care services (OECD, 2018^[7]). Even so, gross public social spending remains third lowest in the OECD ranking, leaving only Chile and Mexico behind (Figure 3.4, Panel B). In 2018, the Korean government spent only 11.1% of GDP on a range of social programmes related to pensions, health, income support for the working-age population, active labour market policies and other social services. The average across OECD countries stood at 20.1% in the same year.

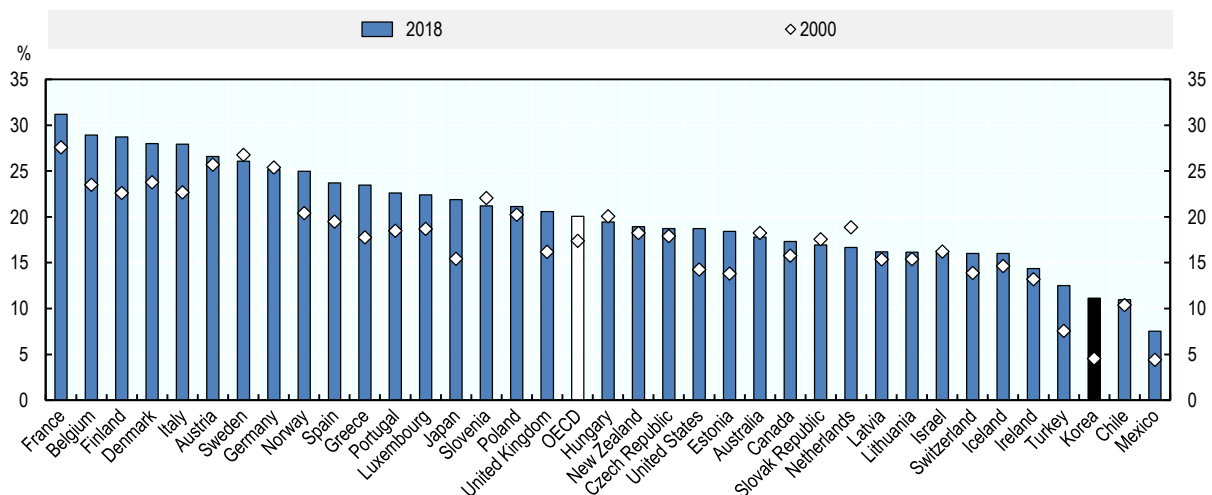
Korea's safety net for the working-age, as in many OECD countries, includes both social insurance and means-tested social assistance programmes for the very poor. Earnings-related unemployment benefits under the Employment Insurance system are available for a limited time for jobseekers with a sufficient contribution record. People in low-income households, including those who are not (or no longer) entitled to unemployment benefits, can apply for public assistance under the Basic Living Standard Programme.

Figure 3.4. Public social expenditure has been risen quickly in Korea over the past two decades, but remains low compared with other OECD countries

Panel A: Change in public social expenditure as a share of GDP, 2000-18 (2000=100)



Panel B: Total public social expenditure as a share of GDP, 2000 and 2018



Note: For some countries, the second reference year is not 2018 but the latest available year: 2015 for Japan; 2016 for Australia, Mexico and Turkey; and 2017 for Canada, Chile and Israel.

Source: OECD (2016), Social Expenditure Database (SOCX), www.oecd.org/social/expenditure.htm.

To support young adults, the Government announced in March 2018 an ambitious plan with a wide range of youth support measures (see Box 3.2 for more details). Many measures are an extension of existing ones, but there are also important new initiatives. The plan represents an important shift from indirect measures, such as subsidies for firms that hire young people, towards a stronger focus on measures that directly benefit youth, such as tax exemptions and in-work benefits.

According to government estimates, the different support measures should bring the real earnings of young people employed by SMEs closer to those working for large enterprises, hereby lowering the implications of labour market duality. However, take-up of the different programmes remains low and reaching out to eligible youth needs to be strengthened (see Section 3.2.4 below). In addition, it is important to ensure that employment support for youth does not come at the expense of older workers – such as, increased hiring of youth in the public sector thanks to early retirement of older workers – since older workers face significant employment difficulties as well (OECD, 2018^[8]). Several of the measures will be further discussed in the subsequent sections.

Box 3.2. Youth employment measures announced in 2018

In March 2018, the Korean Government unveiled an ambitious youth action plan with a wide range of economic, employment and social policy measures. The most important measures to improve youth employment and tackle youth poverty include the following:

Expanding support for young employees and their employers

1. Support for new employment
 - a. Increase in the subsidy for newly hired regular employees from KRW 20 million to KRW 30 million (about one-third of the minimum wage) over a period of three years and an extension of the coverage to include not only SMEs but also high-potential enterprises. For firms with less than 30 employees, the subsidy starts from the first newly hired employee; for firms with 30-100 employees from the second newly hired employee; and for firms with more than 100 employees from the third newly hired employee. In 2017, barely 300 youth benefited from the measures, while there were already 86 000 beneficiaries by October 2018.
 - b. Increase in the income tax exemption rate for young SME employees from 70 to 100%; an increase in the age limit from 29 to 34 years; and an increase in the duration from three to five years.
 - c. Expansion of the Earned Income Tax Credit, which provides in-work support for both salaried and non-salaried workers who earn a low income, to single youth households aged under 30 (see Section 3.2.4).
 - d. Expansion of the certification of youth-friendly business to attract youth to promising SMEs and high potential enterprises.
2. Reduction of housing and transportation expenses
 - a. Extension of the low-interest loan (at 1.2%) of up to KRW 35 million for four years for a housing deposit of KRW 50 million or less to young people aged 34 or below with an annual income of KRW 35 million and working in an SME with less than 50 employees (see Section 3.2.5).
 - b. Introduction of transportation cards worth KRW 100 thousand per month for young people working for SMEs located in industrial complexes with poor transportation access to cover for transport cost (including buses, subways and taxi). By October 2018, there were 154 000 beneficiaries.
3. Expansion of mutual-aid savings programme for youth
 - a. Newly hired SME employees who stay at least three years with the same company can accumulate KRW 30 million: own savings worth KRW 600 thousand per year + employer contribution of KRW 600 thousand (subsidised by the Employment Insurance Fund) + government contribution of KRW 1 800 thousand per year. Existing young employees need to stay for five years with the company to accumulate the same savings amount. The number of beneficiaries rose from 5 200 in 2016 to 188 700 in October 2018.

4. Employment in large enterprises and public institutions
 - a. A large enterprise can benefit from an extended tax exemption period for every young person it hires.
 - b. Increase in employment in public institutions by 5 000 persons or more through an expansion of the autonomous recruitment quota and facilitation of honorary retirement. People who formerly worked for SMEs receive preferential treatment when applying for public institutions related to SMEs.
 - c. Introduction of a mandatory youth recruitment quota (3% of total hirings) in local governments on a pilot basis.
5. Employment opportunity for soldiers
 - a. Provision of employment-linked training programme and employment support after discharge, if they decide to stay in the same region.

Promotion of business start-ups

6. Funding and administrative support for innovative start-ups
7. Tax exemptions for new start-ups for a period of five years
8. Preferential treatment for start-ups
9. Incentives for large enterprises to support start-up/venture companies

Establishment of new youth centre

10. Launch of an online youth centre to guide youth through the available youth measures
11. Creation of 17 youth hub centres in collaboration with public employment centres and other place frequented by the youth population.

Source: Government of Korea (2018^[9]), Youth Employment Measures, 2018.3.15.

3.2.3. Social safety net for young people

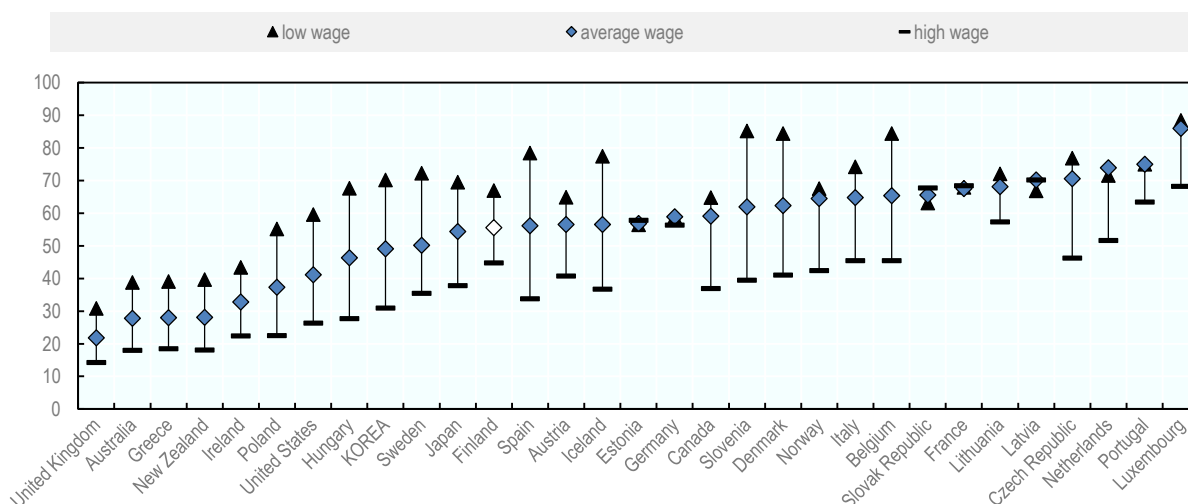
Employment Insurance is not very generous, except for low-wage youth

Unemployment benefits under the Employment Insurance system include job-seeking allowances and early re-employment allowances. Beneficiaries receive 50% of their previous average gross wage, with the minimum benefit set at 90% of the minimum wage and the maximum benefit currently fixed at KRW 50 000 per day. Those who manage to find a job quickly receive 50% of the remaining benefit as a bonus for being re-employed quickly. While the job-seeking allowance is meant to be an earnings related benefit, it has turned into a flat-rate benefit due to the yearly increases in the minimum wage. In 2018, the daily minimum benefit (KRW 47 213 in 2018) nearly reached the daily maximum benefit.

The net replacement rate for unemployed people – i.e. the ratio of net income out of work to net income while in work, taking into account cash income, social assistance and housing benefits, as well as income taxes and mandatory social security contributions – ranges in Korea from 31% for those with high previous earnings to 70% for jobseekers with low previous earnings (Figure 3.5). These net replacement rates put Korea in the lower third of the OECD ranking for average and high-wage earners and in the upper third of for low-wage earners. It should be noted that about 40% of employees in Korea aged 18-34 were low-wage earners in 2017 (defined as those earning 67% of the average wage or less), based on the Economically Active Population Survey.

Figure 3.5. Employment Insurance is not very generous, except for low-wage youth

Net replacement rates of unemployment benefits for youth previously earning 67%, 100% and 167% of the average wage, 2018



Note: The net replacement rate is the ratio of net income out of work to net income while in work. Calculations consider cash income as well as income taxes and mandatory social security contributions paid by employees. Social assistance, housing-related benefits and family benefits are included, while entitlements to severance payments are excluded. Net replacement rates are calculated for a 24-year-old worker with an uninterrupted employment record of 24 months who has been unemployed for one month. The net-replacement rates are calculated for youth with a previous earning level equal to 67%, 100% and 167% of average full-time wages.

Source: Author's own calculations using output from the OECD tax-benefit web calculator, <https://taxben.oecd.org/>.

One in three young workers are not covered by Employment Insurance

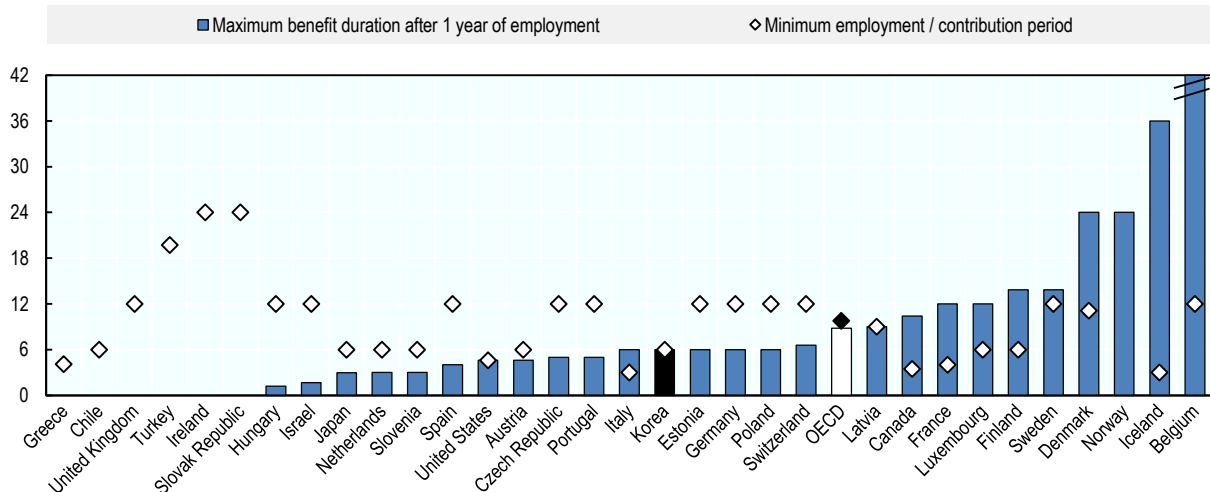
Young jobseekers are eligible for Employment Insurance, on the condition that they have been contributing for at least 180 days of during the last 18 months, are registered at an employment security office, and capable of and available for work. Unemployment must not be due to voluntary leaving, misconduct, a labour dispute, or the refusal of a suitable job offer. The minimum contribution period of 6 months is less strict than the OECD average of 9.7 months, but comparable with a group of seven other OECD countries, including Finland, Japan and the Netherlands (Figure 3.6).

The duration of benefit payments increases with age and the length of the insurance record. Youth insured for less than one year qualify for 90 days of benefits, while those who are insured for one or more years receive benefits for maximum 180 days (if aged less than 30) or 210 days (if aged 30-49). When considering a 24 year-old jobseeker who has been working and contributing for one year, Korea stands in the middle of the OECD ranking for unemployment benefit durations, next to Italy and Germany (Figure 3.6).

While the Employment Insurance scheme includes most salaried workers on a mandatory basis, the coverage among youth remains low in reality. According to data from the Economically Active Population Survey, more than one out of three 15-29 year-old workers did not have access to an unemployment safety net in 2017 (Figure 3.7). About 9% of young workers were excluded from the scheme by definition, like self-employed and unpaid family workers, but about 27% of 15-29 year-old workers should have been enrolled and they were not. Many of them are working in very small businesses with less than five employees.

Figure 3.6. The minimum contribution period for unemployment benefits is rather short in Korea, while the maximum benefit duration ranks in the middle among OECD countries

Minimum employment / contribution period and maximum duration of unemployment insurance benefits for a 24-year-old, in months, 2017



Note: In Greece, Ireland, the Slovak Republic, Turkey, and the United Kingdom, 24-year-olds with a contribution record of one year do not qualify for unemployment insurance benefits. There is no maximum benefit duration in Belgium. Norway has no minimum contribution period but a minimum earnings requirement. No maximum benefit duration applies in Chile. Results for the United States are for the State of Michigan. No results are available for Mexico. There are no unemployment insurance schemes in Australia and New Zealand.

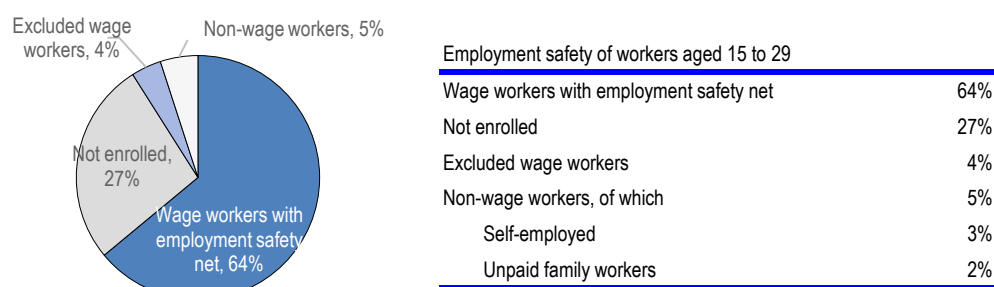
Source: Compiled using "Benefits and Wages: Country Specific Information" on www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm.

To improve access to unemployment insurance among young workers, better enforcement of the legislation is crucial. Several strategies to strengthen compliance are proposed in the recently published OECD report *Connecting People with Jobs: Towards Better Social and Employment Security in Korea* (OECD, 2018^[7]), including: 1) an expansion of the resources of the relevant monitoring authorities to observe and sanction offending employers; 2) an increase in the penalties as they are currently too low to be considered a real deterrent; and 3) a promotion and rigorous application of the arbitration procedure through which non-insured workers can claim Employment Insurance entitlements.

Korea may also want to expand eligibility for Employment Insurance to voluntary job leavers, to support young workers who are stuck in low-quality jobs and who need time and assistance to find a better job. The full exclusion of voluntary job leavers in Korea is rather strict compared with many other OECD countries. Many countries apply suspensions (i.e. delay of the start of benefit payment) or a sanction period (i.e. fixed-term waiting period subtracted from the overall entitlement period) (Table 3.1). Such penalties are usually justified because they discourage workers from leaving their job in favour of benefits, to combat misuse of the system. In practice, disqualification may force young people to stay in low-quality jobs out of necessity. Korea could consider a suspension or sanction period for voluntary job leavers rather than full disqualification. Most OECD countries see benefit sanctions or suspensions of a certain period as a viable enough solution for encouraging job mobility while ensuring income and employment support for those who may need it.

Figure 3.7. More than one in three young workers are not covered by Employment Insurance

Share of workers aged 15-29 with and without employment safety net as a percentage of employed youth, 2017



Source: Supplementary results of the Economically Active Population Survey by employment type, Statistics Korea.

Table 3.1. Penalties for voluntary unemployment differ among OECD countries

Penalties issued for voluntary unemployment in OECD countries, 2014

No impact	Suspension	Sanction	Disqualification
Hungary	Austria	Australia	Canada
Slovak Republic	Denmark	Belgium	Chile
	Germany	Czech Republic	Estonia
	Latvia	Finland	Greece
	Suspension	France	Italy
	Poland	Iceland	Korea
	Switzerland	Ireland	Luxembourg
	Sweden	Israel	Mexico
		Japan	Netherlands
		New Zealand	Portugal
		United Kingdom	Slovenia
			Spain
			Turkey
			United States

Source: Adapted from Langenbucher, K. (2015), "How demanding are eligibility criteria for unemployment benefits, quantitative indicators for OECD and EU countries", *OECD Social, Employment and Migration Working Papers*, No. 166, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5jrxtk1zw8f2-en>

In addition, incorporating non-standards forms of employment in the Employment Insurance scheme could narrow the scope for companies to opt for contractual arrangements that evade social contributions, such as contract workers or home workers, who are typically doing the same work as employed workers do, but without access to Employment Insurance. Several OECD countries have taken steps to extend social protection coverage to non-standards workers. For instance, Austria gradually integrated independent contractors, a hybrid between self-employment and dependent employment, into the general social protection system, whereas Italy gradually increased their social security contributions (see Box 3.3 for further details).

Box 3.3. Ensuring social protection for non-standard workers

In Austria, independent contractors control their own working time and workflow but are contracted for their time and effort. Concerns that employers might use this form of employment to evade the compulsory social protection system drove their gradual integration into the social security system. Since 2008, independent contractors are liable for the same (employer and employee) social security contributions as standard employees. While their number had been steadily growing until early 2007, it began to fall following the reform's announcement and was at its all-time low in 2016.

In Italy, para-subordinate workers are self-employed, but highly dependent on one or very few clients. They used to pay lower pension contribution rates and were not covered for unemployment or sickness benefits. In response to their growing numbers, Italy gradually increased their social security contribution rates (and thus welfare guarantees) until they reached the contribution rate of employees. As a result, the number of para-subordinate workers nearly halved between 2007 and 2016. The government also introduced other measures to reduce the attractiveness of para-subordinate arrangements, including a tightening of the para-subordinate regulation (2012) and the abolition of certain types of para-subordinate arrangements (2015). Measures to persuade employers to hire workers on permanent contracts – such as a significant reduction in employer social security contributions for new hires through the 2015 Jobs Act – further contributed to the decline in para-subordinate contracts.

Source: OECD (2018^[10]), *The Future of Social Protection: What Works for Non-Standard Workers?*, OECD Publishing, Paris. <https://doi.org/10.1787/9789264306943-en>

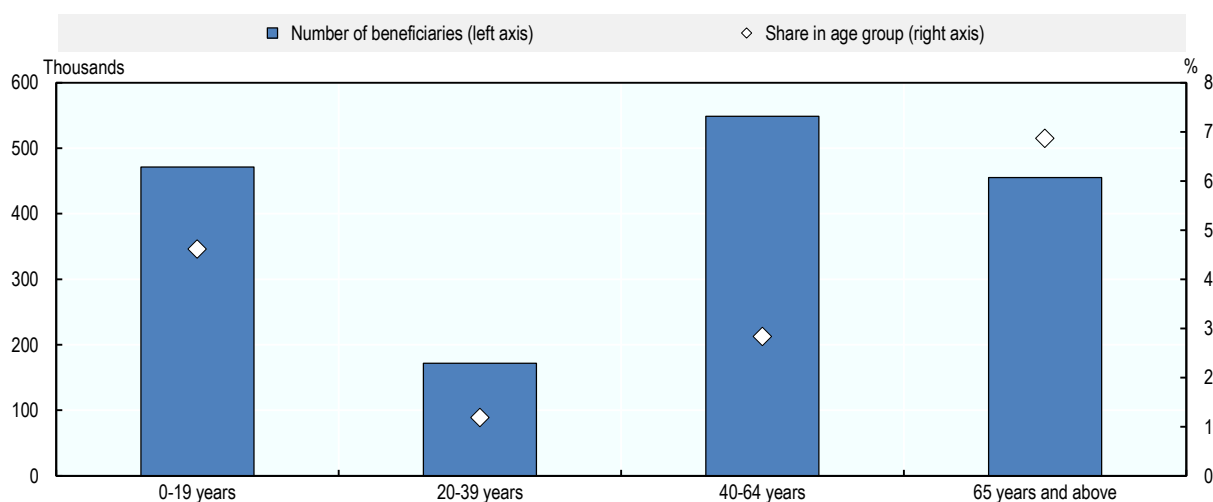
Support provided by social assistance is very restricted

The Basic Livelihood Security Programme (BLSP) is a comprehensive means-tested social assistance programme in Korea, providing various cash benefits to eligible persons living in absolute poverty (including a living benefit, housing benefit, medical benefit, education benefit, child-birth benefit, funeral benefit and self-support benefit). However, strict income requirements and family support obligations keep the caseload of the Basic Livelihood Security Programme very low. In particular, the family requirement implies that applicants cannot receive benefits if they have a close family member (child, spouse or parent) capable of supporting them. Yet, eligibility does not depend on whether such family support is actually provided. Both assets and income are taken into account to measure the capacity of family support. As a result, barely 1% of the age group 20-39 benefited from the programme in 2015 (Figure 3.8). The coverage is higher for other age groups, but remains very limited overall.

In addition, youth who have to rely on the Basic Livelihood Security Programme find their income considerably below the poverty threshold (defined as 50% of median household income). Taking cash housing benefit entitlements into account, their maximum disposable income reaches about 36% of median household income. Even so, this outcome is not very different from many other countries as shown by the 2018 estimates based on the OECD tax and benefit model, where Korea ranks in the upper half among OECD countries for benefit generosity for single persons (Figure 3.9).

Figure 3.8. Very few young adults receive public assistance

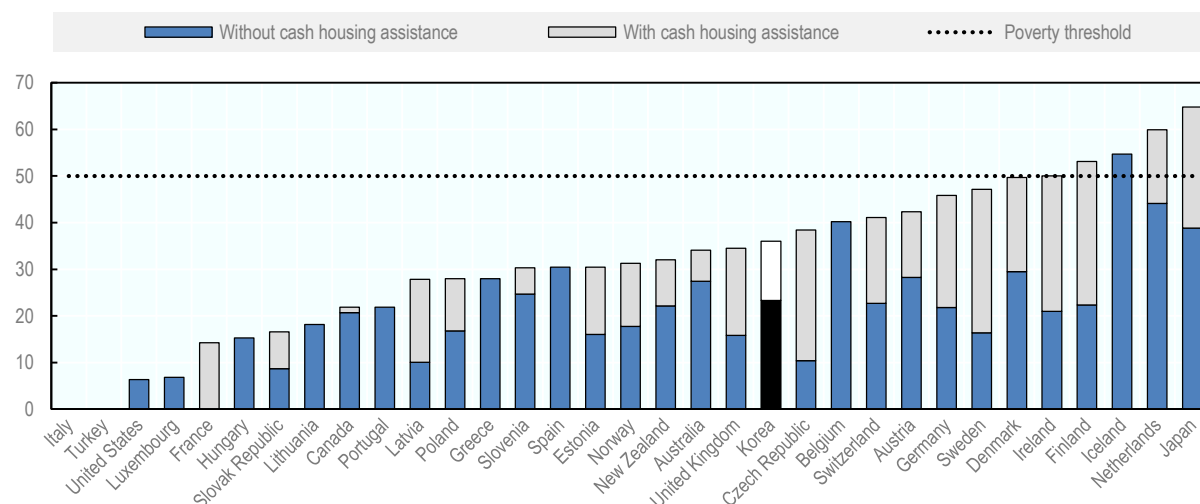
Beneficiaries of the Basic Living Standard Programme by age group, total and as share of the age group, 2015



Source: Data provided by the Ministry of Health and Welfare; UN Data, UNSD Demographic Statistics (<http://data.un.org>).

Figure 3.9. Social assistance benefits are comparable with OECD countries, but leave youth in poverty

Net income value of social assistance payments and cash housing assistance for a single person in percent of median household incomes, 2018



Note: Median net household incomes are based on the Income Distribution Database, expressed in current prices and are before housing costs (or other forms of “committed” expenditure). Results are shown on an equivalised basis and account for social assistance, family benefits and housing-related cash support, net of any income taxes and social contributions. US results include the value of Food Stamps, a near-cash benefit. Where benefit rules are not determined on a national level but vary by region or municipality, results refer to a “typical” case (e.g. Michigan in the United States, the capital in some other countries). In countries where housing benefits depend on actual housing expenditure, the calculation represents cash benefits for someone in privately-rented accommodation with rent plus charges equal to 20% of the average gross full-time wage.

Source: Author’s own calculations using output from the OECD tax-benefit web calculator, <https://taxben.oecd.org/>.

A better social safety net for young adults is needed

Overall, the Korean social security system provides rather limited protection to youth without a job. For many young adults, unemployment entails no entitlement to income support. Under such circumstances, they are compelled to accept any available job as quickly as possible, which contributes to the enduring existence of poor-quality jobs and the persistent fragmentation of the labour market.

The 2018 youth action plan of the Korean government (presented in Box 3.2) mainly focuses on measures for employed youth, but includes little for those young people who are unemployed. To improve the social safety net for youth, Korea could in the first place expand the coverage of Employment Insurance to voluntary job leavers and non-standard workers and should better enforce Employment Insurance regulations. In addition, there is a need to ease access to the Basic Livelihood Security Programme through the abolishment of the family support obligation. While the government excludes since 2019 the family support obligation for the living benefit and health benefit to the households of the lower 70% of the income distribution with household members aged 65 or above or a severely disabled person, the government could go further and phase out completely the family support obligation. Abolishing this rule would bring Korea more in line with other OECD countries in terms of social assistance coverage (OECD, 2018^[7]).

3.2.4. Effective employment support but with narrow reach

Customised activation support needs to be further expanded

The government introduced the Employment Success Package Programme in 2009 to provide customised job-search support for jobseekers as well as training to improve their employability. Various flat-rate allowances are offered as a motivation to participate in the programme and as a reward for having found a job. While public employment centres serve low-income and disadvantaged groups, private providers are subcontracted for youth.

The activation strategy of this programme is in line with best practices in OECD countries and includes frequent face-to-face counselling, customised interventions, strong user involvement and a strong degree of flexibility in the type and timing of interventions. The programme also has a good balance of incentives and requirements for participants.

Because of these strong features, nearly all participants complete the programme and the majority finds a job – 86.8% in the youth group (Table 3.2). Most jobs come with Employment Insurance coverage (89.9% for youth), even though only 53% of the young people who found a job through the programme earn more than 60% of the median income. While this share may seem low, the share of youth earning more than 60% of the median income in the total youth working population is not much higher, at 64% in 2017.

An in-depth evaluation by Lee et al. (2016^[11]) shows that the positive employment outcomes of the Employment Success Package Programme are maintained in the long term. Three years down the road, the employment rate of young participants is considerably higher (67%) than that of non-participants (51%). Lee and co-authors also show how the effectiveness of the programme increased over time at a time when labour market conditions worsened for young people, suggesting that the quality of service provision has been improving.

Over a period of six years, the number of participants multiplied by thirty, from 10 000 in 2009 to 300 000 in 2015, as did the budget, reaching KRW 217 billion in 2015. Young jobseekers under 35 years accounted for about 45% of all participants in the programme (Table 3.2). However, they represent only one-fourth of the total number of unemployed youth in Korea (534 000 in 2015).

Table 3.2. The Employment Success Package Programme reaches high employment rates, but job quality is rather low

Participants in the Employment Success Package Programme, programme completion, post-programme employment and employment retention, Employment Insurance coverage and low-wage prevalence, 2015

	Participants (units)	Programme completion	Post-participation employment rate	Share of employed insured by EI	3-month employment retention	6-month employment retention	Share of employed earning KRW 1.5 million or more
Percentages							
Young people	133 472	99.0	86.8	89.9	79.2	64.3	53.0
Mature people	24 599	99.1	82.1	85.8	79.1	64.5	43.3
Low-income people	137 332	98.4	78.3	79.3	78.9	64.3	43.7
Total	295 403	98.7	82.5	84.9	79.1	64.3	48.3

Source: Administrative data provided by the Ministry of Employment and Labor.

Better and more proactive outreach to non-participants is necessary to improve the reach of employment support. A similar conclusion of low take-up holds for many of the youth policy measures that are part of the 2018 youth action plan of the Korean government. The government is aware of the need to better promote youth measures and launched an online youth centre to guide youth through the available youth measures. They also announced the creation of 17 youth hub centres in collaboration with public employment centres and other places frequented by the youth population (see Box 3.2). These initiatives are in line with good practices in other OECD countries. Other options for reaching out to unregistered youth are presented in Box 3.4, which could provide inspiration for additional outreach measures.

Box 3.4. Policy options to reach out to unemployed and inactive youth

Youth outreach workers

Youth outreach workers meet, engage and build relationships with young people, often focussing on the hardest-to-reach. Their aim is to help them find solutions to practical problems and barriers to labour market integration and create pathways to employment. Austria, Belgium, Ireland, Finland, Sweden and the United Kingdom all work with youth outreach workers.

One-stop shops

One-stop shops or single-point services bring together a range of services into one place. They tend to be located in community settings and make it easier for youth to navigate the system instead of having to deal with a myriad of different services, each with their own paperwork requirements. Denmark, Germany and Finland have set up such one-stop shops for youth.

Mobile employment services for youth

Mobile employment services, like in Estonia and Germany, can move there where those in need of services are located, such as young people in rural areas. They also make it easier to reach many people at once, i.e. at job fairs or in universities. However, since they can be costly in terms of travel and staff time, employment services should make sure they reach a critical mass needed to justify the service. Partnerships with local actors with up-to-date local information are therefore crucial.

Proactive collaboration between the education sector and employment services

Employment services can support schools and universities to give career advice, raise young people's awareness of available employment services, and spot at-risk youth early. When limited staff resources

prevent employment services from working with individual institutions, they can co-develop curricula and other support material for career counsellors, develop an inter-institutional tracking and reporting system to identify students at risk of drop-out, or provide information about apprenticeships or internships. Norway and Japan offer good examples for such collaboration.

Use of internet and social media

Social networks can provide an accessible and powerful toolkit for employment services to promote and highlight services that affect all young people, especially unemployed and inactive youth. Digital services can be quickly updated, tailored for young people in terms of content and language and they can be a cost-effective way to reach large numbers of young people for minimal cost. OECD countries that use social media for outreach are Belgium, Italy, Spain and Portugal.

Job fairs and other events

Job fairs offer employment services and their partners the opportunity to present what services are available and raise young people's awareness of the services they are eligible for.

Collaboration with non-governmental actors

A number of countries, e.g. Australia, run active outreach strategies that draw on the services of non-governmental institutions. While public authorities may struggle to track disengaged youth, they may still go to the local youth centre or sports club. A tight network of non-governmental youth activity providers can therefore be helpful in preventing young people who do not regularly engage in education or work from disconnecting entirely.

Sources: OECD (2016^[12]) and European Commission (2015^[13]).

The main challenge of the Employment Success Package programme is maintaining the high quality of its services while expanding its capacity. The private employment service market, the main provider of employment services for youth in the Employment Success Package Programme, is still developing. Agencies tend to be very small and low-performing providers can relatively easily remain in the market. According to Kil (2017^[14]), the average staff number of job placement service providers was only 2.8 persons in 2015 and only 12% of them had five employees or more. OECD (2018^[7]) reports that only 11 out of 333 private agencies lost their contract in 2017. Because of relatively low wages, there is also a high turnover among counsellors in private agencies.

Further adjustments to the quality assurance framework may be needed to ensure better service provision. Like in Australia, Korea has an elaborated rating system that evaluates the performance of private agencies, with a strong focus on sustainable employment outcomes. Even so, there seems to be considerable room for a stricter quality assessment and contract termination for poorly performing service providers. The performance of private providers could also be published online to guide jobseekers to the best-performing providers. For instance, Australia measures private providers' relative performance on a continuous basis and publishes the Star Ratings online on quarterly basis. They serve as an important reference for jobseekers when choosing a provider. Possibly, proactive outreach could also become an element in the performance evaluation of private employment services to give them incentives to develop outreach strategies and actively search for unemployed and inactive youth.

To encourage private providers to develop more specialised competencies and expand their services, it will be necessary to offer contracts lasting longer than the current one-year timeframe. Australia and the United Kingdom, the two OECD countries that have gone furthest in subcontracting and privatising its employment services, also gradually extended the duration of service contracts to assure longer-term investments by providers. Australia now offers contracts for six years, instead of the initial three-year period.

In-work benefits are now available for youth

As in several OECD countries, Korea has an income tax credit scheme in place to top-up the earnings of low-income workers and address in-work poverty. This type of schemes has a major advantage over more traditional social transfers: they do not only redistribute resources to low-income families, they also make employment more attractive for workers with low earnings potentials, since the credit is conditional on having a job.

The Earned Income Tax Credit in Korea provides in-work support for both salaried and non-salaried workers who earn a low income. The credit was introduced in 2008 to support low-income workers and their families and was step-wise expanded to include additional population groups. Since the beginning of 2019, young people under age 30 are also eligible and estimations suggest that 157 000 young people will be able to benefit from the tax credit, accounting for 4.3% of all employed 20-to-29 year olds. In total, 1.9 million households benefited from the Earned Income Tax Credit in 2017, of which two-thirds are headed by a person aged 50 or more (OECD, 2018^[8]).

A recent tax reform increased the maximum tax credit for single-person households from KRW 0.85 million to KRW 1.5 million and from KRW 2.5 million to KRW 3 million for double-income households. As a result, the Korean tax credit is among the more generous systems in the OECD, similar to France and Finland (Table 3.3). In regard to the wage level at which in-work benefits are phased out, Korea ranks in the middle of OECD countries.

Table 3.3. Korea has rather generous in-work benefits

Maximum benefit amounts and phase-out levels for in-work benefits for single persons without children, as a percentage of average wages, 2018

	Maximum benefit	Benefit phased out at
United Kingdom	7.9	37
Sweden	6.7	373
France	4.3	-
Korea	4.2	59
Finland	3.7	306
Canada	1.6	25
United States	0.9	25
New Zealand	0.8	80
Chile	0.3	71

Note: Data refer to 2019 for Korea and to 2018 for the other countries. Average wages of 2017 are used to calculate the percentages. Other OECD countries have no in-work benefits at all or young people without children are not eligible.

Source: Author's own calculations using output from the OECD tax-benefit country profiles provided at <http://www.oecd.org/social/benefits-and-wages/>.

Given the rapid expansion of the system, it will be important to evaluate the effectiveness of the system, in particular with respect to the impact on labour supply as well as the take-up among eligible (young) people. Evaluation studies are rare but overall suggest a positive impact on labour supply, especially among the lowest-income households at the phase-in range of the tax benefit (Shin and Song, 2018^[15]). There is also a risk that in-work benefits incentivise employers to offer lower wages as employees are effectively subsidised by taxpayers. While the strong increase in the minimum wage recently acts as a decent wage floor, it may be worth to evaluate the overall impact of the Earned Income Tax Credit on employment and in-work poverty.

3.2.5. Housing support targeted at youth

Korea has relatively good housing outcomes in an international context. Housing prices in Korea have been rather stable in the last few years, rising at less than 1% annually since 2013 (adjusted for inflation), in contrast to sizeable increases elsewhere in the OECD area, including the United States and the Euro area (OECD, 2018^[16]). There is a perception that housing prices are too high relative to income, but housing in Korea does not seem less affordable than in most other countries: the house price-income ratio is comparable with many OECD countries (Kim and Park, 2016^[17]), and Seoul is not among the most expensive metropolitan cities in the world (Demographia, 2015^[18]). Final housing expenditure in Korea (18.3%) is also amongst the lowest in the OECD area (with an average of 22%) (OECD, 2018^[19]).

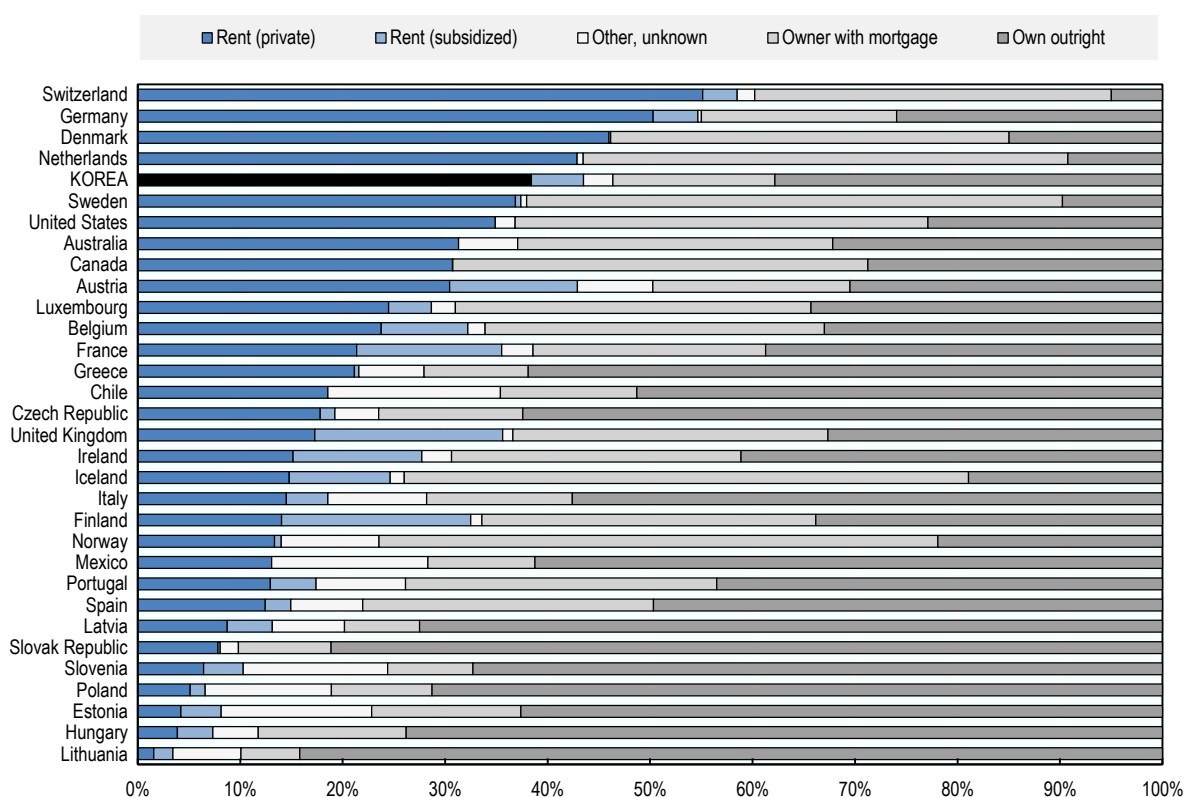
Nevertheless, to support young adults in an economic climate with increasing employment insecurity and instability, the Korean government recently expanded the target groups for its housing policies to include young people (Seo and Joo, 2018^[20]). As in other OECD countries, housing policy in Korea comprises a wide and complex mix of programmes, including homeownership subsidies, housing allowances, social rental housing and rental support and regulation. Housing policy remains largely in the hand of the national government, but local governments are becoming creative suppliers of public housing that is more customized to the local context (Seo and Joo, 2018^[20]). The most important policies directed at the young generation include subsidised public housing (*Happy Housing*) and rental support for the private market.

The programme “Happy Housing” was initiated in 2013 and aims to enhance housing welfare for the young adult generation, whom tend to be excluded from public assistance because they are young, do not have dependent family members to support, and are capable of engaging in economic activities and providing for themselves. The reasoning behind the policy is that high housing prices and rental burdens in urban areas make it difficult for young people to get married and move up to the next life stage, hereby aggravating the country’s social challenges of low fertility and ageing population. By giving young adults the opportunity to temporarily reside in public rental housing with low rental costs, the government hopes that they can accumulate assets to move upward to a better housing situation at a later stage. The Happy Housing programme targets single college students, single workers who started working within the past five years, and couples who married within the past five years. The lease period is set at six years, but can be extended up to ten years if single occupants get married or newlyweds bear two children (Seo and Joo, 2018^[20]). The 2017 Housing Welfare Roadmap foresees 300 000 rooms for young people and 200 000 units for newly-weds.

In addition to public rental housing, the government also supports the young generation in the private rental market, which is one of the largest in the OECD area, with 38.4% of the households renting in the private market, compared with 21.5% in the OECD on average (Figure 3.10). The Korean private rental market is complex, with three co-existing systems: jeonsei rental contracts, monthly rentals with deposit, and monthly rentals without deposit. For many years, the dominant rental lease in the housing market was jeonsei, an asset-based lease (see Box 3.5 for a description). Evidence from the 2012 Korea Housing Survey revealed that, among households headed by 20-to-34 year olds renting in the private market, 47.0% of all contracts were jeonsei contracts, 45.5% monthly rentals with deposits, and 7.5% monthly rentals without deposit (Lee, 2015^[21]).

Figure 3.10. Most people in Korea rent on the private market

Share of households in different tenure types, in percent, 2014



Note: Tenants renting at subsidized rent are lumped together with tenants renting at private rent in Australia, Canada, Chile, Denmark, Mexico, the Netherlands and the United States, and are not capturing the full extent of coverage in Sweden due to data limitations. Data for Canada refer to 2011 and for Chile to 2013.

Source: OECD Affordable Housing Database, <http://www.oecd.org/social/affordable-housing-database.htm>.

Box 3.5. Jeonsei rental contract system

The jeonsei (or chonsei) rental system is unique to Korea, where a tenant pays, instead of monthly rent, a lump sum deposit (equivalent to 40–60% of the house price), which is fully returned when the contract is terminated. This rental system worked largely because, amid high economic growth and interest rates, landlords were able to earn more from the interest coming from the deposit than from the monthly rent. Landlords also favoured jeonsei because it spared them from the cumbersome rent collection and possible risk of tenants defaulting on the rent payment since the lump sum deposit acts as a buffer. With the recent slowdown in economic growth and lower interest rates, many landlords have been converting their units from jeonsei rental to monthly rental.

With interest rates falling to record lows, jeonsei contracts have become economically unviable for landlords, who prefer monthly rentals contracts because of the larger cash flows. The lower offer of jeonsei contracts has led to a shortage of houses available on jeonsei contracts and a more than doubling of the required deposit amount between 2006 and 2016 (OECD, 2018_[19]). As a result, the share of jeonsei in total rental lease contracts (for all age groups) dropped from 67% in 2011 to 56% in 2015 (Kim and Park, 2016_[17]). To support young people to access jeonsei contracts, the government decided to offer low-

interest loans (at 1.2%) of up to KRW 35 million for four years for a housing deposit of KRW 50 million or less to young people aged 34 or below with an annual income of KRW 35 million and working in an SME with less than 50 employees (see Box 3.2).

However, given the high jeonse amounts and the lack of interest of landlords in the jeonse system, the question is whether such support is the best strategy to help young people in the housing market. With an average jeonse deposit in Seoul metropolitan area of KRW 150 million in 2016 (OECD, 2018^[19]), the low-interest loans offered by the government are not really an interesting offer for young people as they are restricted to housing deposits of KRW 50 million or less. Since the jeonse system is no longer a viable option for landlords, it might be more realistic to allow the rental market to move away from the jeonse system to a system of monthly rentals with deposit as in most other OECD countries. The government could then support young people through other means, such as housing allowances and rental market regulation.

For instance, Korea could introduce a scheme of temporary housing allowances for young people to facilitate their climb up the housing ladder. Compared with social rental housing, housing allowances have fewer distortion effects on residential and labour mobility (Salvi del Pero et al., 2016^[22]). They can also improve equity in access to the subsidy for eligible households, if designed as entitlements, as they are more easily withdrawn from households above eligibility limits without necessarily imposing relocation to the receiving household. However, the implementation of housing allowances should be done carefully, as they might be captured by higher rental prices. The phasing out of housing allowances, and their interaction with taxes, should also be monitored carefully, to avoid benefit traps when increasing working hours or moving into higher-paid employment.

In addition, Korea's private rental market requires better regulation to protect private renters. The private rental market is largely operated by individual unregistered landlords (OECD, 2018^[19]). In many OECD countries, government involvement in the private rental market includes rent regulation, tenancy protection, tax relief on paid rent for tenants and other aspects of tenancy law (Salvi del Pero et al., 2016^[22]). Tenancy law and quality standard regulations are important to ensure access to good-quality housing through the private rental sector. Housing literacy education should also be provided for those entering the private rental market for the first time, to enhance their awareness of legal requirements on lease contracts, obligations and responsibility, and the rights of tenants and landlords, so that they can be prepared for unexpected situations.

Finally, inadequate access to housing loans has been a stumbling block preventing low and middle-income people from owning a home in Korea (OECD, 2018^[19]). Rather than restricting or tightening credit access, Korea may wish to adopt safe and sustainable mortgage options for young people. These measures should be accompanied by carefully designed regulatory oversight and prudent banking regulations.

3.3. Addressing labour market duality

The previous sections focussed on the social welfare and activation policies that Korea has in place to support young people. To improve youth labour market outcomes in the medium and long term, structural barriers to youth entering productive and rewarding jobs must be addressed as well. The following two sections explore the role of employment protection legislation as well as the polarisation in the product market.

3.3.1. *Balanced employment protection legislation*

OECD research has shown that a balanced employment protection for permanent and temporary workers can enable employers to judge the vocational aptitudes and abilities of youth who lack work experience and encourage transition to regular employment (OECD, 2013^[6]). In contrast, strict and uncertain

procedures concerning the firing of permanent workers along with high severance payments tend to make employers reluctant to hire youth on an open-ended contract. When strict procedures for regular workers are combined with easy-to-use temporary contracts, employers tend to hire inexperienced young people mostly on temporary contracts. While short-term contractual arrangements often represent a stepping stone into more stable employment, there is a real risk that they may become traps when the gap in the degree of employment protection and non-wage costs between temporary and permanent contracts is wide (OECD, 2018^[23]). Balancing the protection offered by different types of contracts tend to have positive effects for low-skilled or inexperienced workers, and youth are often among the main beneficiaries.

The Korean labour market used to be characterised by high levels of employment protection for regular workers and very restrictive rules for temporary work. In response to the Asian financial crisis of 1997, the government considerably liberalised both regular and temporary employment through a number of economic reforms (Ha and Lee, 2013^[2]). While overall employment rates quickly recovered, the quality of employment deteriorated for an increasing number of non-regular workers and the labour market duality deepened (Cho and Keum, 2009^[24]; Shin, 2013^[25]).

The Korean government has undertaken numerous reforms to address the resulting labour market duality. In particular, employment protection for the different types of non-regular workers has been improved by limiting the accumulation of fixed-term contracts and prohibiting discrimination (see OECD (2016^[26]) for an overview). The OECD employment protection legislation index reveals that regulations for temporary employment in Korea are now stronger than in the average OECD country (Figure 3.11, Panel B), whereas the regulations for regular workers are less strict than the average OECD index (Figure 3.11, Panel A). For the latter group, Korean regulations tend to be relatively rigid for individual dismissals, while the regulations for mass dismissals are more flexible.

Overall, the reforms have been paying off and the incidence of temporary employment has been gradually decreasing. The decrease occurred across different types of contracts and age groups, including among the 15-to-29-year olds (Figure 3.12). Only among older workers, aged 55 and over, the share of both fixed-term workers and dispatched workers increased between 2007 and 2017, a topic that has been discussed at length in the report *Working Better with Age: Korea* (OECD, 2018^[8]). The suggestions of the review to improve employment policies and employer practices towards older workers could also benefit younger workers, such as the proposal to restrict the scope for using lawful in-house subcontracting and the need to reduce the uncertainty surrounding dismissal costs.

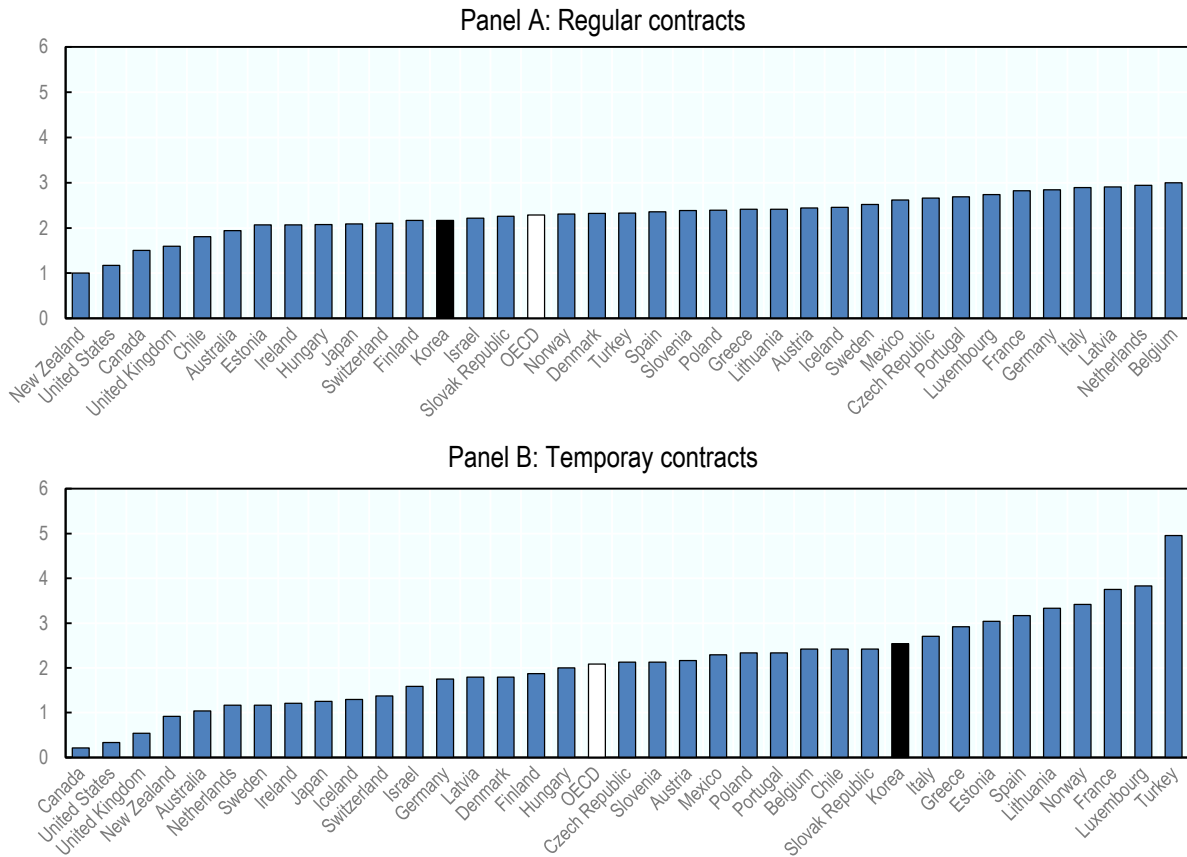
3.3.2. Segmented product market

Large differences in employment conditions across Korean workers are not only related to employment regulations, but also the result of growing dispersion in the performance of firms and the employment conditions they are able to offer (Schauer, 2018^[4]). Also other factors, such as insider-outsider dynamics (related to strong labour unions in large companies) and global trends of globalisation and technological progress, further contribute to labour market duality. The latter trends are not unique to Korea, but have a polarising effect on the labour markets in many OECD countries (OECD, 2019^[27]).

Korea's large business groups have played a key role in the country's rapid economic development over the past half century and they remain leading players, with the top 30 groups accounting for about two-thirds of shipments in Korea's manufacturing and mining sector and a quarter of sales in services. Despite their important contributions to Korea's economic development, the powerful role of the large business groups and their presence in a wide range of business lines stifle the establishment and growth of SMEs and polarise the country economically and socially. Productivity in SMEs in manufacturing has fallen to less than one-third of that in large firms, resulting in wide wage dispersion between SMEs and large firms (OECD, 2018^[16]). Low productivity and wage levels in SMEs discourage young people from accepting jobs at smaller companies, leading to fierce competition for jobs in large business groups and over-investment in tertiary education (see Chapter 2).

Figure 3.11. Korea has strong regulations for temporary contracts

Index of protection against individual and collective dismissals in OECD countries, 2013
(0=no regulation; 6=detailed regulation)



Note: The reference year is 2014 for Slovenia and the United Kingdom and 2015 for Lithuania.

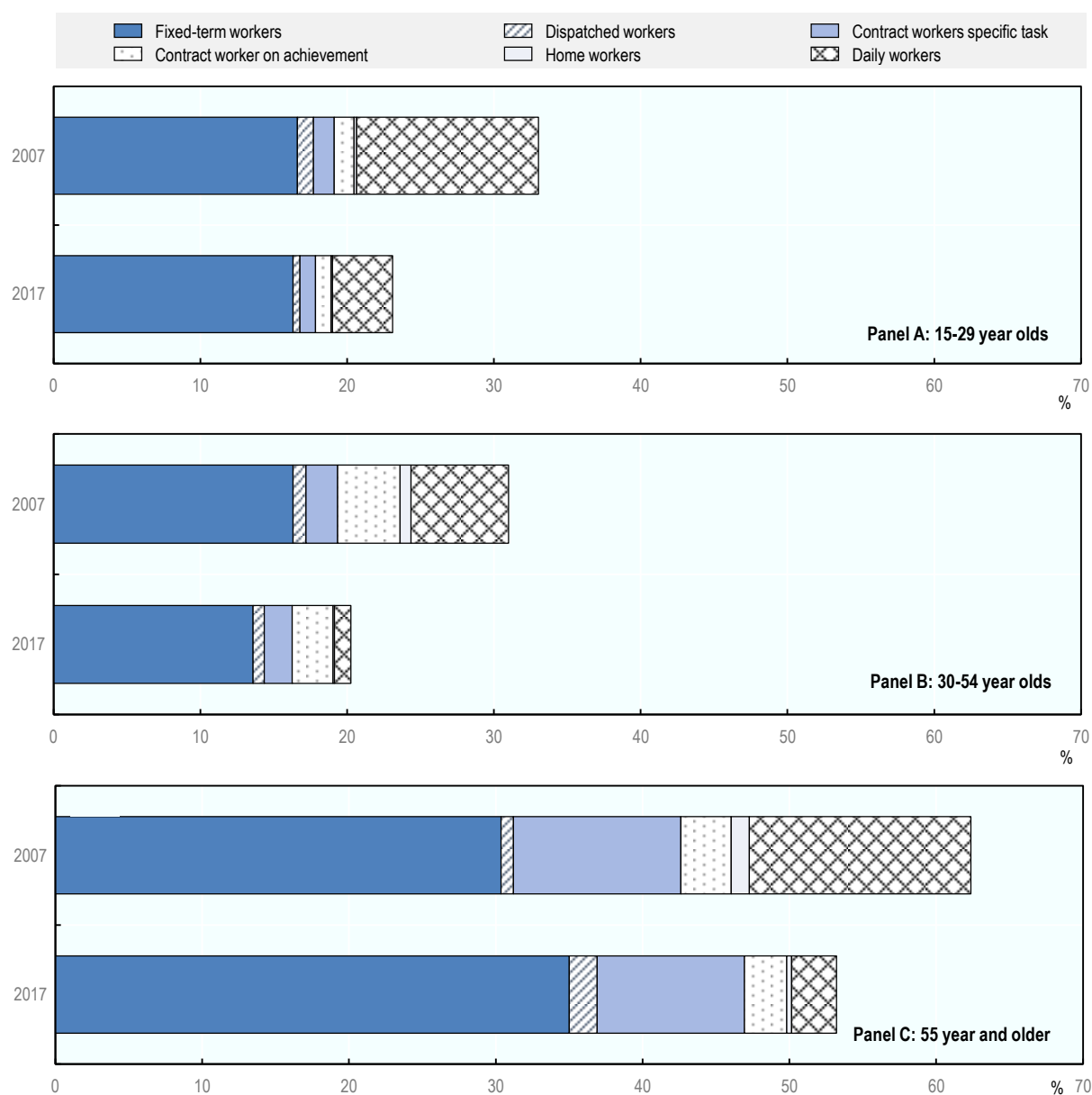
Source: OECD Employment Protection Database, <http://dx.doi.org/10.1787/lfs-epl-data-en>.

Only few young people work for a large company, but those who do, tend to have higher wages than those working in small companies. In 2017, only 10.5% of youth aged 15 to 29 years worked in a company with more than 300 employees according to the Economically Active Population Survey (Figure 3.13). The share is slightly higher among prime-age workers, where 11.6% work in a large company, but much lower among older workers. The vast majority of youth work in micro firms with 1 to 9 employees (42.9%) or firms with 10-99 employees (37.4%).

The wage premium in large firms is considerable. Among 15-29 year olds, wages tend to be 50% higher in firms with 300 employees and more compared with micro firms (1-9 employees). The earnings gap between small and large firms rises with age, reaching 140% among 55-64 year olds (Figure 3.14). However, as explained in Chapter 1, the concentration of more educated young people in larger enterprises does not explain most of their higher labour income.

Figure 3.12. Fixed-term contracts have not been replaced by other types of non-regular contracts

Different types of non-regular contracts as a share of total dependent employment, Korea, 2007 and 2017

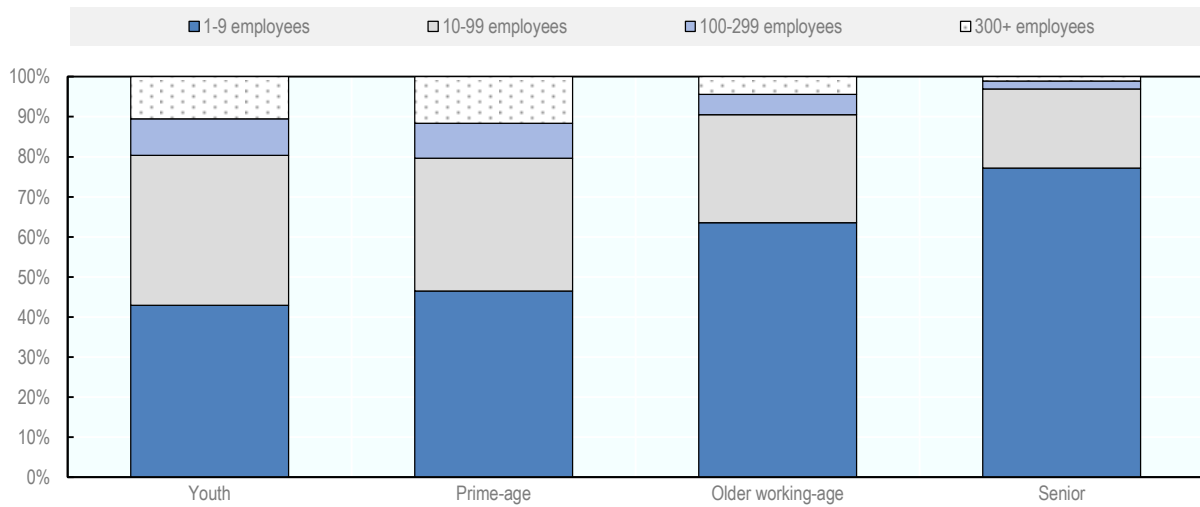


Notes: 1. Daily workers are workers categorised as daily workers by the worker status variable and whose jobs do not have the other non-standard characteristics listed in the legend according to the EAPS August supplement. 2. The total share of temporary workers is slightly lower than the share indicated in the figures since an individual's employment may have multiple non-standard characteristics.

Source: Authors' calculations based on Statistics Korea (2017), 2007 and 2017 Economically Active Population Survey, Statistics Korea, Seoul.

Figure 3.13. Only one out of ten young adults work for a large company

Distribution of workers by firm size and age, 2017

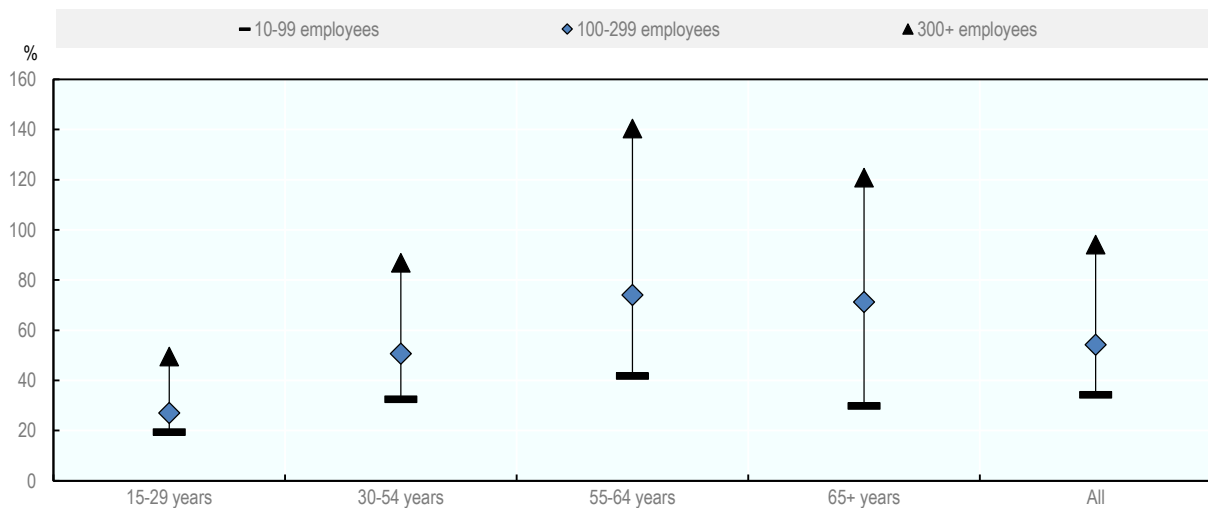


Note: The age groups are defined as follows: Youth: 15-29 years old; Prime-age: 30-54 years old; Older working-age: 55-64 years old; and Senior: 65 years and over.

Source: OECD calculations based on the Economically Active Population Survey (Statistics Korea, 2017_[28]).

Figure 3.14. The wage premium in large firms is considerable

Wage premium by firm size and age, relative to small enterprises (1-9 employees), 2017



Notes: 1. The sample is restricted to full-time employees only, defined as those working 30 hours or more per week. 2. Wages refer to earnings over the past three months.

Source: OECD calculations based on the Economically Active Population Survey (Statistics Korea, 2017_[28]).

A comprehensive discussion of the product market segmentation in Korea and possible policy solutions go beyond this report, but these topics have been discussed extensively in the latest *OECD Economic Survey of Korea* (OECD, 2018_[16]). As put forward in that report, it is crucial to reform large business groups and enhance dynamism in SMEs to achieve more inclusive economic growth. Breaking down the country's

product market polarisation would broaden the opportunities of young people in the labour market and would spread human capital more equally across economic sectors.

The policy recommendations provided in the *OECD Economic Survey of Korea* (see Box 3.6 for an overview) are not only necessary to ensure sustained economic growth in the coming years, but are also of key importance to improve labour market performance of the new generations in Korea and enhance their well-being. Without addressing the labour market duality created by the industrial polarisation, it will be difficult to improve the labour market performance of youth in a sustainable way.

Box 3.6. Key policy recommendations to reform large business groups and enhance dynamism in SMEs

The *OECD Economic Survey of Korea 2018* puts forward the key following recommendations to address the economic polarisation in the country:

Reforming the large business groups

- Strengthen product market competition by relaxing barriers to imports and inward foreign direct investment and liberalising product market regulation.
- Reinforce the role of outside directors by enhancing the criteria for independence, reducing the role of management in nominating outside directors and requiring that outside directors comprise more than half of the boards in all listed firms.
- Phase out existing circular shareholding by firms belonging to the same business group.
- Make cumulative voting (which would allow minority shareholders to elect directors) and electronic voting (which would help minority shareholders to vote their shares) mandatory.
- Follow through on the government's pledge to not grant presidential pardons to business executives convicted of corruption.

Enhancing dynamism in SMEs to achieve higher productivity and inclusive growth

- Introduce a comprehensive negative-list regulatory system and allow firms in new technologies and new industries to test their products and business models without being subject to all existing legal requirements (i.e. a regulatory sandbox).
- Increase lending based on firms' technology by expanding public institutions that provide technological analysis to private lending institutions.
- Ensure that support provided to SMEs improves their productivity by carefully monitoring their performance and introducing a graduation system.
- Increase the quality and availability of vocational education to reduce labour market mismatch and labour shortages in SMEs.

Source: OECD (2018^[16]), *OECD Economic Surveys: Korea 2018*, OECD Publishing, Paris.
http://dx.doi.org/10.1787/eco_surveys-kor-2018-en

3.4. Round-up and policy recommendations

Young people perform relatively well in Korea's segmented labour market with large differences in employment conditions between regular and non-regular workers and between small and large companies. Temporary employment is less frequent among Korean youth than among youth in OECD countries on average and transitions from non-regular to regular jobs are frequent. Although many 15-to-24 year olds

in Korea hold low-paid jobs, by the time they are in their late twenties, fewer of them are in low-paid jobs than in OECD countries on average.

Despite the relatively promising labour market outcomes among Korean youth, both in an international context and compared with the generation aged 55 and over, young people are increasingly confronted with unemployment and inactivity, as presented by the rising unemployment rate and the high share of young people who are not in employment, nor in formal education or training. Indeed, the slowdown in economic growth and the resulted stronger difficulties for young people to gain access to productive and rewarding jobs call for strengthened employment and social policies to address structural issues.

To support young adults, the Government announced in March 2018 an ambitious plan with a wide range of youth support measures. Many measures are an extension of existing ones, but there are also important new initiatives. In particular, the plan represents an important shift from indirect measures, such as subsidies for firms that hire young people, towards a stronger focus on measures that directly benefit youth, such as tax exemptions and in-work benefits. However, the youth action plan remains silent about the limited social safety net for unemployed youth and it does not address the underlying structural barriers faced by youth in the Korean labour market.

The OECD Action Plan for Youth sets out a comprehensive range of measures to tackle youth unemployment and promote better outcomes for youth in the longer run by equipping them with relevant skills and removing barriers to their employment. While Chapter 2 discussed the need to improve the connection between the education system and the world of work, this chapter looked at the different aspects of the Korean social welfare and activation system, with a particular focus on the wide range of measures that the Korean government has put in place in recent years. The chapter also discussed how to reshape labour market policy and institutions to facilitate access to rewarding employment and tackle social exclusion.

In particular, Korea could improve support for young people along the following dimensions:

Expanding the social safety net for youth

- *Better enforce social security legislation.* Strengthen compliance by expanding the resources of the relevant monitoring authorities to observe and sanction offending employers, raise penalties to increase their deterrent effect, and promote and rigorously apply the arbitration procedure through which non-insured workers can claim Employment Insurance entitlements.
- *Expand eligibility for Employment Insurance to voluntary job leavers.* The full exclusion of voluntary job leavers is rather strict compared with many other OECD countries. Korea could consider a suspension or sanction period for voluntary job leavers to support young workers who are stuck in low-quality jobs and who need time and assistance to find a better job.
- *Incorporate non-standards forms of employment in the Employment Insurance scheme.* Extending social protection to non-regular contracts that are currently uncovered, like in Austria or Italy, could narrow the scope for companies to opt for contractual arrangements that evade social contributions.
- *Ease access to the Basic Livelihood Security Programme.* While the government exempts certain types of households from the family support obligation for living and health benefits since the beginning of 2019, it could go further and phase out the family support obligation completely. Abolishing this rule would bring Korea more in line with other OECD countries in terms of social assistance coverage.

Offering adequate employment support for young unemployed

- *Maximise the impact of the Employment Success Package Programme.* In-depth evaluations suggest that the programme is quite effective in bringing participants into employment. However, the number of youth benefiting from the programme remains low. Better and more proactive outreach is needed to promote the programme among young people, possibly by increasing the provided income support to make the programme more attractive. Korea can also build on successful outreach strategies in other OECD countries. Possibly, proactive outreach could become an element in the performance evaluation of private employment services.
- *Strengthen private employment service provision.* Private employment services tend to be very small and low-performing ones can relatively easily remain in the market. Although Korea has an elaborated rating system, there seems to be considerable room for a stricter quality assessment and contract termination for poorly performing service providers. The performance of private providers could be published online on a regular basis to guide jobseekers to the best-performing providers.
- *Reconsider the short duration of private providers' contracts.* One-year contracts are likely to hinder longer-term investment by private providers. To encourage them to expand their services and develop more specialised competencies, Korea could follow the example of Australia and the United Kingdom, who have gradually extended the duration of services contracts to six years.

Monitoring support for in-work poverty

- *Carefully monitor the impact of the Earned Income Tax Credit.* Given the rapid expansion of the system, it is important to evaluate the effectiveness of the system, in particular with respect to the impact on labour supply as well as the take-up among eligible (young) people.

Facilitating access to affordable housing

- *Move away from support for jeonse deposits towards housing allowances and rental market regulation.* The government offers low-interest loans for housing deposits under the jeonse system to young people at a time when landlords consider the jeonse system no longer viable. It might be more realistic to allow the rental market to move away from the jeonse system towards a system of monthly rentals as in most other OECD countries. The government could then support young people through other means, such as (temporary) housing allowances and rental market regulation. Korea may also wish to adopt safe and sustainable mortgage options for young people.

Addressing labour market duality

- *Reform large business groups and enhance dynamism in smaller firms.* Without addressing the labour market duality created by the industrial polarisation, it will be difficult to improve the labour market performance of youth in a sustainable way. Breaking down the country's product market polarisation would broaden the opportunities of young people in the labour market and would allow human capital to spread more equally across economic sectors.

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Notes

¹ While these results provide a useful indication of mobility patterns, the results reported here should be treated with caution. The KLIPS sample is not fully representative of the national labour force in Korea.

² The data sources used to calculate the incidence of low pay in Korea and other OECD countries in Figure 3.1 (Panel C) and the population that is covered differ from those in some other OECD publication, such as the OECD Employment Outlooks. Figure 3.1 uses general household surveys whereas other publications typically use various data sources, including general or specialised household surveys, enterprise surveys, wage tax or salary records. In some cases, these data sources exclude workers in small enterprises. Moreover, Figure 3.1 includes both employees and self-employed workers whereas the low pay statistic in other OECD publications refers to employees only. Given the strong duality in Korea's labour market between small and large firms, it was important for this publication to include all employees, even those in small firms. Similarly, given that in particular older Korean workers are frequently forced to become self-employed, it was important to include self-employed workers.

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