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Future Direction of Job Creation Programs in Korea

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- This paper aims to overview the current state of the government-funded job creation programs and then to discuss the programs' future direction for an effective improvement in the employment rate based on international comparison and empirical analysis.

- The government's budget for the job creation programs has steadily increased in recent years to reach KRW 11.8 trillion (based on the budget plan) in 2014.
 - By sub-program related to the active labor market policy, Korea's budget spending was overwhelmingly concentrated on direct job creation (67.3 percent in 2010) while the spending was relatively minuscule on vocational/education training (17.2 percent) and employment services (2.7 percent).
 - In contrast, OECD countries spent a greater amount on vocational/education training and employment services (28.5 percent on average in 2010) than on direct job creation (12.5 percent on average).

- An empirical analysis on the short- and medium-term effects of active labor market policy using OECD country data shows the following:

* This is the translated version of *KDI Policy Forum* released on September 15, 2014.

** This article is based on "Study on the Direction of Government-funded Job Program in Korea" by Yong-seong Kim, a research monograph published by the Korea Development Institute in 2013.

- Employment subsidies and direct job creation worked to raise the employment rate in the short-term while the medium-term effects were not confirmed. Of note, direct job creation was found to have negative effects in the medium-term.
- Employment services and vocational/education training helped boost the employment rate in the medium- to long-term.

- **A review on the reallocation of current budget for the job creation programs is necessary.**
 - The government needs to gradually cut the spending share on direct job creation, whose medium- to long-term effects are in question.
 - Instead, it would be ideal for the government to shift the focus of its financial resource allocation over to employment services and vocational/education training, on which it currently spends relatively little.

- **To boost female employment rate, expansion of part-time work and more effective child care policy is needed.**
 - OECD country data shows that the larger the proportion of part-time employees there are in a market, the higher the female employment rate tends to be. In addition, child care policy is considered a key determinant of a country's female employment rate.
 - Therefore, the government needs to improve its policy efforts to increase penetration of flexible part-time employment and to support the work-family life balance.

1. Current State of the Government-funded Job Creation Program and International Comparison

- This paper aims to provide an overview of the current state of the government-funded job creation programs (hereinafter called “job creation program”) and its elements. This paper then discusses the programs’ future direction based on international comparison and empirical analysis.

- The central government’s budget for the job creation programs steadily increased, with about 190 projects in effect as of 2013.
 - The budget for the job creation programs surged from KRW 6.7 trillion in 2008 to KRW 11.8 trillion in 2014 (see Table 1).
 - Although the figures are slightly different by year, the passive labor market

policy (PLMP) such as unemployment insurance represented about 45 percent of the total budget while the active labor market policy (ALMP) accounted for 55 percent.

– The ALMP sub–programs include employment services, vocational/education training, employment subsidies, direct job creation and start–up support.

□ Korea's ALMP expenditure as a percentage of GDP is lower than the OECD average (see Figure 1).

○ In Korea, the ratio of ALMP expenditure to GDP was 0.42 percent in 2010, below the OECD average of 0.66 percent. Denmark, Belgium, the Netherlands, France, Sweden and Finland spent more than 1 percent of GDP on the ALMP.

〈Table 1〉 Korea's Job Creation Program Budget

(Units: KRW 1 trillion)

Year	2008	2009	2010	2011	2012	2013	2014 ¹⁾
Budget	6.7	12.0	8.9	8.8	9.6	11.2	11.8

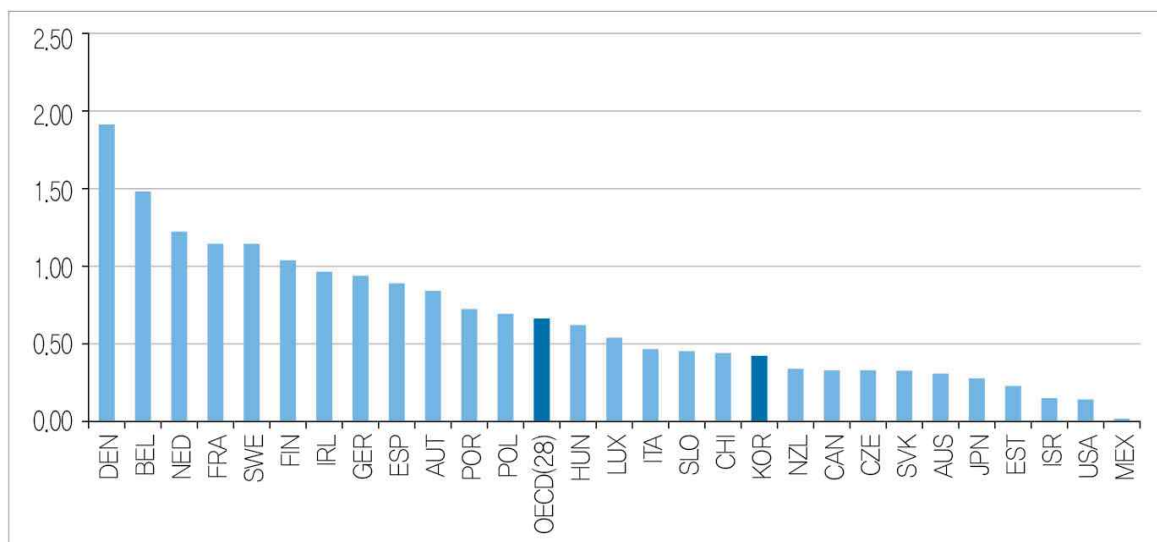
Notes: 1) Based on the 2014 budget plan; including elements of the PLMP budget such as unemployment insurance.

2) Direct job creation budget increased significantly (by KRW 2.4 trillion) amid the global financial crisis in 2009 and, with the crisis fading, the budget declined year–on–year (by KRW 1.07 trillion) in 2010.

Source: Ministry of Employment and Labor press release on plans for more efficient job creation program on September 7, 2012.

[Figure 1] ALMP Expenditure–to–GDP Ratio (2010)

(Units: %)



Source: OECD database.

〈Table 2〉 Types of ALMP Expenditures by Country (2010)

(Units: %)

Country	Employment services	Vocational/education training	Employment subsidies	Direct job creation	Start-up support	Other ¹⁾
Korea	2.7	17.2	5.0	67.3	0.2	7.6
Netherlands	35.5	11.0	0.6	13.6	0.0	39.3
Germany	40.2	32.5	10.2	5.1	8.3	3.7
Sweden	29.7	8.2	39.4	0.0	2.0	20.7
U.S.	32.7	33.4	6.0	4.2	0.0	23.6
Japan	19.3	26.3	37.5	16.9	0.0	0.0
Denmark	26.8	21.7	16.7	0.0	0.0	34.8
France	26.7	33.3	9.5	19.1	4.8	6.5
OECD average	26.0	28.5	16.0	12.5	5.1	11.9

Note: 1) "Other" refers to job rotation and sharing, as well as supported employment and rehabilitation.

Source: OECD database.

- A breakdown of ALMP expenditure shows a huge difference between Korea and other OECD countries (see Table 2).
 - Korea's budget spending was overwhelmingly concentrated on direct job creation (67.3 percent in 2010) while spending on other projects was relatively minuscule.
 - OECD countries devoted a larger share of spending to vocational/education training and employment services while they spent less on direct job creation.

2. Relation between ALMP and Employment Rate¹

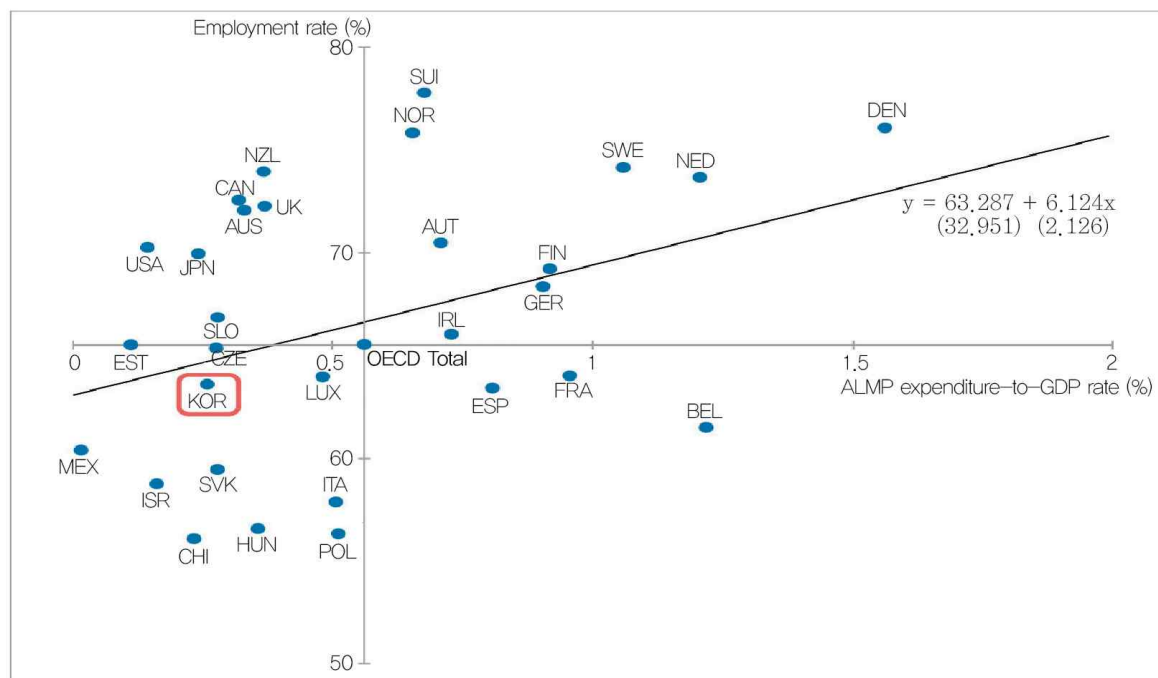
- ALMP expenditure and its categories may vary depending on each country's conditions. Thus, studying the expenditure in the context of the employment rate would be more effective than a simple comparison between countries.
 - A positive correlation between the ratio of ALMP expenditure to GDP and the

¹ In a preceding study related to this paper, Yong-seong Kim (2008) examined the effects of institutional variables (such as tax wedge, labor union density, income replacement rate of unemployment benefits, and employment protection) on the labor market performance. This paper identifies the effects of ALMP measures on the labor market from the short-term and medium-/long-term perspectives. It also attempts to clarify the determinants of female participation in the labor market, which has drawn particular attention as of late.

employment rate in each country shows that the two variables are correlated (see Figure 2).

- An empirical analysis has been conducted on the relation between AMLP and the employment rate using panel data from OECD countries.
 - After controlling the variables related to the economy and labor market institutions and country-specific heterogeneity, AMLP's effects on the employment rate were calculated based on the regression analysis.²
 - Separately, an analysis has been conducted to estimate short-term and medium-/long-term effects of total ALMP expenditure and its categories by sub-program on the employment rate.³

[Figure 2] Relation between the Ratio of ALMP Expenditure to GDP and Employment Rate



Source: OECD database.

- ² Variables related to the economy and labor market institutions considered in this paper consist of GDP gap, replacement rate of unemployment benefits, tax wedge, labor union density, and the level of employment protection.
- ³ This paper estimates the short-term effects using the first difference regression model and the medium-/long-term effects using the long-difference regression model. For the full details of the analysis methodology, refer to Yong-seong Kim (2013).

〈Table 3〉 ALMP Effects on Employment Rate^{1),2)}

Variables ³⁾	Short-term effects	Medium-/long-term effects
ALMP expenditure	○	△
Employment services	△	○
Vocational/education training	△	○
Employment subsidies	○	△
Direct job creation	○	×

Notes: 1) ○: Positive ×: Negative △: Statistically insignificant

2) The study covers the period of 20 years on average (from 1985 to 2008/2009) for 25 OECD member countries with the data set consisting of 489 observations. A group of 48 samples has been used in the medium-/long-term effect analysis.

3) Expenditure on the program per unemployed person divided by GDP per capita.

Source: OECD, *OECD Employment and Labour Market Statistics* (various years).

- ALMP sub-programs had different effects on the employment rate in the short-term and medium/long-term (see Table 3).
 - Total ALMP expenditure had a positive effect on raising the employment rate in the short-term while the long-term effects were not confirmed.
 - By sub-programs, the short-term effects of vocational/education training were not confirmed but they succeeded at raising the employment rate in the medium/long-term.
 - Employment subsidies and direct job creation helped raise the employment rate in the short-term but had been of little effect in the medium/long-term.
 - In particular, direct job creation had a negative effect on the employment rate in the medium/long-term.

3. Analysis on Determinants of Female Employment Rate

- To raise overall employment rate, low female labor market participation needs to be dealt with as a policy priority.
 - In Korea, the employment rate of women (aged 15-64) is in the low end of the 50 percent range, still far below the men's average.
 - Only four countries—Korea, Chile, Mexico, and Turkey—out of 34 OECD member countries had a more than 20 percentage point gap between the male and female employment rates (see Table 4).

<Table 4> Employment Rate Gap between Men and Women by Country (2012)

(Units: %)

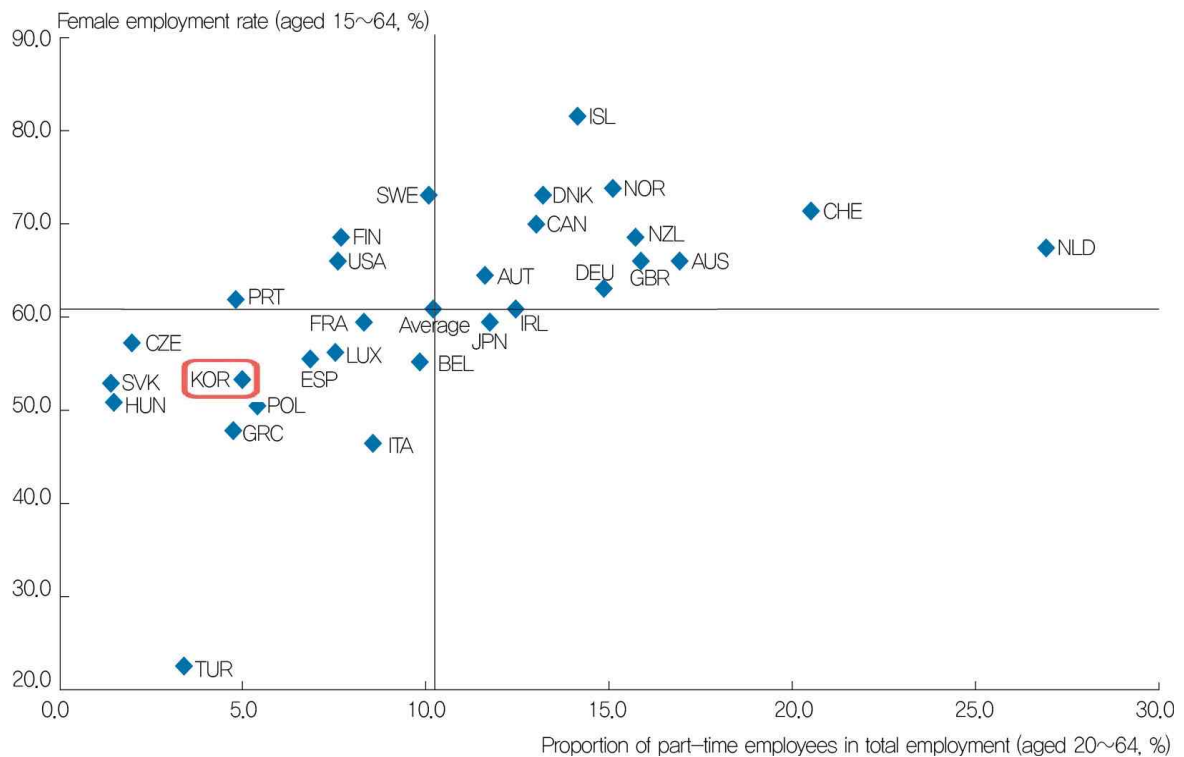
Country	Men (A)	Women (B)	Gap (A-B)
Sweden	75.64	71.84	3.80
Netherlands	79.75	70.40	9.35
Germany	77.64	67.96	9.69
U.S.	72.26	62.19	10.06
Japan	80.29	60.70	19.60
Korea	74.91	53.48	21.43
Chile	73.61	50.21	23.41
Mexico	78.86	45.33	33.53
Turkey	69.18	28.73	40.45

Notes: 1) The columns are arranged in ascending order of the gap between the men's and women's employment rates.

2) Based on the employment rate by gender for the 15 to 64 age group.

Source: OECD, *OECD Employment and Labour Market Statistics* (2012).

[Figure 3] Relations between Female Employment Rate and the Proportion of Part-time Employees



Notes: 1) As of 2007; Based on data for the 15 to 64 age group.

2) Part-time employees refer to employees working less than 30 hours per week.

Source: OECD, *OECD Employment and Labour Market Statistics* (2008).

- An empirical study has been made to explore variables affecting the female employment rate using OECD country data.
 - The variables considered for the analysis are ALMP sub–programs, child care policy (a key consideration in women’s decision to enter the labor market), and part–time work, which is known to influence the employment rate of women.
 - OECD country data shows that there is a positive correlation between the share of part–time employees and the female employment rate. It implies that part–time and other flexible forms of employment, such as flextime work, could act as an important incentive for women to enter the labor market (see Figure 3).

- ALMP effects were not confirmed whereas child care benefits and part–time work were found critical in raising the female employment rate (see Table 5).
 - Effects of most ALMP sub–programs were not confirmed.
 - Direct job creation helped raise the female employment rate in the short–term but it had a negative effect in the medium/long–term. Vocational/education training worked to boost the female employment rate in the long–term.
 - Child care benefits had a positive effect on the female employment rate.
 - Providing benefits in kind (such as child care services) was more effective than benefits in cash (such as child care subsidies) in raising the female employment rate.⁴
 - Specifically, the result suggests that enhancing accessibility to child care services for female labor force participants and offering customized services such as extended hour child care would be effective.
 - Expansion of part–time work is confirmed to have both short– and medium–/long–term effects in boosting the female employment rate.

⁴ According to the regression analysis, each 1 percentage point increase in the ratio of cash and in–kind contribution to GDP would lift the female employment rate by 2.26 percentage points and by 5.62 percentage points, respectively. For the detailed discussions on this matter, refer to Yong–seong Kim (2013).

〈Table 5〉 Determinants of Female Employment Rate^{1), 2)}

Variables ³⁾	Short-term effects	Medium-/long-term effects
ALMP expenditure	△	△
Employment services	△	△
Vocational/education training	△	○
Employment subsidies	△	△
Direct job creation	○	×
Child care benefits	○	○
Cash	○	△
In-kind	○	△
Part-time employees as % of employees	○	○

Notes: 1) ○: Positive x: Negative △: Statistically insignificant

2) The study covers the period of 20 years on average (from 1985 to 2008/2009) for 25 OECD member countries with the data set consisting of 425 observations. A group of 40 samples has been used in the medium-/long-term effect analysis.

3) Effects of ALMP variables were calculated by dividing expenditure on the program per unemployed person by GDP per capita; Child care support as a percentage of GDP.

Source: OECD, *OECD Employment and Labour Market Statistics*, *OECD Social Expenditure Statistics* (for respective year).

4. Conclusion

- A full and thorough review of financial resource allocation between ALMP sub-programs is necessary.
 - In Korea, the share of direct job creation in financial resource allocation is overly large at the current level. Given that direct job creation negatively affects the employment rate in the medium/long-term, efforts are needed to gradually reduce the proportion of direct job creation program.
 - Jobs offered under the direct job creation program are mostly temporary, and therefore the effects are not sustainable. Low market value added (MVA) jobs could create a stigma effect for the program participants.
 - It would be ideal for the government to shift the focus of the budget allocation to employment services and vocational/education training, which are effective in raising the employment rate.⁵

⁵ Effects of employment services and vocational/education training on raising the employment rate are proven by the study of 199 programs implemented in OECD countries as well (Card et al, 2010).

- Employment services and vocational/education training help bridge job seekers and employers and accumulate human capital. By enhancing the employability of participants, the programs are very likely to help sustain the job creation policy effects.
 - Of note, the effectiveness of the delivery system is a key determinant for the success of the employment services and vocational/education training programs.
- Offering child care services and flexible work arrangements is an essential part of encouraging female labor force participation and driving up the female employment rate.
- Child care policy with a priority placed on women in the labor market needs to be put in place. Expanding child care support would be ideal, mainly in the form of benefits in kind, such as child care services, rather than benefit in cash.
 - The government needs to support the work–family life balance by accommodating diverse work arrangements such as flextime jobs.

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