The People Power Revolution that toppled former South Korean President Park Geun-hye was historic and unprecedented. Among other things, it represented a visceral call by the public for clean government and an accountable democracy. The tasks now facing newly elected President Moon Jae-in are daunting and urgent.

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South Korean President Moon Jae-in emphasized the problem of youth unemployment in his address to the National Assembly in June, but the problem defies easy solutions. High rates of education have traditionally soaked up some joblessness in the past, but the lack of youth job creation is a nagging issue for South Korea, writes Kyungsoo Choi.

In the short term, recovery will require consumption growth as the country awaits the return of greater business dynamism.

SOUTHW KOREA’S new president, Moon Jae-in, began his speech to the National Assembly on June 12 with a story about an unemployed youth: “Here is a young man who studied hard to enter college and prepared for a job harder than anybody. And now he says, ‘I wish I could have a chance for an interview.’ Among the youth in this country, applying a hundred times for a job is not exceptional. Our youth unemployment rate hit a new peak of 11.2 percent last April. We all agree that creating more and better jobs is the most urgent priority for the economy.”

Prior to the 1997 economic crisis, South Korea was among the few countries without a youth unemployment problem. Those days are long gone. The problem first appeared in 1998, in the aftermath of the crisis. It was expected then, as the crisis had to be overcome. But even when the economy successfully reﬂoated, youth unemployment remained and even worsened over time. Subsequently, youth job creation became a top priority for the government. Nevertheless, youth unemployment has kept rising and is now still at the top of the new government’s policy priorities.

In this article, I discuss why South Korea’s youth unemployment has continued to deteriorate and what characterizes the problem. I focus principally on young men to simplify my argument. Korean young women are increasingly active, and their behavior, including the childbirth age, is much different from 20 years ago, making comparison complicated. Unemployment is growing among them as well. The effect of competition from women in young men’s unemployment is very small and can be ignored for the purposes of this article. I will also compare the problem with other countries and ﬁnally suggest ways to resolve the issue.

CAUSES OF SOUTH KOREA’S YOUTH UNEMPLOYMENT
Korea’s youth unemployment appeared rather suddenly with the economic crisis that broke out at the end of 1997, and many people frequently ask how a temporary crisis created a permanent youth unemployment problem. As for the cause, a common view is the “mismatch hypothesis” — Korean youths are overeducated, the jobs available do not match their aspirations, so they keep searching and stay jobless. However, youth education levels have been scaled up gradually and did not jump suddenly during the crisis. A sudden change may occur in the behavior of a company when it follows the dictates of proﬁt maximization, but not in an individual’s behavior, which is determined more by socio-economic conditions. First, we need to look at how the behavior of ﬁrms changed after the economic crisis. To explain this, some introduction to the crisis is needed.

The 1997 Asian ﬁnancial crisis was seen as a foreign-exchange crisis, but underneath was the South Korean economy’s inefﬁciency and the high cost structure of the country’s companies. Liabilities accumulated and proﬁtability was low, while high debt undermined the soundness of the ﬁnancial sector, leading ultimately to a foreign-exchange crisis. Afterward, South Korean ﬁrms restructured their costs, at the core of which was manpower. Previously, ﬁrms hired batches of new workers every year, and their wages were not much differentiated. With a renewed emphasis on proﬁtability after the crisis, efﬁciency in manpower management was pursued, which meant cutting costs and replacing labor with technology. Speciﬁcally, demand for

With universities keeping youth occupied, unemployment did not rise much despite weak job creation and many college graduates having to settle for low-wage jobs. Recently, though, Korea’s youth unemployment rate has been soaring as the number of college students decline and the economy stagnates, unlike in Japan or the US.
production and clerical workers has decreased. These two areas of the workforce, of course, took the biggest hit from the technology revolution in advanced countries during the 1980s and 1990s. But South Korean firms had not been quick to adopt new technologies and restructure their workforces, because they were less sensitive to profitability prior to the crisis. As many companies had existing workers in such positions, the crisis meant that the hiring rate of new workers fell, depriving youth of opportunities.

Figure 1 opposite shows the occupational trend among young men aged between 25 and 29 along with their unemployment rates. The unemployment rate (dotted line) spiked in 1998. Afterward, the unemployment rate dropped as the crisis subsided, but failed to return to previous levels. During the 2000s, it crept up, accelerating in recent years. After 1997, the number of clerical, trades and operator/assembler jobs decreased. And the trend has continued, strongly for production workers and relatively mildly but consistently for clerical workers. This job decrease is driven fundamentally by the technological shift and has put pressure on the youth labor market.

In South Korea, the size of the youth population also is decreasing, but the trend is much slower than the decreases in the number of jobs. This means that more and more young men have been without jobs. On the other hand, during the 2000s and up to 2012, the unemployment rate did not rise (see Figure 1 overlay). During this period, a growing number of young people stayed in higher education.

The educational upgrading among Korean youth is exceptional by international standards. In the 25 to 29 age group, Korea’s employment-to-population ratio rose and continues to rise rapidly due to increased labor supply and stagnant job demand. During the 2000s, it crept up, accelerating in recent years. After 1997, the number of clerical, trades and operator/assembler jobs decreased. And the trend has continued, strongly for production workers and relatively mildly but consistently for clerical workers. This job decrease is driven fundamentally by the technological shift and has put pressure on the youth labor market.

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The main change in the youth labor market has been that the longer time taken to complete an education. The employment-to-population ratio among men aged 30 to 34 has not dropped appreciably from its level in 2000, and real wages have steadily improved. Young men between 25 and 29, and between 30 and 34, now receive 50 percent higher wages than their predecessors 20 years ago in real terms. At the upper end, they receive 90 percent higher wages. The educational upgrading occurred mainly in the middle group, who get clerical and production jobs. That is, as these jobs became harder to get, educational requirements rose.

Comparing South Korea’s youth employment with other OECD countries, we see that the employment-to-population ratio dropped enormously among young men aged between 25 and 29, and the general educational level rose significantly. In comparison, South Korea’s employment-to-population ratio among young men aged between 30 and 34 has not dropped much, and Korea still ranks high in this score. In the 25 to 29 age group, Korea’s employment-to-population ratio dropped from 86.3 percent in 1995 to 69.3 percent in 2015. In advanced countries, such as France, Germany and the US, the ratio stands at around 80 percent, without having varied much over the last 20 years. In South Korea, the employment-to-population ratio dropped among those in their late 20s, as more of them chose to obtain a higher education. Economic principles suggest more education should help youth because it equips them with greater skills. But in South Korea, educational upgrading has been driven by competition for jobs and not by upgrading the occupational structure — and this has not contributed much to the wellbeing of the young. The share of professional jobs available to youth has not increased.

Since 2012, the youth labor market has further deteriorated as the number of production and clerical jobs has continued to decline. And educational upgrading, which helped reduce the supply of youth in the labor market, has stopped. As this effect disappeared, youth unemployment rose and continues to rise rapidly due to increased labor supply and stagnant job demand growth. Employment increased as the supply of labor grew, but the majority of the supply growth ends up unemployed. The reason why fewer of the young seek much further education is not clear. As general educational levels are already high, obtaining additional education is not much help in getting entry-level positions. Perhaps young people are becoming more realistic or are in greater despair over the job market.

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**FIGURE 1 OCCUPATIONS AND UNEMPLOYMENT RATES FOR KOREAN MEN AGED 25 TO 29**

Source: Statistics Korea, Economically Active Population Survey.
Korea and Japan, young people in America typically hold several different jobs before settling down in a stable position. The system has its benefits, and it guarantees a quick and agile labor force in the face of technology shifts. In addition, changes in the US occupational structure were largely completed in the 1990s, and the recovery of the youth labor market progressed ahead of many other countries. However, in the process the US experienced a larger drop in youth wages and an expanding wage gap among youth in the 1980s and 1990s.

**CREATING JOBS FOR YOUTH**

The “mismatch hypothesis,” which is the dominant view on South Korea’s youth unemployment problem, currently points its collective finger at over-education and the attitudes of young people toward jobs as the main culprits. However, evidence points to demand-side factors — the lack of job creation — as the major cause. To escape the economic crisis in 1997, the South Korean economy depended on exports from its leading large companies, and as a result the economy became more concentrated in fewer hands. The strategy has been efficient, but it naturally restricted job creation, especially for young people, and widened wage gaps.

All of the evidence presented in this article describe structural changes that would naturally follow when an economy becomes highly concentrated and there is a resulting response of youth to the changed circumstances. South Korea’s youth unemployment problem may be viewed as the cost that the economy had to pay in order to dig itself out of a crisis.

In addition, business data reveals that South Korea’s business growth dynamism has significantly diminished since the 2000s. This refers to the vigor of businesses as they enter and exit the market, grow and contract. It is important to note that jobs are created not by big or small firms, but by young firms. In a dynamic business environment, more jobs are created and more are destroyed. This is favorable for young workers searching for opportunities and new sectors.

In South Korea, the early 2000s was a period of great business dynamism led by the dot-com boom and the electronics industry. Startups at the time mushroomed, and many grew into established firms, creating jobs for youth. An analysis of data from the government Employment Insurance System supports this claim. Since then, job creation has been on a downward trend, resulting in a weak youth labor market. Recent literature emphasizes the importance not only of vigorous job creation and destruction, but also the quality of business startups. Entrepreneurial startups armed with intellectual property rights have a stronger potential for innovation and quality job creation. The evidence also points to the importance of intellectual property rights protection to stimulate innovation and profit, leading to job creation.

In the short run, the most effective policy to create jobs for youth is stimulating consumption. The largest contributor to Japan’s youth labor market recovery has been the consumption boom. In South Korea as well, youth job creation mainly depends upon whether consumption can recover, an open question given high household debt. In addition, as technological shifts continue, jobs for youth are likely to be generated in the services sector. Since currently many youth are not attracted to these jobs, improvements in working conditions, including implementation of minimum wage rules, are called for.

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