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**Research Report**

## Ways to Activate Youth Employment: Focusing on Government-Funded Job Programs and Promotion of Entrepreneurship

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## KDI FOCUS

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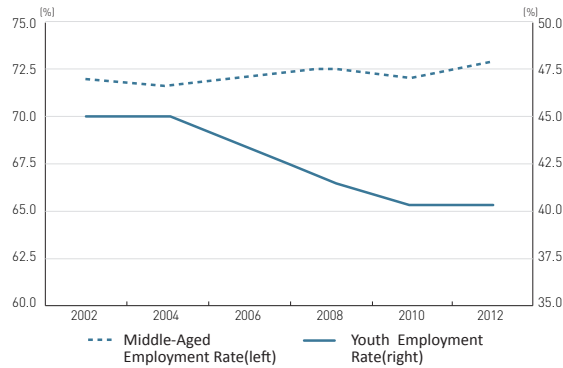
## Ways to Activate Youth Employment: Focusing on Government-Funded Job Programs and Promotion of Entrepreneurship

Yong-seong Kim, Senior Fellow at KDI

**“To help young people find jobs, the government must reallocate financing in government-funded job programs and improve the system for public employment services and start-up new businesses.”**

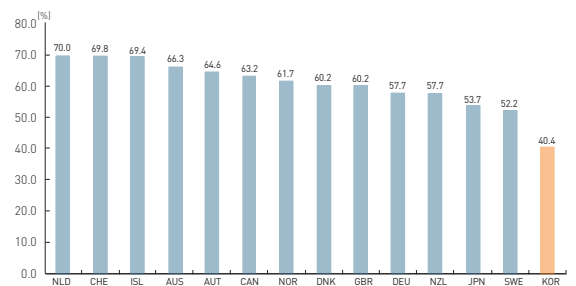
Besides the low rate of women's labor participation, the difficulties young people face in the labor market demand the government's special attention. If youth employment policies are to be effective, the first priority must be to implement policies that target people who continue to struggle to find work. There are several specific measures that must be taken. First, the government should reconsider the allocation of finances, which is heavily focused on direct job programs, since the main beneficiaries of such programs are elderly people. Second, the SME Internship Subsidy should be operated according to its original purpose: helping young people with their job experience. Third, the employment support program should be turned into an all-inclusive package. At the same time, stimulation of youth entrepreneurship will require systematic training in that area. In addition, consideration should be given to a variety of much-needed institutional and legal improvements. This will involve taking a second look at the list of industries that are excluded from the loans that the government provides in support of entrepreneurship.

[Figure 1] Change in the Employment Rate of Young People (15~29) and Middle-Aged People (30~64)



Source: Statistics Korea, Economically Active Population Survey, 2002~12.

[Figure 2] Comparison of Youth Employment Rate in Korea and Other OECD Countries



Note: The youth (15~29) employment rate was recalculated for OECD countries whose overall employment rate was 70% or above, as of 2012.

Source: OECD, "Employment and Labor Market Statistics."

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## I. Young People in the Labor Market Today

Of the problems currently facing the Korean labor market, one issue that is comparable to women's generally weak participation is the difficulty faced by young people trying to find jobs. One reason why joblessness among young people is a major concern is that these early hardships often result in long-term impacts on one's overall economic activity. Another reason is that, when young people are unable to make the most of their abilities, one of the country's most precious national resources is being wasted.

The Korean government has initiated a variety of measures to make it easier for young people to find work, but these efforts have been met with unfavorable results. In order to help ensure that young people have the tools they need to enter the work force, the weaknesses of past initiatives must be examined carefully to improve future policy.

[Figure 1] shows what the labor market is like for young people today. While the employment rate for the middle-aged (30~64) has increased slightly (0.9 percentage points) over the past 10 years, from 72.0 percent to 72.9 percent, the employment rate for young people (15~29) not only remains in the 40 percent range, but has in fact dropped sharply (4.7 percentage points): from 45.1 percent in 2002 to 40.4 percent in 2012.

It is worth mentioning that, of the OECD countries with an employment rate of 70 percent or higher (as of 2012), none of them have a youth unemployment rate as low as Korea's (40 percent) (see Figure 2). One point to consider is that Korea has an unique social climate that may influence its labor market: the country's mandatory military service, education system, and university admission rate affect are all contributing factors. But regardless of the reason, it is undeniable that Korea's employment rate for young people is noticeably lagging behind that of the world's advanced economies.<sup>1)</sup>

Above all else, unemployed young people who are trying to find work should be the main priority for any future employment measures.

It is undeniable that the employment rate for young people in Korea (around 40 percent) is lower than that of advanced economies.

**<Table 1> Unemployed Young People as a Percentage of Total Unemployed**

(Unit: 1,000 People, %)

	2002	2004	2006	2008	2010	2012
Total unemployed (15~64)	745	851	817	757	881	782
Unemployed young people (15~29)	361	412	362	315	315	313
Young people as percentage of unemployed	48.5	48.4	44.6	41.6	38.6	40
Young people as percentage of population	32.1	30.3	28.9	28.4	27.6	26.7

Source: Statistics Korea, *Economically Active Population Survey* for each year.**<Table 2> Expenditure Ratio for Category of Government-Funded Job Program**

(Unit: %)

	Direct job creation	Employment service	Job training and skill development	Employment subsidies	Entrepreneurship support	Miscellaneous
Korea	67.3	2.7	17.2	5	0.2	7.6
OECD (average)	12.5	26	28.5	16	5.1	11.9

Note: 2010 figures. "Miscellaneous" includes job reassignments, job sharing, employment maintenance, and vocational rehabilitation.

Source: OECD Database.

**<Table 3> Change and Rate of Increase in People Hired in Industries Associated with Direct Job Creation<sup>1)</sup>**

Rate of increase (%)								
	2005	2006	2007	2008	2009	2010	2011	2012
All ages (15~64)	5.2	2.28	3.13	9.73	16.5	4.53	8.07	3.44
15~29	0.43	1.15	1.37	7.79	7.4	-1.23	5.73	-0.52
50~59	21.77	5.36	8.15	7.29	32.54	11.55	11.38	9.91
Change in People Hired (1,000 People)								
	2005	2006	2007	2008	2009	2010	2011	2012
All ages (15~64)	69.2	31.9	44.9	143.9	267.7	85.5	159.5	73.4
15~29	1.6	4.2	5	29.2	29.8	-5.3	24.5	-2.4
50~59	36.2	10.9	17.4	16.9	80.7	38	41.7	37.6

Note: 1) Public administration, national defense, and welfare administration + health and welfare service industry.

2) Change and rate of increase of people hired is year-on-year.

Source: Statistics Korea, *Economically Active Population Survey* for each year.

## II . Primary Beneficiaries of Youth Employment Measures

In order for any public-led youth employment measures to be successful, the government must be mindful of which demographic they target with their efforts. Young people without work can generally be divided into two groups: those who are unable to find work despite their attempts to do so (unemployed young people), and those who have given up on the job search altogether (discouraged workers).

While there is no denying that discouraged workers are a serious social problem, the government should select unemployed young people as the primary beneficiary of these policies. There are two reasons for this. First, it is easier to devise policies targeting unemployed young people because, due to previous study, the approximate size of this population has already been established. Second, the unemployed are more active in looking for work than discouraged workers, which improves the likelihood that these policies will generate a positive response. In addition, helping unemployed young people find work can have the positive externality of convincing discouraged young workers to give more thought to participating in the labor market. Finally, since around 4 out of 10 of the unemployed in Korea are young people, as Table 1 shows, an effective policy here could also lead to a significant decrease in the overall unemployment rate.

1) Incidentally, the 40.4% youth employment rate in Korea (for people between 25 and 29 years old) remains low when compared to the rate in other countries with an overall employment rate of 70% or above in 2012. The youth employment rate is 52% in Sweden and 70% in the Netherlands.

### III. Government Employment Measures Viewed from the Perspective of Promoting Youth Employment

To maximize the effect of policies that target young people in the labor market, it will be necessary to initiate policy directions and programs that can provide unemployed young people with practical assistance.

This section of the paper will examine both the strategic planning and budget allocation in government-funded programs for youth employment. It will also discuss different means of improving upon the current system in order to stimulate youth entrepreneurship.

#### 1. Problems with the Allocation of Finances in Government-Funded Programs Aimed at Promoting Youth Employment

Among other considerations, it is worth examining how the allocation of finances has impacted the output of government-funded job programs for young people in Korea. Table 2 shows the percentage of financial expenditures made in each OECD category of government-funded job program. In Korea, the percentage of expenditures for direct job creation (67.3 percent) is overwhelmingly high, as contrasted with the low percentage of budget expenditures for job training and vocational education (17.2 percent) and employment services (2.7 percent). The average figures in OECD countries, by comparison, show a higher proportion of expenditures for job training and vocational education (28.5 percent) and employment services (26.0 percent), while direct job creation programs account for a relatively lower share of expenditures (12.5 percent).

Considering that a disproportionate amount of expenditures go to direct job creation, which tends to benefit people in their 50s, it is recommended that the government begin to reassess how finances are allocated to government-funded job programs.

As seen above, direct job creation programs account for the largest share of government budget expenditures for employment programs in Korea. In order to determine the degree to which these measures are actually helping young people find jobs, special attention was given to the change and rate of increase in the number of employment in each age group, focusing on industries that are regarded as being closely connected to direct job creation programs. From Table 3, it can be inferred that there was a substantial increase in employment for people aged 50~59 in the industries in question from 2005 to 2012, but not for young people. Of course, considering the lack of an adequate social safety net, direct job creation has a positive effect, serving to stabilize the livelihood of the elderly. But the majority of the benefits from direct job creation go to people in their 50s, and not to the young people and career-interrupted women who actually need assistance from labor market policy. The fact that direct job creation represents a disproportionate amount of expenditures suggests the need to reassess the allocation of finances.

&lt;Table 4&gt; Employment Incentives for Young People

(Unit: KRW Million, %)

	Eligible for Incentives	Duration of Incentives	Amount of Incentives	Payment Method
Employment Promotion Subsidy	<ul style="list-style-type: none"> <li>• Graduates of job searching assistance program</li> <li>• Hired as regular employees</li> </ul>	<ul style="list-style-type: none"> <li>• Must be employed for at least 3 months</li> <li>• Support for up to 12 months</li> </ul>	<ul style="list-style-type: none"> <li>• 75% of wages</li> <li>• Yearly limit of KRW 8.6 million</li> </ul>	<ul style="list-style-type: none"> <li>• 3-6 months: KRW 3.4 million</li> <li>• 9-12 months: KRW 5.2 million</li> </ul>
SME Internship Subsidy	<ul style="list-style-type: none"> <li>• 15~29 years old</li> <li>• On academic leave, unemployed, or expected to graduate</li> </ul>	<ul style="list-style-type: none"> <li>• Support internship for 6-month</li> <li>• Support for additional 6 months under the condition of switching to regular employee</li> </ul>	<ul style="list-style-type: none"> <li>• 50% of wages</li> <li>• Yearly limit of KRW 8.7 million</li> </ul>	<ul style="list-style-type: none"> <li>• During internship: KRW 4.8 million</li> <li>• During work as regular employee: KRW 3.9 million</li> </ul>

## 2. Problems with the Employment Incentive System for Young People

The employment incentive system is widely used to help young people in Korea find work, the best-known programs being the Employment Promotion Subsidy (formerly, the Incentive for the Newly Employed) and the SME Internship Subsidy. Both of these programs provide subsidies for SMEs that hire young job seekers that cover the cost of wages for a certain period of time, though with slightly different distribution schedules. One of such options is the Employment Promotion Subsidy, which increases over the individual's period of employment to help young people settle down at a stable job. The SME Internship Subsidy, by contrast, is higher at the beginning of the internship in order to help young people get more on-the-job experience (see Table 4).

Despite the distinct objectives of these two programs, they may be interfering with each other. First, from the point of the view of the employer, the SME Internship Subsidy may have advantages over the Employment Promotion Subsidy: the latter requires that employers hire regular workers, while the former actually offers more support without requiring companies to shoulder the burden of such an expense. This is confirmed by the fact that the number of businesses participating in the Employment Promotion Subsidy decreased dramatically after the introduction of the SME Internship Subsidy.

Second, under the SME Internship Subsidy, when an intern is hired as a regular employee at the end of the internship, the government subsidy decreases, which often becomes an incentive for the employer to continue seeking out new interns instead of hiring existing interns as regular employees. Multiple observers have claimed that interns are being repeatedly cycled through businesses in this way, which poses obvious problems for young people trying to build careers.

Third, the data shows that a high percentage of participants in the SME Internship Subsidy (around 30 percent each year) drop out before completing their internship. Given that the program typically targets students who are on academic leave or who are about to graduate, a six-month internship could be very stressful for those who also feel compelled to maintain competitive grades in their courses. At the same time, a lack of adequate advance consultation and aptitude tests is creating disconnection between expectations and reality, another factor driving up the dropout rate.

**One recommendation is to operate the SME Internship Subsidy in a way that keeps with its original twofold mission: on one hand, aiding young people in their job search, and on the other, implementing the underused the Employment Promotion Subsidy in a way that complements the Successfully Finding a Job Package II program.**

To make the employment incentive system for young people more effective, it is necessary to consider the following measures.

First, the SME Internship Subsidy should be operated in accordance with its original purpose: assisting with job searching. This will require ① prohibiting employers from bringing on interns instead of hiring a new employee who is needed for continuing work (the American principle of irreplaceability), ② operating the intern system for a comparatively short time (for example, Denmark limits theirs to 4~13 weeks), ③ and formally institutionalizing the principle that the employer should not be responsible for the cost of the intern. In addition, the government should also consider the idea of paying a certain amount of the internship subsidy that currently goes to employers to the young people participating in the internship, and also of subsidizing industrial accident compensation insurance.

Second, the government needs to consider the option of merging the Employment Promotion Subsidy for young people, an underused program, with Successfully Finding a Job Package II, a current program being run for jobless young people. Overseas research indicates that job creation does not translate into long-term employment when subsidies are the only measure provided, as is the case with the Employment Promotion Subsidy program. By contrast, researchers have found that programs such as Successfully Finding a Job Package II, which merge employment incentives with support, education and training, have a positive effect on employment (Katz [1996]; Cocks *et al.* [1998]; Hamersma [2005]; Kangasharju [2007]; and Jaenichen and Stephan [2009]). By running the Employment Promotion Subsidy program for young people as part of Successfully Finding a Job Package II, it would be possible to decrease the frequency of mismatches during the first phase (career advice and selection) and to use employment subsidies to provide jobs and opportunities for education and training in the second phase (increasing motivation and ability). In particular, bringing education and training onto the jobsite where young people are already working would make it possible to further increase the effectiveness of the program.

### **3. Institutional Improvements to Stimulate Youth Entrepreneurship**

One of the government's goals is to use increased entrepreneurship as a way to both generate new jobs and bring about a creative economy, tasks that involve helping young people start businesses. The various programs related to youth entrepreneurship can be categorized as entrepreneurship education programs, commercialization support programs, and entrepreneurship fund support programs.

The government's policy directions for youth entrepreneurship contained in the 2014 budget bill can be summarized into two main areas: first, strengthening the curriculum around entrepreneurial preparation and the entrepreneurial spirit, and second, shifting the focus of funding programs from loans to investment. These goals appear to reflect an effort to correct problems that have been brought up in the past.



While the current policy directions for youth entrepreneurship support should be maintained, it is necessary to improve the system while keeping in mind the several items outlined below. First, students must have systematic access to education about business mind and entrepreneurship from an early age. At present, entrepreneurial education programs are concentrated in universities, either in entrepreneurial universities and graduate programs or through support for entrepreneurial student clubs. The programs in secondary education, by contrast, are rather lacking. From looking at case studies that profile the British system, the nation has a tendency to emphasize the importance of early education in cultivating the entrepreneurial spirit. If Korea would like to generate a comparable level of business understanding among its students, the government will likely need to make an effort to incorporate entrepreneurial education into the curriculum of the country's secondary schools.

The second improvement concerns the government's loan-based entrepreneurial support program, known as the Exclusive for Youth Entrepreneurship Funding Loan Program, which was allocated KRW 150 billion in the 2014 budget bill. Currently, the conditions under which the government provides a credit guarantee that enables entrepreneurs to receive a loan from private finance institutions incorporate the amount of collateral and revenue, as well as the number of clients. These conditions should be replaced with an assessment of how innovative the business is, how competitive it is, how specific the business plan is, how much potential it has for development, and what interest and experience the applicants have in related areas, with the final decision about the credit guarantee based on this assessment.

The manner in which the present system is communicated is another area where improvements are needed. In the past, it was government practice to outline which business areas to receive loans—the information service industry, the cultural content industry, the manufacturing industry, and the social welfare industry. Now, however, the program's written communication simply states the business areas that are ineligible to receive loans, a strategy that may seem like sound reasoning, but could have negative consequences. The concern is that this approach does not adequately support entrepreneurial activities in converging and interdisciplinary industries, areas that are often crucial for realizing a creative economy. For example, the leisure-oriented service industry is currently categorized as being ineligible, even though there could be many opportunities for young people in this area.

Another example of an ineligible business area is the retail sector, despite the fact that revolutionary management methods could lead to creative business models. Considering these points, a more flexible method should be adopted for selecting the recipients, one that assesses the creativity of the business plan and its potential for development.

Promoting youth entrepreneurship will require setting up programs that educate students in entrepreneurial preparation and the entrepreneurial spirit, beginning as early as secondary school. A more flexible method should be adopted for selecting the recipients for support, one that includes an assessment of the creativity of the business plan and the potential for development.



#### IV . Conclusion

The purpose of this paper is to examine the Korean government's funded job programs and the entrepreneurship support system, as well as identifying several areas in which improvement is needed to promote youth employment. Its arguments can be summarized as follows.

First, in order to specify policy targets and improve the effectiveness of programs, an effort must be made to focus these policies on unemployed young people those who are unable to find work despite their efforts to do so.

Second is the fact that, rather than supporting the young people and career-interrupted women who need policy assistance, the main beneficiaries of direct job creation are people in their 50s who are approaching the end of their careers. For this reason, it is necessary to reconsider the excessive allocation of finances to these types of programs.

Third, the government should consider operating the SME Internship Subsidy in accordance with its original mission of assisting with job searching and experience. In addition, it would be worth considering the benefits of making the Employment Promotion Subsidy for young people, a program whose utilization is decreasing, part of Successfully Finding a Job Package II.

Fourth, in order to promote youth entrepreneurship, it is necessary to help students develop an understanding of business at a younger age. This could be done by taking some of entrepreneurial material that is currently being taught in university settings and developing it into secondary school curriculum.

Fifth, the method of deciding whether or not to give a company an entrepreneurial loan should be improved. The criteria upon which beneficiaries are selected should be evaluated more flexibly, and include such items as how innovative the business is, how competitive it is, how specific the business plan is, and how much potential it has for development. ■

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