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**Research Report**

## Implications of the Performance Evaluation of the Job Creation Project

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## Implications of the Performance Evaluation of the Job Creation Project

**Heesuk Yun**, Fellow at KDI

**“Industrial restructuring and the advent of a 4th industrial revolution are posing challenges that cannot be resolved by conventional methods. However, despite the increasing significance of Korea’s Job Creation Project, which aims to foster adaptability and improve labor force mobility, practices remain outdated. Indeed, the project requires extensive reform to properly manage external challenges and to protect the individual not corporations, while stimulating the metabolic process within the economy.”**

With 196 programs in operation under 25 ministries and a budget of 15.8 trillion won, the government-financed job creation project underwent an in-depth performance evaluation in the first half of this year in preparation for an all-out reform. The project aims to provide support to those searching for and maintaining employment as well as helping them foster the necessary skills.

The fact that a comprehensive evaluation is being implemented at this point in time implies that the project is serving an increasingly important function; a function that has continued to evolve in line with Korea’s economic development and environment. The current economic landscape can be characterized by the advent of a fourth industrial

\* This paper is written based on Korea Development Institute, “In-depth Performance Evaluation for Full-scale Reform of Job Creation Project,” 2016 (forthcoming) (*in Korean*).

revolution and industrial restructuring. Under the circumstances, to better prepare and motivate people to find jobs, the government will have to: provide support to foster individual capabilities; reduce the risks of failure; and create a market environment in which people can take risks and attempt new things.

Indeed, the aforementioned evaluation found that the current challenges can only be solved with a full-scale reform. Attitudes and practices established during Korea's rapid growth and post-foreign exchange crisis periods, when there was a mass expansion of welfare, must be altered to conform to the times. Above all, core principles must move away from trying to sustain existing jobs and businesses and focus on boosting the economy's metabolism and enhancing the entry to and exit from the labor market while protecting the vulnerable population.

## I. A Changing Economic Environment and Significance of the Job Creation Project

If developments in skill-biased technology and shorter technology cycles were the topics *du jour* during the 1980s, technology that can perform repetitive tasks to replace human labor has become the buzz word for the 2000s (Acemoglu and Autor, 2011). In particular, it is expected that the diagnosis of a fourth industrial revolution, triggered by the rapid developments in artificial intelligence (AI) and IT, will further accelerate the race between man and machine.

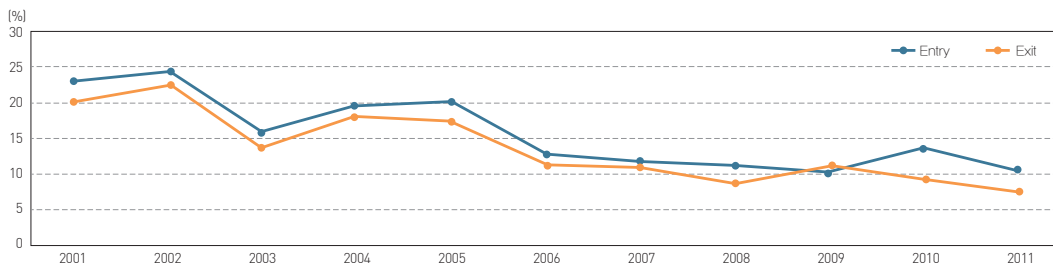
This implies that the ability to adapt to new environments has now become more important than ever. A key obstacle would be to have a system in which labor and capital are locked into non-productive sectors. As such, attaining systematic flexibility to efficiently allocate capital and labor to highly productive sectors while swiftly weeding out the weak will be a core competitiveness in a rapidly evolving environment. For this, the government will have to reinforce social safety nets to alleviate fears that may arise from change by promoting workers' employment abilities and mobility and providing support to start-ups; now referred to as 'job creation projects,' these efforts and government programs can be seen around the world.

Korea's slowing economy makes its job creation project notably more important. Upon entering the 2000s, Korea's firm dynamics, a key indicator of economic energy, exhibited sharp drops in both the corporate entry and exit rates [Figure 1]. As a result, recent job creation has centered around the low-paid service industry [Figure 2], a large share of which is care work. Thus with little significance for highly educated women and young jobs seekers, it is highly doubtful that such an increase will lead to improving employment rates.

To reinvigorate the labor market under the circumstances, current regulations must be

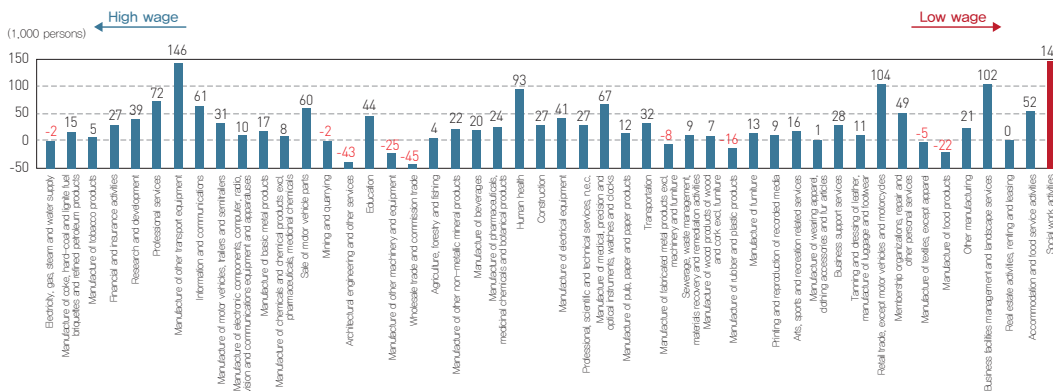
Business entry and exit rate, which remained above 20% until the mid-2000s, have receded to around 10%, and job creation is centered around low-paid and less-skilled occupations, implying a weakening of economic activities.

[Figure 1] Industrial Entry and Exit Rates



Source: Korea Development Institute, "In-depth Performance Evaluation for Full-scale Reform of Job Creation Project," 2016 (forthcoming) (in Korean).

[Figure 2] Employment Increases by Sector (2009-2013)



Source: Korea Development Institute, "In-depth Performance Evaluation for Full-scale Reform of Job Creation Project," 2016 (forthcoming) (in Korean).

[Figure 3] Labor Market Regulations and Changes in the Significance of the Job Creation Project

"Job protection via labor market regulations"

"Protection via the Job Creation Project and mobility support"

Labor reform + Effectiveness of the Job Creation Project ▲

Source: National Economic Advisory Council and Korea Development Institute, "Evaluation for Full-scale Reform of Job Creation Project," 9th National Economic Advisory Council, Jun. 28, 2016.

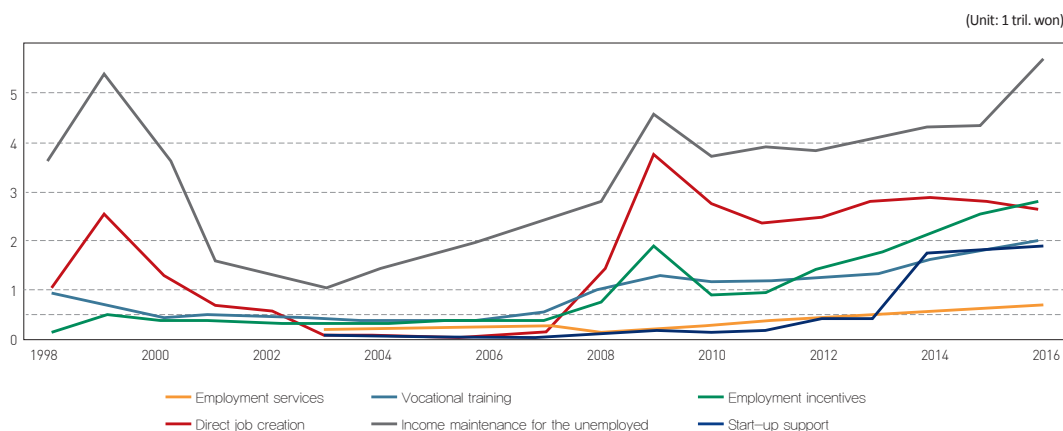
needed to broaden the role that is needed for the Job Creation Project. The role of labor market regulations, which can obstruct dynamics and activity, must be curtailed. However, since the necessity to protect the vulnerable population cannot be abated, what is needed in this regard is to protect them without relying on regulations.

Specifically, past market regulations and labor laws that have acted to restrict economic activity must be set aside, and emphasis must be placed on providing fiscal support to disadvantaged workers and dropouts, and on reinforcing the role of promoting labor mobility, including start-ups. This means that the coverage of existing protection regulations will need to be scaled down and the void supplemented with the Job Creation Project.

The Job Creation Project should replace existing regulation-centered protection methods to encourage more activity, while eliminating concerns over change by protecting labor market dropouts.

In other words, the project should serve as a substitute for existing regulations while complementing labor reforms.

[Figure 4] Budget Changes by Program



[Figure 5] Classification and Major Programs of the Job Creation Project

(Unit: 100 mil. won)

| Employment incentives  | Vocational training  | Start-up support   | Employment service  | Direct job creation   | Income maintenance for the unemployed   |
|--|--|--|---|---|---|
| <ul style="list-style-type: none"> <li>•Maternity protection, Child care support(9,297)</li> <li>•Elimination of blind spots in social insurance(5,202)</li> <li>•New growth fund—support to gazelle company(2,800)</li> </ul> | <ul style="list-style-type: none"> <li>•Provision of vocational training expense to business proprietors (5,263)</li> <li>•Capacity development support for job changers and seekers(3,741)</li> <li>•Support to the consortium for national human resource development (2,733)</li> </ul> | <ul style="list-style-type: none"> <li>•Fund for start-up companies (loans) (14,500)</li> <li>•Support for entrepreneurship commercialization (1,133)</li> <li>•Subsidy for second take off (loans) (1,000)</li> </ul> | <ul style="list-style-type: none"> <li>•Support for 'Successful Employment Package'(3,147)</li> <li>•Manpower support for employment centers(593)</li> <li>•Operation of employment security offices (467)</li> </ul> | <ul style="list-style-type: none"> <li>•Support for activities of the disabled(5,009)</li> <li>•Operation of elderly jobs (3,824)</li> <li>•Self-sufficiency promotion projects(3,273)</li> </ul> | <ul style="list-style-type: none"> <li>•Job-seeking benefits(51,228)</li> <li>•Substitute payment(3,146)</li> <li>•Early reemployment bonus(1,475)</li> </ul> |
| 28,208   | 19,716   | 19,148   | 6,904   | 26,342  | 57,478  |

Source: Korea Development Institute, "In-depth Performance Evaluation for Full-scale Reform of Job Creation Project," 2016 (forthcoming) (in Korean).

## II . Overview of the Job Creation Project

Korea's Job Creation Project was implemented in earnest during the foreign exchange crisis in response to the dire unemployment situation and underwent two large-scale expansions (peaks in Figure 4) in the late 2000s during the financial crisis. Active labor market policies were initiated in the process of overcoming the economic crisis including an expansion of vocational training programs and mass implementation of the Direct Job Creation Project. Recently, efforts have been made to significantly extend the employment services and start-up support programs.

The Job Creation Project is currently comprised of employment services, vocational training, employment incentives, government-led direct job creation, start-up support and

&lt;Table 1&gt; Obstacles posed by the Job Creation Project to the Economic Metabolism

(Unit: %)

| Program  | Authority                                | 2016 budget<br>(1 mil. won) | Target  | Description  |
|--|--|-----------------------------|---|--|
| Employment promotion subsidy                   | Ministry of Employment and Labor         | 101,327                     | Workplace with disadvantaged job seekers        | Of target beneficiaries, ① small-sized workplaces with less than five employees account for a little over half (54%), and of which 36% are frequent recipients—received the fund more than twice—and ② only 48% are found to have retained employment for more than six months. This implies that the fund has been used as a labor cost subsidy for small business. |
| Elimination of blind spots in social insurance | Ministry of Employment and Labor         | 520,227                     | Workplace with less than 10 employees           | Barely effective in increasing the number of insured, whereas deadweight loss from subsidizing incumbent subscribers has reached 98%, implying the program has been no more than a subsidy for small business.   |
| New growth fund (loan)                         | Small and Medium Business Administration | 280,000                     | SMEs described by Framework Act on SMEs         | Data for 2013-2015 revealed that financial support to companies aged less than five (seven) years account for merely 10% (20%) of total outflow.   |
| Youth internship for SMEs                      | Ministry of Employment and Labor         | 194,078                     | Workplace with five or more full-time employees | Contributed more to resolving the manpower shortage faced by SMEs than to upgrading work capability of the youth population.   |
| Job training for strategic key industries      | Ministry of Employment and Labor         | 3,741                       | Job seekers                                     | Effective in aiding declining industries that job seekers avoid.   |
| Training program provided by employers         | Ministry of Employment and Labor         |                             | Entire establishments                           | Of the training programs provided by business proprietors, 98.2% are intended for regular workers, implying that there is little access for non-regular workers who in desperate need of ability development.  |

Source: Korea Development Institute, “In-depth Performance Evaluation for Full-scale Reform of Job Creation Project,” 2016 (forthcoming) (in Korean).

unemployment benefits, amongst others. And as of 2015, 5.1 trillion won was allocated to job-seeking benefits, 1.5 trillion won to start-up companies (loans) and 0.9 trillion won to maternity leave, with a total of 15.8 trillion won allocated to all job creation programs; unemployment benefits (5.7 trillion won), employment incentives (2.8 trillion won), direct job creation (2.6 trillion won) vocational training (2 trillion won), start-up support (1.9 trillion won) and employment services (0.7 trillion won), respectively (Figure 5).

### III. Problems of the Job Creation Project

#### 1. Slowing economic metabolism

In a time when economic dynamism has never been more urgent, the job creation project should serve as a supplementary injection. However, the Korean job creation project is currently structured in a way that clogs up the metabolic process of the economy through a number of seemingly targetless subsidies. This is because much of the support focuses on sustaining unproductive companies for fear of an instant drop in the employment rate. A prime example is the subsidy for employment promotion which is designed to encourage hiring from the vulnerable population. The subsidy lacks specific targeting, and merely serves a means of support for small businesses. Currently, workplaces with less than five employees account for as much as 54% (Ministry of Employment and Labor, 2016) of the target beneficiaries, and given that these small

Of the target beneficiaries of the employment promotion subsidy, small-sized workplaces with less than five employees account for 54%, but given their constant difficulties of manpower shortages and poor employment conditions, it is almost meaningless to give them a subsidy in the name of employment promotion.

&lt;Table 2&gt; Employee Participation in Training Courses Provided by Employers

(Unit: No. of persons, 1 mil. won)

|                                  | Category           | Category              | Total expense        |
|----------------------------------|--------------------|-----------------------|----------------------|
| Composition of course attendants | Total              | 2,318,626 (100%)      | 246,552 (100%)       |
|                                  | Regular workers    | 2,276,804 (98.2%)     | 239,866 (97.3%)      |
|                                  | Subtotal           | 41,822 (1.8%) [100%]  | 6,685 (2.7%) [100%]  |
|                                  | Short-term workers | 11,610 (0.5%) [27.8%] | 700 (0.3%) [10.5%]   |
|                                  | Dispatched workers | 1,731 (0.1%) [4.1%]   | 274 (0.1%) [4.1%]    |
|                                  | Daily workers      | 2,280 (0.1%) [5.5%]   | 215 (0.1%) [3.2%]    |
|                                  | Fixed-term workers | 26,200 (1.1%) [62.6%] | 5,495 (2.2%) [82.2%] |

Note: Figures in [ ] are the proportion relative to regular workers.

Source: National Economic Advisory Council and Korea Development Institute, "Evaluation for Full-scale Reform of Job Creation Project," 9th National Economic Advisory Council, Jun. 28, 2016.

establishments face constant difficulties of manpower shortages and poor employment conditions, it is almost meaningless to provide them with a subsidy in the name of employment incentive.

The problem with financial aid such as the above, is that they fail to satisfy the target group, in this case the vulnerable population and hinder the economic metabolism by disabling the mechanism that removes weak and incompetent companies from the market to allocate resources such as capital and labor to more productive sectors. Meanwhile, those in desperate need of help have not been provided sufficient support for better mobility. For instance, non-regular workers account for 32.5% of all employees, but they are offered only 1.8% of the training courses provided via employers (Table 2).

## 2. Weakened efficacy due to market signal-interference from government-led practices

A characteristic unique to Korea's Job Creation Project is that government-led practices which were established during Korea's rapid economic growth period, including the selection of key industries and provision of preferential treatment, are still very much prevalent today.

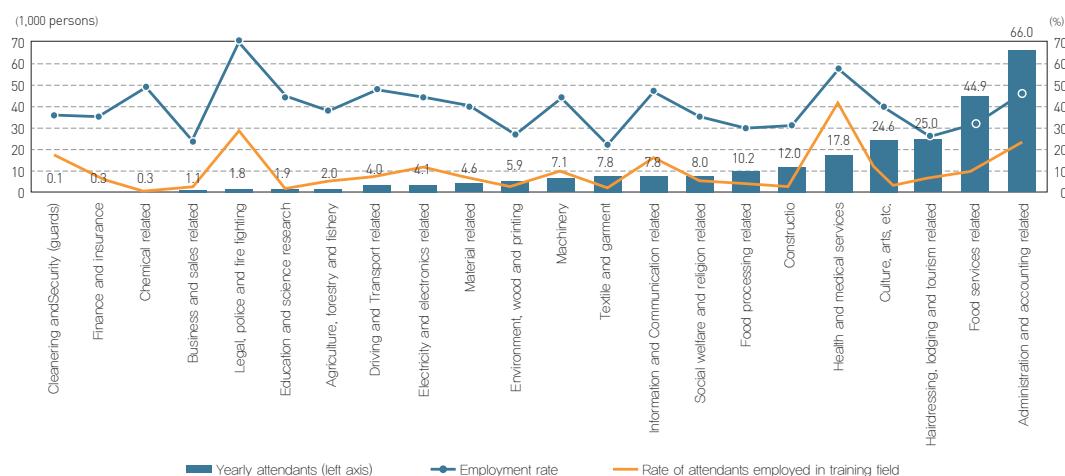
Vocational training and employment services have been designed to help those who have been temporarily thrown out of the labor market upgrade their skills and find jobs, thus it is critical for them to remain sensitive to market signals and to respond swiftly. However, the management of vocational training programs has been rigid, with the number of vocational training courses being allocated and fees tightly controlled. This has resulted in a considerable discrepancy between the fields that are providing the job training and job-creating fields. Currently, of those providing training programs for the unemployed (individual training account system), only 36% are hired at workplaces covered by employment insurance, and less than 10% are hired for the job they were trained for (almost all sectors). Additionally, government-led councils continue to designate strategic industries and offer them preferential treatment, which has been widely criticized as it serves to intentionally sustain the flow of manpower to declining industries.

Practices of supporting incompetent companies with various incentives for fear of fewer jobs is no different that intentionally prolonging their survival and thus discriminating potential entrants and hindering the economic metabolic process.

Non-regular workers account for 32.5% of all employees, but only 1.8% were given training program provided by employers.

Market function has not been fully active due to the tight control of quantity and pricing of training programs and the shortage of fiscal support targets. Consequently, of those who completed vocational training for the unemployed, only one of ten is hired for the job he/she was trained for.

[Figure 6] Relation Between Real GDP Per Capita and Share of the Secondary Industry (2014)



Source: Korea Development Institute, "In-depth Performance Evaluation for Full-scale Reform of Job Creation Project," 2016 (forthcoming) (in Korean).

The strategy of predicting market trends, planning manpower supply and demand and selecting targets of government support might have worked effectively in the past, but it does not fit in with the present which demands individual creativity and voluntary conversion.

Similarly, in employment services, officials from central government take turns to monopolize the head position of employment service centers, which demands high expertise and vast field experience. And, despite the fact that they play a vital role in matching relevant policy resources, job seekers and companies using market signals and must therefore remain sensitive to market movements, the field is fraught with rigid management.

### 3. Fragmented operation and poor performance management

At present, ministries are unable to pursue unified goals and user convenience has been hampered due to the fragmentation of operations across the government sector; each has a different means of operation, from project planning and budgeting to the delivery system. And such practices have become an integral part of the current ministry-centered work process. Serving as a prime example is the Direct Job Creation Project through which the government directly employs job seekers. In 2009, during the financial crisis, the budget for the project was significantly increased to 3.1 trillion won (0.22% of GDP) from 1.5 trillion won (0.05% of GDP) in 2008.<sup>1)</sup> Then, instead of being downsized after the crisis, it was turned into a permeant project for each ministry. In short, Korea's Direct Job Creation Project has changed regardless of the unemployment rate or economic cycle (Figure 7, 8), unlike in other advanced countries.

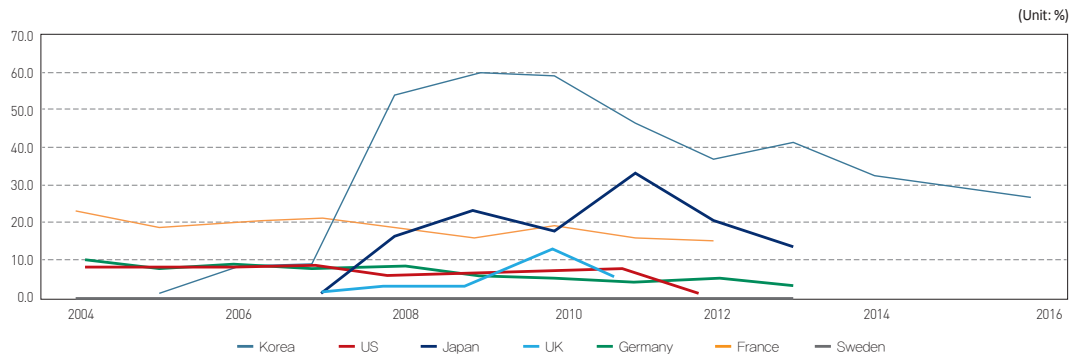
At the fore of the fragmentation is the aforementioned delivery system. Ministries have their own on- and off-line interface systems that are accessed by the Job Creation Project

The lack of a unified performance management system is the main reason behind persisting job creation projects that are scattered broadly across ministries. Besides, project performance indicators such as the employment rate and wage are relatively easy to compile but still, a unified system for comparison has not been established.

1) OECD countries who experienced economic crises in the same period exhibited little change in their budget for job creation projects at 0.05% between 2007 and 2009. Compared to them, Korea seems to have been heavily dependent on its Direct Job Creation Project (Phang, 2013).

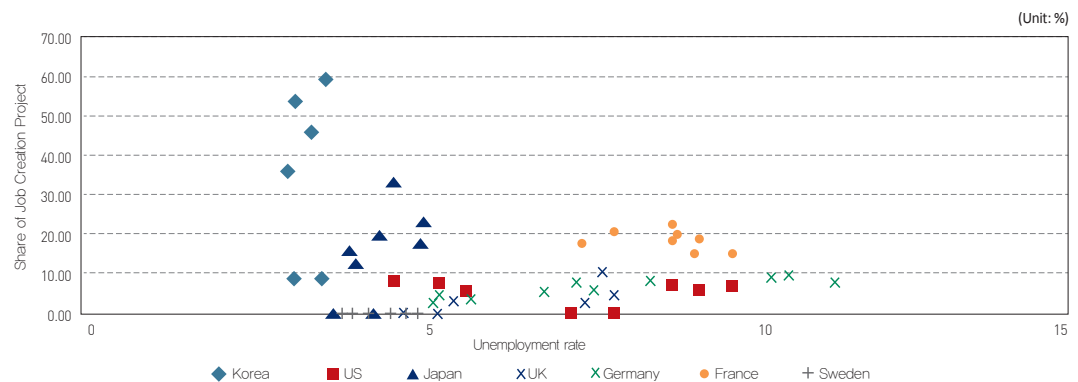


[Figure 7] Proportion of the Direct Job Creation Program in Active Labor Market Policies



Source: Performance Evaluation for Full-scale Reform of the Job Creation Project, Korea Development Institute (2016).

[Figure 8] Unemployment Rate and Proportion of the Direct Job Creation Program



Source: Performance Evaluation for Full-scale Reform of the Job Creation Project, Korea Development Institute (2016).

Of 196 projects handled by 25 ministries, only 64% submitted basic statistics on users within the deadline of fact-finding survey, implying poor management.

and job seekers. And because the interfaces are operated separately, users have found that they are almost impossible to use without some form of prior knowledge; New Job Center under the Ministry of Gender Equality and Family, the Elderly Job Project under the Ministry of Health and Welfare and the Veterans Employment Service under the Ministry of National Defense.

The lack of a unified system at the government level will make it extremely difficult to monitor the performance of respective service providers in a uniform manner. On the other side of the argument, it can also be said that the persistence of such fragmentation is owed to an inefficient unified performance management system. At present, performance indicators for job creation projects for each ministry are disassociated, thus making it difficult to assess whether a program should continue or not.

This also means there is a lack of measures (set standards or principles) to prevent the relationships between the interested parties from becoming 'locked' or 'rigid.' For instance, it is often the case that once an independent fostering system is initiated or a vocational training program is commissioned to a third party, ministries will avoid comparing project performance, using the peculiarities of a project as an excuse. Under the circumstances, the HR development institutions that have been established to provide

vocational training become financially dependent on the respective ministry, and hence a highly desperate relationship between the two is formed. At present, 17 ministries are operating 55 vocational training programs and none have compared or disclosed their project performances to the public, even though the necessary indicators are relatively simple, such as the employment rate, employment rate confirmed by employment insurers, employment retention rate and payroll level.

The lack of an integrated management function in the Job Creation Project is also apparent in the status of statistics management. According to a fact-finding survey on 25 ministries in March 2016, only 75.5% of projects submitted their basic statistics on the number of users within a week of the survey and a mere 63.8% were found to compile other basic statistics, such as that on gender proportion and age. Indeed, the poor management of basic statistics implies that the Job Creation Project has long become a permanent ministerial institution, and hence poses little threat of expulsion or retribution.

#### IV . Improvement Direction

The Korean economic environment today can be characterized by a changing economic structure and an uncertain future, which includes industrial restructuring and the advent of a fourth industrial revolution. As such, amid the rapid change, uncertainties and vast dissemination of IT, it has become vital to establish an environment that enables, rather than inhibits, the pursuit of new goals.

Accordingly, the Job Creation Project must now focus on boosting economic metabolism in a market that is constantly changing with new businesses and industries and a mobile workforce. Moreover, pressure from vested groups calling for the protection of existing companies and jobs will always be present, and giving into their demands will be no different than giving up future jobs and discriminating against potential entrepreneurs and job seekers. Therefore, the project must direct its attention to protecting people not businesses and the means of protection should evolve from “guaranteeing a certain level of unconditional protection” to “helping to successfully navigate through the change while taking new risks.”

In order to help individuals do so, the government should not distort market signals, meaning the government should focus its efforts on reforming the market environment including market regulations, instead of trying to lead the market itself. And, rather than controlling the quantity and fees of vocational training programs and the contents of employment services, the government needs to acknowledge private service providers, while compiling full performance data and linking them to financial support decisions. Practices of supporting potentially declining occupations by including them in strategic

Instead of controlling the quantity and fees of vocational training programs and the contents of employment services, the government needs to acknowledge private service providers, while compiling full performance data and linking them to financial support.

A wide range of incentives must be made available to the disadvantaged who cannot gain employment without government support, and projects that merely support business because they are small or lack funds must be downsized.

industries must be avoided, but promising industries for the future should be given full support. While doing this, their performance should be monitored closely and consistently in order to prevent them from becoming rigid.

Besides, a wide range of incentives must be made available to the disadvantaged who cannot gain employment without government support, and projects that merely support business because they are small or lack funds must be downsized. In addition, the integrated performance management system, a basic policy infrastructure for the Job Creation Project, needs to be reformed to a great extent. The key responsibilities should include actively gathering and posting information from vocational and employment service providers as well as information on the quality of service, hiring statistics, wages and retention period, and operating relevant websites. In particular, it is necessary to stipulate specific guidelines for the size of government grants, pricing of services and the contents and means of governmental intervention so as to curtail the excessive discretion of government officials in the field. Furthermore, the head of employment centers should act to establish a performance-based governance system which centers on public participation, responsible management and comprehensive outsourcing with the private sector. Indeed, the current Direct Job Creation Project is overly extensive, and thus should adopt a mechanism that can adjust the project size in accordance to the economic cycle in order to prevent random and disorderly extensions of projects across ministries and to strengthen the requirements for repeated receipt of subsidies.

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