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POLICY PAPER SERIES

IZA Policy Paper No. 63

Youth Unemployment in Korea: From a German and Transitional Labour Market Point of View

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May 2013

Forschungsinstitut
zur Zukunft der Arbeit
Institute for the Study
of Labor

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Policy Paper No. 63
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May 2013

ABSTRACT

Youth Unemployment in Korea: From a German and Transitional Labour Market Point of View[1]

By conventional statistics, youth unemployment seems to be quite moderate in Korea: 'only' 9.6 percent of the 'active' youth labour force was unemployed compared to 21.4 percent in EU-27 in 2011. Germany, with a youth unemployment rate of 8.5 percent, is one of the very few European countries outperforming Korea. But the Korean case is in one respect unusual. From the perspective of intergenerational risk sharing Korea's youth unemployment rate is 4.6 times higher than the unemployment rate of adults aged 45 to 54; in Germany, this figure is only 1.7. Further peculiarities come up if unemployment is measured by the number of youth not in employment, education or training (NEET) in percent of the total youth population. Korea's NEET figures are at the top in OECD countries, especially for youth with tertiary education. This paper throws some light to explain this conundrum: It sketches, first, the main causes of youth unemployment and the general policy interventions; because a large part of the problem is structural, possible immediate measures to avoid long-term scar effects for the unemployed youth are briefly reviewed; differences between Europe and the United States show in particular the importance of automatic stabilizers like unemployment insurance in order to reduce the pressure on unfavourable risk sharing for youth in times of recession. The main part is devoted to possible lessons for Korea from Europe, in particular from Germany. Dual education and vocational training systems that emphasise middle level and market oriented skills are identified as institutional device both for fairer intergenerational risk sharing as well as for a smoother transition from school to work. In its outlook, the paper comes back to the puzzle of highly and academically inflated youth unemployment by referring to a possible hidden cause in Korea: A strong insurance motive might explain the overall striving for an academic degree inducing not only wasteful congestion at labour market entries but also unfair job allocation through credentialism.

JEL Classification: E24, I24, J64

Keywords: youth unemployment, education, vocational training, labour market policy, transitional labour markets, risk sharing

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[1] This essay results from the contribution to a debate on youth unemployment during the Asian Leadership Conference 2013 in Seoul, March 26-27. I thank Jutta Höhne for assistance in preparing the figures, and Christian Brzinsky-Fay, Christian Ebner, Silke Gülker, and Weon-Ho Jeong for comments on previous versions.

Youth Unemployment in Korea:
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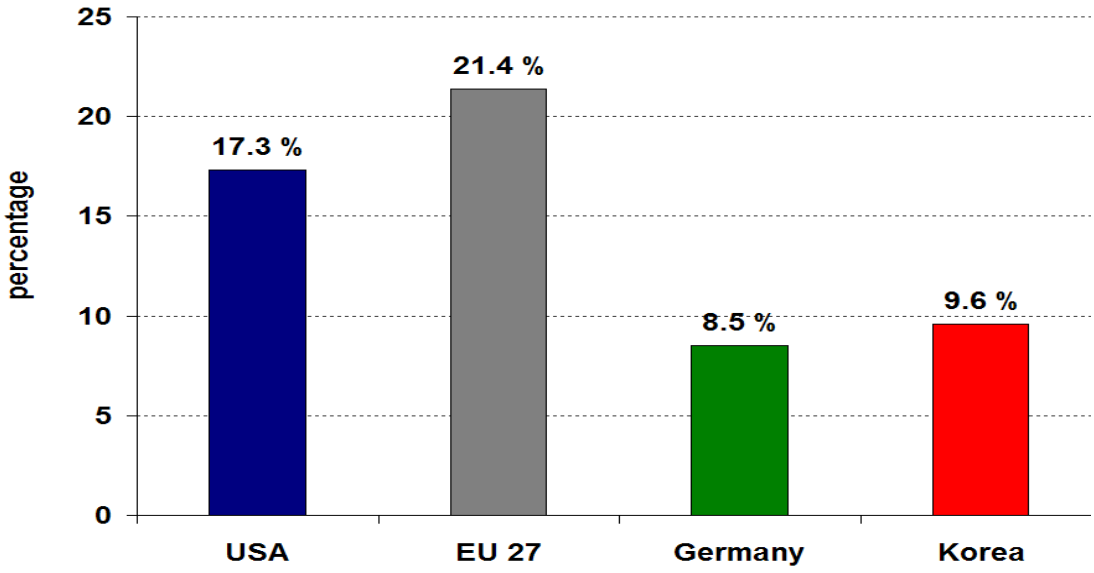
Introduction

According to OECD figures, youth unemployment seems to be quite moderate in Korea: Compared to the United States and in particular to Europe, youth unemployment – conventionally measured as a percentage of the corresponding 'active' labour force – was only 9.6 percent in 2011 compared to 21.4 percent in all European Member States (EU-27) and 17.3 percent in the USA. Germany, with an unemployment rate of 8.5 percent, is one of the very few European countries outperforming Korea in this respect (Figure 1).

Figure 1: Unemployed youth as % of 'active' labour force, age 15–24, 2011



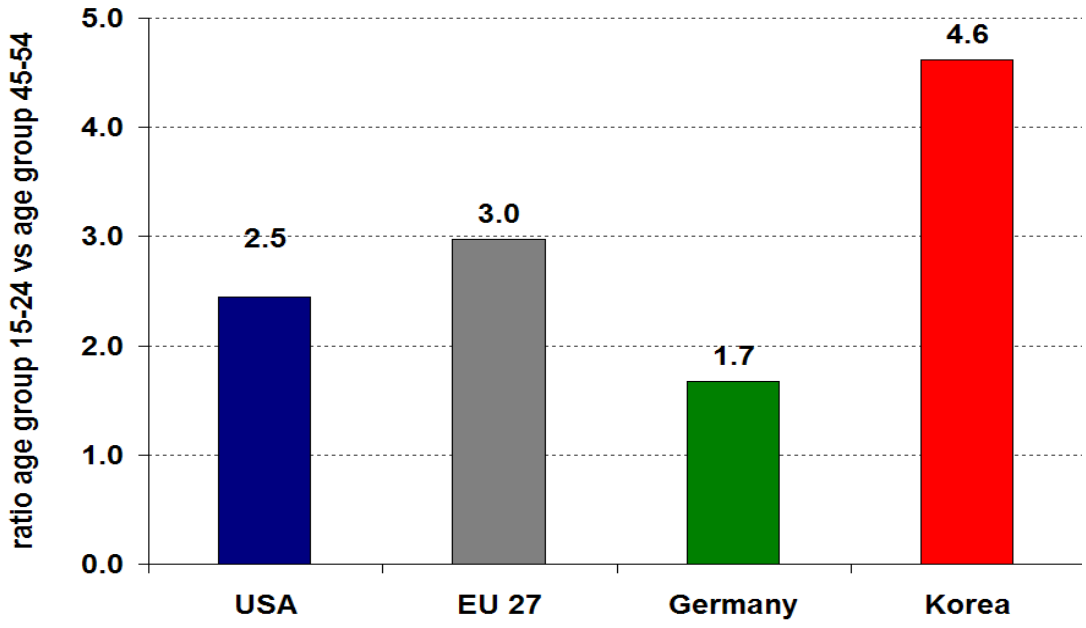
Source: OECD stats, own presentation

The Netherlands, Austria and Switzerland are the other countries which have relatively low levels of youth unemployment. On the other hand, there are EU member states with

incredibly high levels of youth unemployment, lifting the overall average level in Europe: In 2011, Greece and Spain had levels of around 45 percent, and Portugal, Italy and Ireland had levels around 30 percent (Figure 1A, Appendix). More recently, these figures have even worsened. The German case, however, was not always so exceptional particularly if we look back prior to the recession (Figure 2A, Appendix): Its current 'comfortable' level of youth unemployment obviously reflects the recent 'German job miracle' to a large extent (Biavaschi et al. 2012, Eichhorst 2012, Rinne and Zimmermann 2013), whereas the US case seems to be largely the consequence of its drastic labour market deterioration during the last recession, hitting young people in particular (Bell and Blanchflower 2011).

However, even in terms of conventional measures, the Korean case is in one respect unusual. From the perspective of *intergenerational risk sharing* Korea's youth unemployment rate is 4.6 times higher than the unemployment rate of adults aged 45 to 54; in the US this figure is 2.5, in Germany 1.7 (Figure 2).

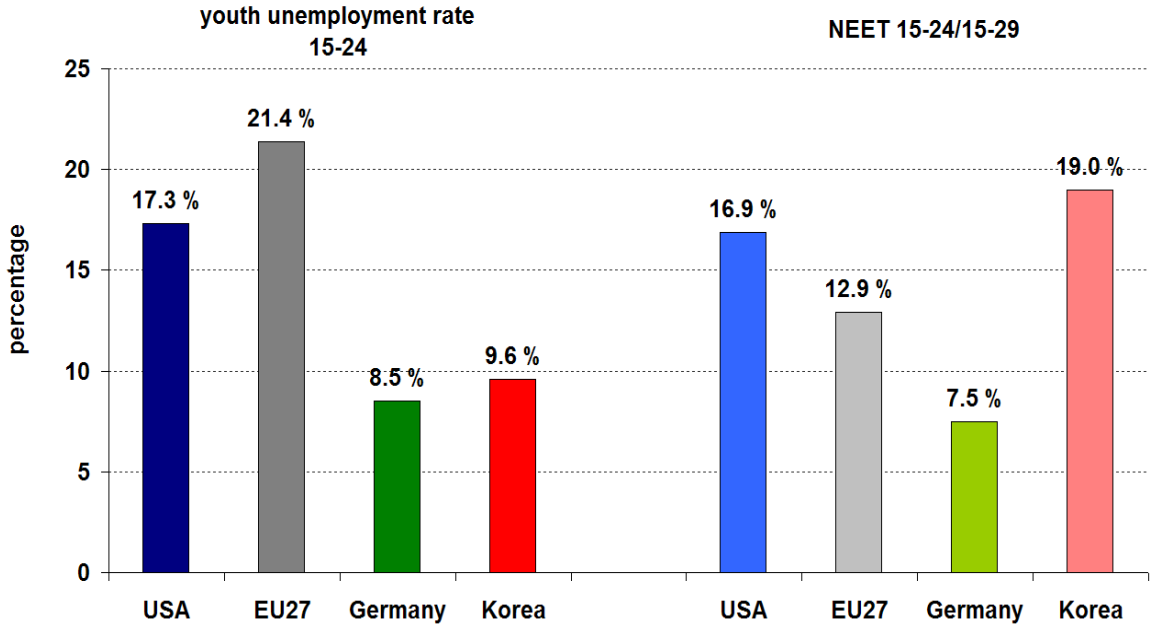
Figure 2: Intergenerational risk sharing: Youth unemployment compared to the unemployment of core age group 45 to 54



Source: OECD stats, own calculation and presentation

This is the first puzzle to be resolved. However, there is another conundrum. The conventional measure of youth unemployment has serious flaws leading to a lot of confusion: it does not consider that many young people become discouraged and withdraw from the 'active' labor force.[2] Youth unemployment measured in *NEET* takes a broader spectrum of jobless people into account: *Youth not in employment, education or training* as a percentage of the *total youth population* is much higher in Korea (Figure 3): 19 percent for the age group 15 to 29.

Figure 3: *Youth unemployment measure according to conventional statistics (measured as a percentage of 'active' labour force, left panel), and according to NEET (youth not in employment, education or training as a percentage of the total youth population, right panel)*



The figures for NEET are not strictly comparable due to different times (USA/Korea 2009) and age groups (USA/Korea 15–29). Sources: NEET for USA OECD Economic Surveys Korea 2012, from Figure 10, p. 24; for EU/ and Germany: Employment and Social Developments in Europe 2012

[2] The European media, for instance, often report that about half of Greek or Spanish youth (about 50% or one of two) are unemployed. This is correct related to the baseline of the active "labour force" (the employed and the unemployed); but it is wrong measured in relation to the whole youth population. In 2011, youth unemployment as a percentage of the population aged 15–24 was "only" 19% in Spain (one of five), and "only" 13% in Greece (European Commission 2012: 412-3). See also Figure 3A in Appendix which displays youth unemployment rates by the youth population concept in a time series for US, EU-21, Germany and Korea, showing the US in a less favourable light than EU-21, and Korea in a more favourable light related to the US, EU-2,1 and even to Germany.

Whereas the US figures do not much differ, the German NEET figure for youth aged 15–24 is even lower. For the age group 15 to 29, however, in Germany the figure is higher (11.6 %) though still lower than in Korea.

For youth with an academic education the Korean figure is even worse. In 2011, 72.5 percent of high school graduates advanced to tertiary education, but in recent years only about half of university graduates have found regular jobs. Consequently, 25 percent of tertiary graduates under the age of 30 in 2009 were inactive, engaged neither in employment, nor in education, double the OECD average. Comparing the level of educational status, the German NEET rate for youth aged 15 to 29 is 'only' about 7.5 percent (OECD 2012: 24).

So, Korea has a serious youth unemployment problem, and this problem seems to be particularly related to those youth with tertiary education, whereas Germany, too, obviously has a youth unemployment problem which, however, is mainly related to low educational status.

In the following, I will throw some light on the following questions: First, what are the main causes of youth unemployment, and which policy interventions in general could contribute to solving the problem? Second, what kind of policy measures could be immediately taken to avoid long-term scar effects for unemployed youth? Third, what are the main differences between European and the United States-related policy interventions against youth unemployment? Fourth, what lessons (and which not) might Korea learn from Europe, in particular from Germany? In the outlook I come back to the puzzle of highly and academically inflated youth unemployment in Korea by referring to a possible hidden cause: A strong insurance motive might explain the overall striving for an academic degree.

1. Main causes of youth unemployment and possible policy interventions

Youth unemployment has three main causes, and all three may be interconnected: (1) Lack of jobs due to economic slumps and loss of international competitiveness; (2)

mismatch between skills demanded by existing jobs and skills provided by the educational system; (3) labour market rigidities due to inflexible wages, employment protection, high non-wage costs due to a generous welfare state or even discrimination. In the following, however, I will only briefly sketch the main points based on a quite selective review of the literature; the discussion of corresponding policy interventions also only touches on the main strategic lines without going into a deeper debate.

1.1 Youth needs more jobs

There is no need to prove that youth are the most vulnerable group in economic slumps when demand collapses: They are the first to be dismissed, and companies close their doors on new recruitments first for the young without work experience (e.g. Kawaguchi and Murao 2012). Furthermore, the last recession was particular in one respect: Those European countries that experienced the largest increase in youth unemployment[3] also had sharp declines in house prices during the Great Recession, suggesting a direct link to the youth labour market because a disproportionate number of the young work in construction, which has suffered particularly from the effects of property price bubbles (Bell and Blanchflower 2011).

The first thing, therefore, that governments can do is to help mitigate economic slumps through deficit spending in the slump and by savings in the boom. Such Keynesian instruments have some value but are limited due to policy failure: Politicians like to spend but not to save; short-term investments are often misplaced (remind, e.g. bridges without connections in Japan); and good investments take time.

So, the best thing that governments can do is to bind themselves to the mast of the ship like Ulysses against the Sirens in Greek mythology. In other words: to resist tempting but dangerous policies and to build instead *automatic stabilizers* into the system: For instance, *unemployment insurance* which maintains effective demand during the crisis; s*hort-time work allowance* which prevents any unemployment through risk sharing among workers,

[3] For example: Estonia (+20.7), Ireland (+18.4), Latvia (+23.2), Lithuania (+26.1) and Spain (+21.6) from the beginning of 2008 to the third quarter of 2010.

employers and the state during a crisis; *health insurance for all* independent of having or not having a job; *reliable basic pensions* independent from the individual work-life career which is often determined by pure luck. All these automatic stabilizers maintain not only consumers' demand in crisis but also their trust in the economic recovery. Research in Europe shows countries with such automatic stabilizers have performed best and have kept youth unemployment within reasonable limits (Dolls et al. 2011).

The second thing that governments can do is to support sustainable competitiveness through setting the right framework conditions for innovative private investment, e.g. through effective control of financial markets and the deregulation of product market monopolies. Some targeted industrial policy also helps to create new jobs, e.g. by fostering green technologies as well as information and communication technologies. Since both industrial areas are globally interdependent, some international coordination of growth strategies is necessary. This holds especially true for the still nationally fragmented Eurozone.[4] One example of what happens if governments are not investing enough in competitive technologies can be observed in some European countries like Spain and Greece, where youth unemployment now exceeds (conventionally measured) 50 percent. France has also lost its competitiveness, which is reflected, for instance, in the drastic decline of jobs in manufacturing. In 2000, France still had 20 percent of jobs in manufacturing; in 2011 only 12.5 percent; in Germany, the share of manufacturing jobs even increased to 26.2 percent during this time.

An important framework condition in Germany has been wage moderation through a cooperative partnership among trade unions and employers associations – a partnership protected and supported by the government. Other framework conditions are a broadly skilled, middle-level workforce of craftsmen and engineers maintained through an extensive apprenticeship system, and an active industrial policy by governments at the regional level supporting, in particular, the German "Mittelstand", which means small- and medium-sized companies.

[4] For the need of creating an "adequate fiscal capacity" in the Eurozone (see Alberto Majocchi 2013).

Of course, the decline of manufacturing can be compensated to some extent through intelligent services. But these cannot be restricted to luxury articles like the French brand names Louis Vuitton, Hermès and Yves Saint-Laurent. A competitive service industry must be related to mass markets like financial or insurance services, information and communication technologies, and education or health services. South Korea's manufacturing also declined dramatically; it seems that Korea's youth unemployment is somehow related to this decline and to the lack of exportable high-quality services. In this respect, governments can play an important role in creating jobs related to public goods like education, health, child and elderly care. Korea's economy is strong, but its job creation dynamic is low in high-quality services, reflected, for instance, in low employment rates for women compared to the US and Germany (Figure 4A, Appendix).

The third thing that governments can do is allocate resources for special youth measures in the framework of activating labour market policy in an anticyclical way. European research shows that – on average – increasing ALMP expenditure per unemployed worker by 1 percentage point of GDP per member of the labour force lowers the overall youth NEET risk by 0.15 percentage points (European Foundation 2012). Switzerland (with relatively low youth unemployment) is one of the few countries to have established an anticyclical expenditure rule for active labour market policy (Duell et al. 2010).

So, governments can do a lot, not least – and that sounds like a paradox – by strengthening market principles, for instance, opening access to markets for small and medium-sized enterprises by fighting all kinds of monopolies and ensuring that young people are allocated to jobs by their competence and not by their formal educational status.

1.2 Youth needs the right skills

New jobs often require new skills (Schmid 2012a). But it is a mistake to think that all these new skills require high tertiary education at universities: Time served in formal education is not enough; *what counts*, at the end of the day, *is what you can do with what you know* (Wagner 2012). This becomes all the more true with the internet revolution which allows you full access to all the passive knowledge you may need through

intelligent search machines like Google or Yahoo within seconds. Furthermore, it is a mistake that skills required in the formal education system are sufficient over the whole life course. Lifelong learning is more at stake than a further extension of formal schooling, in particularly in view of complementarities of learning processes (Heckman 2008). And, finally, it is a mistake to believe that all youth enjoy work with abstract symbols possibly combined with a lot of red tape and endless meetings. Many prefer practical work and work with which they can connect some meaning and which gives them a personal identity.

Youth unemployment is lowest in European countries with dual learning systems that connect their education system closer to the labour market. These countries are Austria, Denmark, Germany, The Netherlands and Switzerland (Ebner 2012; Figure 1A, Appendix). On average, increasing the share of upper secondary students that attend dual learning systems by 1 percentage point decreases NEET rates by about 0.04–0.09 percentage points (European Foundation 2012).

Dual education systems correspond to the concept of the *transitional labour market (TLM)*.[5] This concept intends, among other things, to build *institutional bridges between education and work* over the whole life course. Part of the underlying theory is the principle of fair risk sharing and the insight that human capital *and* social capital are not only built in schools but also on the job. The flipside of this insight is that the longer people remain jobless the more their acquired human *and* social capital deteriorates. So, everything has to be done to avoid or to reduce unemployment not only for youth but also for adults, including mature age workers.

Establishing TLMs for youth has five advantages: they combine *learning and working* (1), *learning and earning* (2), *learning and identity building* (3); they also *give voice* to employers *and* workers in determining the content of learning (4); and they *build trust on both sides of the labour market*: through the standardisation of training contents, workers

[5] To the concept of TLM see – among others – Schmid and Gazier (2002), Schmid (2008), Schmid (2011), Muffels (2008), and Rogowski (2008).

can trust that their skills are valued on the market, and employers can rely on the competences of graduates entering the labour market.

1.3 Youth needs the right governance

"Governance" means not just the state, but the effective and efficient cooperation of private, semi-private and public actors. Of crucial importance is the coordination of educational measures, labour market and social policies. For example, even in Sweden, which is in many respects a model country (high welfare and high productivity), youth unemployment is high because the responsibility between school, labour exchange and social service is divided, and because there are strict demarcations between standard education and youth measures, and because there is an overdue emphasis on academically oriented upper secondary school education (Olofsson and Wadensjö 2012). In Austria, Denmark, Switzerland and (partly) in Germany or the Netherlands (with low youth unemployment) you find closer cooperation and coordination between education and work.

Another important requisite for good governance are cooperative industrial relations systems. Well-functioning corporate systems are between a free market and the state! Here *market* means the autonomous determination of wages or working conditions by employers' and workers' representatives. However, the *state* has to play a strong role, too, by acknowledging *and* protecting the resulting collective agreements and by setting minimum standards below which the market is not allowed to work.

Given this institutional framework, corporate governance plays an important role in taming youth unemployment. European research shows that employment systems with cooperative industrial relations systems have lower unemployment and in particular lower youth unemployment. Austria, Denmark, Germany and the Netherlands (all with low or moderate youth unemployment) are examples of *cooperative industrial relations*; whereas France, Greece, Italy, and Spain (all with high youth unemployment) have *hostile industrial relations*. Good cooperation between unions, employers and the state reduces

NEET rates. Specifically, increasing the level of wage coordination by 1 point on the scale reduces NEET rates by about 0.75–0.96 percentage points (European Foundation 2012).

2. Immediate Measures against Youth Unemployment

Most of the suggestions developed above need time for implementation because they refer to structural reforms. They will not provide immediate solutions for many youth currently without a decent job or in further education. But something must be done quickly: Research on youth unemployment for both Europe and the United States show consistently significant scarring effects of early unemployment in later life: *Even after 30 years* wages and happiness are lower than for young people who had a smooth transition from school to work (Bell and Blanchflower 2011).

In the European context, the European Parliament and the European Commission have proposed a *European Youth Guarantee*, which is intended to give every young person under the age of 25 the right to a job, an apprenticeship, further training or a job combined with training if they have been out of work for four months. Of course, this is more easily suggested than done, and there is no one-size-fits-all concept. From European experiences, five strategies are suggested: (1) prevent early school leaving; (2) reintegrate early school leavers; (3) facilitate transition from school to work; (4) foster employability; (5) remove barriers and provide incentives to employers. For each strategy, I proffer one example to provide a gist of what can be done.[6]

(1) Dropping out from schools is the most dangerous pathway for the young and one of the most important drivers for repeated unemployment or long-term unemployment. The reasons for leaving school early are manifold; one important cause is lack of motivation, another is cognitive difficulties. Some countries in Europe (e.g. Luxembourg, Germany) have experimented with *alternative learning environments* for 6 to 12 weeks, called

[6] For an extensive review of measures taken up and recommended see European Foundation (2012).

"mosaic classes" in which young scholars at risk of dropping-out are given various personalised help to return successfully to their class.[7]

(2) For young people who have already dropped out early, *second-chance opportunities* may help, for instance, special preparatory schools (e.g. Belgium, Germany) that provide skills outside the conventional schedule yet validate these skills so that they can be recognised by potential employers.

(3) One quick way to facilitate school-to-work-transitions is to *identify already existing skill deficits on the market and to subsidise youth jobs in these areas*. For example, in the Netherlands, the *XXL Jobs Initiative* offers young people jobs in sectors where the retirement of older workers will lead to a shortage of skills and knowledge. It is intended that the older employees will transfer their skills to the young people and that the young people will receive strong guidance in their transition to the labour market.

(4) Often, formal skills are available and sufficient but work experience is missing. One way to fill this gap is to establish accredited *training companies* providing such experiences. In Austria, young people who cannot find suitable apprenticeship places in a company after leaving compulsory school can get a 'supra-company apprenticeship training', which offers practical training in apprenticeship workshops in specialised facilities – for example in hotels, restaurants, and private or public canteens.

(5) One of the most important barriers for employers when hiring young people is the lack of work experience which leaves a gap between wages and expected productivity. Apart from apprenticeships that already reduce youth entry wages, one way to remove this barrier is to bridge this gap through *temporary wage-cost subsidies* or *temporary exemption from social taxes* for employers recruiting additional (young) jobless workers. In addition, many young jobless people could become entrepreneurs should *business start-ups* be made easier by reducing red-tape, counselling and capitalising unemployment

[7] Related in particular to non-cognitive skills (like motivation, endurance, self-control, curiosity), even earlier interventions directed to disadvantaged children are required (Heckman 2008).

benefits or providing temporary tax credits. Both, recruitment subsidies as well as start-up subsidies have proven quite successful in German evaluation studies.[8]

3. Comparing experiences from Europe and the United States

Comparing Europe and the US, one thing quickly becomes evident: Before the last recession, European unemployment figures had always been higher and recovery from recessions in Europe was always slower than in the USA (Figure 2A, Appendix). But, as already mentioned, the differences in Europe are large (Figure 1A, Appendix). Some countries, for instance, Austria, Denmark and the Netherlands, had and have consistently lower unemployment rates than the USA although their welfare policies are much more generous and universal, which means not targeted only to the poor or disadvantaged, but targeted to all people. So, labour welfare policies as such cannot be the main reason for bad employment performance, all the more that the US performed badly in terms of employment during the last recession: For the EU as a whole, the fall of 1.3 percent in employment during the recession comprised a 2.5 percent reduction in full-time jobs and a 4.2 percent increase in part-time jobs. In the US, the response was even starker, with full-time jobs falling by 7.9 percent while part-time-work increased by 10.1 percent (Bell and Blanchflower 2011).

The main difference between the EU and the USA certainly relates to labour market regulation and social policy: It is easier for American employers to hire and fire than in most European countries; it is easier for employers to change wages according to market conditions; and the average American worker is more mobile than the average European worker. All this plus an excellent higher education system and a steady stream of highly qualified immigrants makes the US the richest OECD country measured in terms of GDP per capita. But there are serious side effects.

For the average American worker, the dominance of free market principles means not only high wage inequality but also much less social security than for the average European

[8] For an overview of German evaluation studies see Heyer et al. (2012); specifically for start-up subsidies see Caliendo and Künn (2010).

worker, in particular in the case of unemployment. Income inequality is one of the highest among OECD countries. The American economist Emmanuel Saez, for instance, calculated that the richest 1 percent of the population increased their income by 11.2 percent from 2009 to 2011, whereas the other 99 percent lost 0.4 percent. In the period from 1993 to 2011, the average real income of the top 1 percent increased by 57.5 percent, and only 5.8 percent for the 'bottom' 99 percent (Saez 2013). These figures no longer correspond to *"justice as fairness"* conceptualised by the American social philosopher John Rawls who said that inequalities are only justified as long as they raise the lot of the most disadvantaged people (Rawls 1971). Furthermore, this inequality corresponds with one of the highest figures related to the index of health and social problems, which includes: level of trust, mental illness or drug and alcohol addiction, life expectancy and infant mortality, obesity, children's educational performance, teenage birth, homicides, imprisonment rates, and social mobility (Wilkinson and Pickett 2009).

To some extent American youth unemployment resembles that of Korea because many formally high-skilled youth are jobless or are in jobs below their educational level. Having a higher education but a low-paid job is not only depressing for the individuals concerned but is also an economic waste for the society. Finally, the average American worker also enjoys only about nine days of paid vacation compared to around 25 days of an average European worker (Schmid 2012b).

During the last decade, some European countries have shown that it is possible to establish flexible labour markets without neglecting social security and fair income policy. This concept is known as *'flexicurity'* closely related to the theory of TLM: workers who have to change jobs over a transition period of unemployment get high benefits for a restricted yet still longer period than in the USA; support through active labour market measures, e.g. training or subsidised employment, is also much higher. Austria, Denmark and the Netherlands are flexicurity-model countries, and after the labour market reforms according to 'Agenda 2010', Germany comes close to this model. Germany's labour welfare policies, however, are much more directed towards the internal flexibility of companies,

for instance, fair risk sharing through short-time work allowances, working time accounts or wage flexibility through collectively bargained wage corridors.

But one should not dismiss the fact that even the USA disposes of labour market institutions beyond the free market principle. Let me briefly mention the *American unemployment insurance system* introduced by Roosevelt in 1935. Sure, this system is less generous than, for instance, in Germany or Denmark (which, by the way, reformed their systems towards more active labour market policy). But a recent paper by the CBO (Congressional Budget Office), consistent with recent European research, rated the US unemployment insurance system as the best of 11 possible countercyclical measures because of its timeliness, strength, and temporary nature. Besides replacing lost earnings to households, the UI job creation strength is estimated to be between two to five times that of infrastructure spending (O'Leary 2013).

So, even considering the US experiences, Korea might well be advised to enhance and not to curtail its employment insurance system by expanding in particular the coverage from a minority to the majority of workers and to spend as much as possible on investive measures such as 'learning and working' for youth and active labour market policy for the adults.

4. Lessons to be learned from Europe – with special reference to Germany

Generally, in these times policy learning might be out of sight due to difficulties of mobilising sufficient resources. However, the current fiscal and economic crisis is not a crisis of resources but a crisis of inequality and speculative use of our (always) scarce resources through some irresponsible banks and a lack of control in global financial markets. The real problem is that too few of these resources are channelled into real investments. We have an investment crisis, including a lack of expenditure into the education of our young generation and active labour market policies which – if properly implemented – are investments and not costly consumption expenditure.

One also has to be aware of the tremendous cost of youth unemployment. In Europe, this cost was estimated to be €153 billion in 2011, corresponding to more than 1.2 percent of GDP. Of course, this cost varies a great deal between Member States (from less than 0.4% to more than 3%), and Europe will not be able to save the entire cost of €153 billion. However, using the unit cost of each person in NEET, the analysis shows that if enough vacancies were created in Europe to reintegrate 10 percent of NEETs into the labour market, this would provide a saving of more than €15 billion per year. If 20 percent of NEETs could be reintegrated, the saving would rise to €30 billion (European Foundation 2012).

So, what is needed is *political leadership* to tell people this truth and to act accordingly. And it is not only the economic costs of youth unemployment that belongs to this truth. The social costs, both for individuals and the society, are also tremendous: long-term scarring effects in terms of wages and employment status, higher criminal records, deterioration of health, lower political engagement, decreasing social participation and – last but not least, as Robert Putnam expressed it – an erosion of *'thick trust'* (friendships and neighbourhoods) and above all an erosion of *'thin trust'*, which means generalized social trust emphasizing empathy, shared interests, a sense of the common good, mutual respect and obligation among people (Putnam 2000: 142).

Reading the documents, it seems clear that Korea has a problem with 'academic inflation' or over-education (e.g., OECD 2012: 73-4). Over 50 percent of university graduates do not get a job within the first year or only jobs much below their formal education level. Although many eventually get a job roughly equivalent with their education, such a system creates a lot of waste not only in terms of sunk-investment costs but also in terms of inequality *and* injustice. Getting a job mainly by formal credentials and not by competences creates wrong economic incentives and discriminates against those young people coming from low-income households. [9]

[9] Korea currently has nearly 100 thousand *hagwons*, private education institutions mainly intended for tutoring children to prepare for schools and universities and to enhance their competitive advantage. The concentration of around 6,000 *hagwons* in the Kangnam district of Seoul is thought to be an important factor in the high housing prices in that area, which has become a major social issue. The *hagwons* have more teachers than the public school system and attract the best ones with higher salaries; the amount of outlays

The concept of transitional labour market (TLM) might teach here something. It builds, among others, on the concept of learning by monitoring and on the theory of fair risk sharing.[10] Related to youth unemployment, as already mentioned, it is the idea of building institutional bridges between the formal education system and the labour market. The German apprenticeship system is a paradigmatic example for this idea. About two-thirds of young Germans enter the vocational track around age 16. Roughly 50 percent of them conclude a two to three-and-a-half year contract with an employer, learning one of about 350 licensed occupations on the job. At the same time, they attend a vocational school where they acquire general knowledge. So, in the ideal case, this system provides both: market-oriented skills with a realistic job perspective and general skills needed to adapt to structural changes in the economy or to unexpected changes during one's personal life course. Another 20 percent in the vocational track enter a full-time vocational school in Germany, whereas around 30 percent remain in the so-called transitional system preparing for a better education or employment; three-quarters of them having lower or even no accredited education.

Certainly, this system also has flaws in reality, in particular the danger of over-specialisation on the one hand and the exclusion of disadvantaged and vulnerable youth on the other.[11] But overall, the *advantages* prevail: On the one hand, such institutional bridges *reduce information deficits or information asymmetries* through standardised and accredited occupations or trades;[12] and they provide, on the other hand, *work experience* that also helps to build up confidence among young people, especially those with more practical than theoretical talents. Countries like France, Spain or Italy face high youth

per student in private tutoring is four times higher for the middle-income group than those in the lowest income group. For households with income over 6 million won per month, enrolment rates rise to nearly 90%, while outlays per month reach around 450 thousand won (around $400). So, a student with a better socioeconomic background is more likely to enter a prestigious university and study a subject that he or she would like to. One study found that 16.9% of students from the upper middle income class attended upper level universities compared to only 5.8% for lower-class students. In the meantime, Seoul introduced a 10 p.m. curfew for *hagwons* to control excessive use of this system (OECD 2012: 68, 131-5).

[10] See in particular Schmid 2008: 213–241; Schmid 2011: 39–112.

[11] For a much deeper and rich analysis of dual education and learning systems in Germany and in international comparison see – among others – Biavaschi et al. 2012, Brzinsky-Fay 2011, Ebner 2012, Eichhorst et al. 2012, and Solga 2008.

[12] Korea still has thousands of private-sector qualifications established by companies and training institutes (OECD 2012: 76).

unemployment even in boom periods because their educational system concentrates on high formal or academic qualifications. These countries clearly lack skills and competences at the middle level that are more market-oriented and allow a smooth transition from school to work.

Korea has obviously already reacted by introducing, for instance, 28 "Meisterschulen" according to the model of German-speaking countries. This type of TLM could be extended, in particular at the college and the university level. In Austria, Germany and Switzerland business colleges, vocational academies and industrial or applied universities play an increasing role, and the graduates of these schools often have much better labour market chances than graduates from pure academic universities. Austria and Switzerland, and to some extent Denmark might even be better models for Korea because they do not specialise too much as Germany is currently doing. In Austria, already 26 percent of youth aged around 16 attend full-time vocational colleges with integrated practical experiences in firms ('Berufliche Höhere Schulen') providing both: a licence for exercising a broadly defined occupation as well as the right to enter the university ('Matura'). In Switzerland, one-third of youth attend business colleges or universities for applied science ('Fachhochschulen') that also require practical experiences from both the teachers as well as the students. Both countries have better records in integrating youth into the labour market at their acquired skills, and both countries also do better for disadvantaged youth by ensuring some kind of accredited education that is marketable.

Investing in dual education systems is also an effective device for sharing investment risks between employers, workers and the state in a fair way. The Korean government might therefore consider *co-financing* more in dual education systems. Currently, its share of public expenditure in education is the lowest in OECD countries, but its youth unemployment measured in NEET is one of the highest (Figure 5A, Appendix).[13]

It is often argued, in particular in the US, that getting rid of minimum wages for youth would solve the problem. At lower wages, employers would be willing to hire more young

[13] Strengthening vocational education and career guidance would also reduce the excessive costs for private tutoring (OECD 2012: 136); see also footnote 9.

people. But European experiences show that minimum wages play, if at all, a minor role. One also has to consider the discouraging effects of very low wages for young people, especially for young adults who want to establish a family. Decent wages also ensure that employers not only attract skilled young people but that these people remain loyal, work hard and do not opportunistically switch to the next job paying a little more. Labour turnover may be efficient, but a too high fluctuation is a waste of resources and kills mutual investments and respective trust between employers and workers.

Some, not all, European experiences show that there are better functional equivalents for just lowering wages. First, high formal education raises the reservation wages of young people that might not correspond to the market realities. The TLM-system of *learning and earning*, however, mitigates this problem by paying only for the productive part of work and not for learning on the job. So, there is risk sharing between employers and workers. Furthermore, in this way young people become acquainted to the market pay structure and do not develop unrealistic high reservation wages. Second and after the apprenticeship, systems of wage coordination take into account the lower productivity of young people by establishing relatively low entry levels of wages for the youth but providing at the same time some security of career perspective with respective increases of wages after considerable work experience.

So, markets are necessary but are not sufficient for solving youth unemployment. The concept of TLM tries to combine both, the market and the state. It brings a market orientation into the formal education system for the young by learning on the job and earning at market wages, and it brings the state into the market by ensuring decent minimum wages, quality standards and the public financing of schools and teachers.

A flourishing ‘Mittelstand’, as it is called in Germany, with thriving small and medium-sized enterprises (SME), is an essential condition for utilising as well as for establishing a healthy middle-level skill reservoir. Such an entrepreneurial infrastructure, however, cannot be established from one day to the next. The three most important strategies would be: an industrial policy supporting SME; regulatory policy restricting casual and informal jobs with wages and work conditions below decent standards; an education policy

providing skilled workers at the middle level, e.g. craft workers, engineers, and professional care and health workers.

As regards the third strategy, Korea should not give up its well-established tertiary education system which, in international comparison, is clearly an asset. But this system might be improved by more market orientation through establishing principles of dual education and learning. Apart from the already mentioned dual business high schools or universities of applied sciences in the German speaking countries, a possible model might also be the recently founded *Baden-Wuerttemberg Cooperative State University* with its main seat in Stuttgart, eight other locations in the region and four branch campuses. This university integrates academic studies and work experience. The students have an employment contract and through the entire period, they receive a monthly salary and have the insurance of being an employee. Small classes of at most 30 students guarantee close supervision. The university cooperates with numerous universities and enterprises worldwide. That makes it possible for most of the degree programmes (business, engineering, and social work) to include a training and education period abroad thereby responding to the increasing demand for internationalisation. The students' future prospects are excellent: roughly 90 percent of the students sign regular employment contracts with the companies after graduation (www.dhbw.de).

So, governments can play an important role in establishing and extending TLMs, which means *dual systems of earning and learning*: First by *extending conditional public support*, for instance, support *conditional* on market as well as on social performance indicators, on work-place training, and on including employers or community representatives in the boards of colleges and industrial universities. Sweden, for instance, has even written into its constitution the obligation of colleges and universities to make a contribution to regional economic development. Furthermore, vocational academies, industrial colleges or applied universities have to provide to an increasing extent education and training for foreign students. So, education might develop into a job-creation machinery for teachers and trainers, something that might be an objective for Korean education (and industrial) policy because the internationalisation of the Korean university

system does not yet seem to be well-developed, according to the recent OECD Economic Survey for Korea.

Outlook

What are the future prospects for youth unemployment? The Danish Nobel prize winner Nils Bohr once said: *"It is hard to predict, especially the future."* Too much depends on too many single decisions. However, at least one thing seems to be sure, because the decisions have already been made: Demography or birth rates. Progressively shrinking cohorts – in particular in Korea and in Germany – will have dramatic effects on the number of entrants to the future labour market over the next 15 years or so. In this respect, the decline is relatively small in the US compared with other countries, in part because of its relatively high rate of immigration, and immigrants tend to be young. But by 2020 for instance, the number of 20-year-olds will have dropped by 12 percent in the Euro area, and Korea is facing the fastest population ageing in the OECD. So, youth unemployment in Europe – and probably in Korea as well – might be less of a problem in 10 years than the lack of skilled people due to demographic reasons.

But this is no reason to be reassured. Much depends on *creating the right skills*. And here I come back to the 'academic inflation' of skills, which can be observed more or less in all countries, not least – unfortunately – in the poor developing countries. What are the reasons for this inflation? I believe that one important reason is the parents' aspiration to get their children the best education they can imagine. I read, for instance, from a survey in Korea that 93 percent of parents want their (usually only one) child to get an education at one of the best universities. This, obviously, cannot work for all. Individually, it may be rational; but collectively it is non-rational – creating congestion, disappointment or even desperation.

What is the reason behind this aspiration? I believe that this aspiration is – among other obvious motives like cultural thrive – strongly driven by an *insurance motive*. High formal education is still the best insurance device to end up in a high-paid job with high social

security. So, and this may sound like a provocation for many Koreans, one solution for this problem of 'academic inflation' and respective high youth unemployment would be to moderate these aspirations by *establishing better social security for all*, especially for the many of those who still are not or are not sufficiently covered by health, employment and pension insurance. If such a safety net existed, many more young people would probably be happy to aspire and to take the risk of jobs at the lower or middle end of the labour market – provided that wages and work conditions are decent and that the doors remain open when they plan to receive higher education and better jobs later during their life course.

From this point of view – and considering the developing countries, in particular Africa – the global problem of youth unemployment will probably be more dramatic for the next five or 10 years than today. Confronted with this challenge, the wise words of the French writer Antoine de Saint-Exupery should be remembered: *"As for the future, your task is not to foresee it, but to enable it."*

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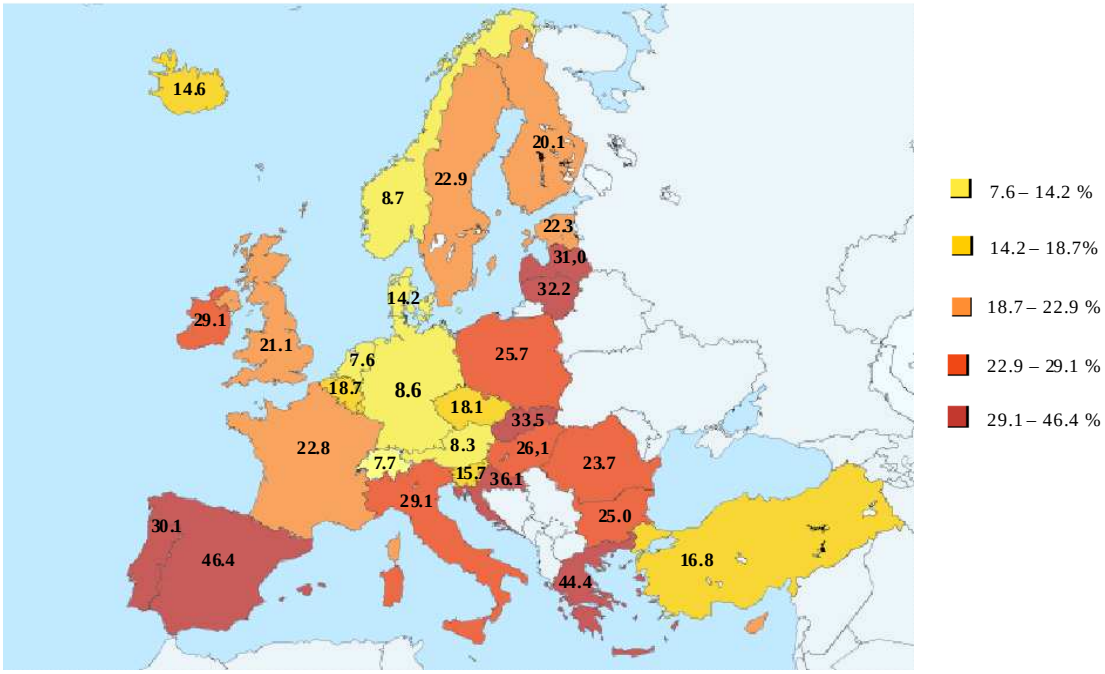
Appendix

Figure 1A: Youth unemployment rates in Europe 2011 according to the conventional measure: Unemployed youth in age15-24 as percent of 'active' youth labour force in age 15-24



Data: Eurostat, OECD

Figure 2A: Youth unemployment rates in Korea, United States, EU-21 and Germany, 2003–2011

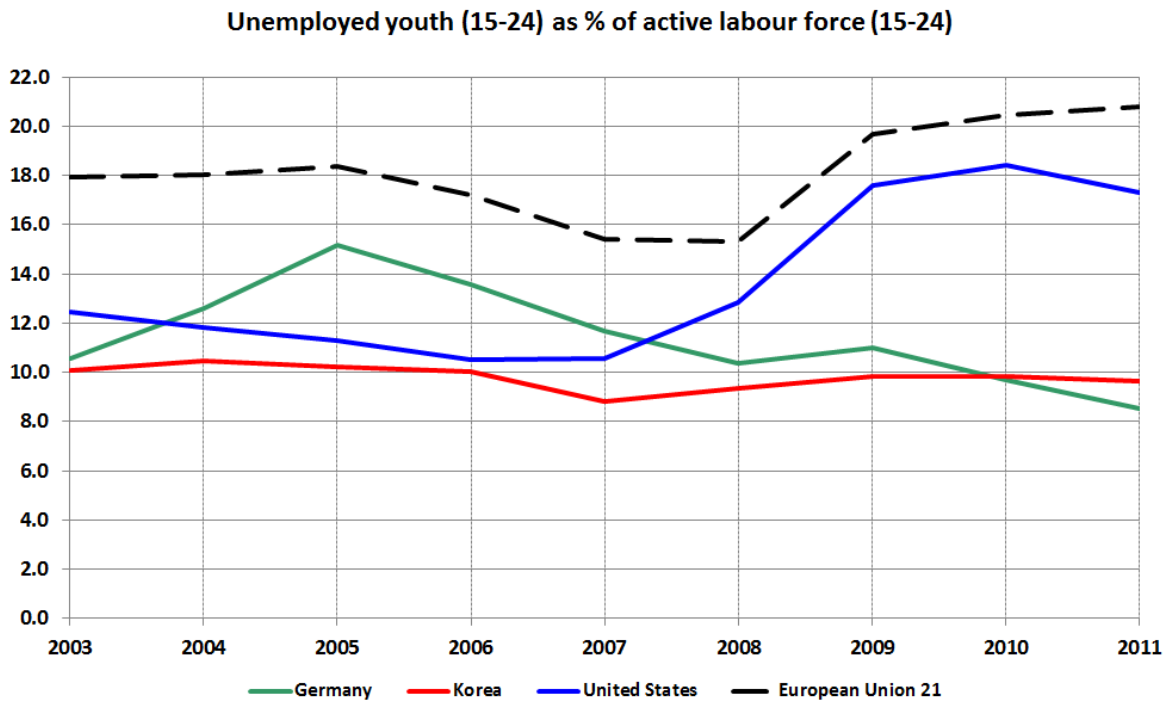


Figure 3A: Youth unemployment rates in Korea, United States, EU-21 and Germany, 2003–2011; measured by unemployed youth in age 15-24 as a percentage of total youth population in age 15-24

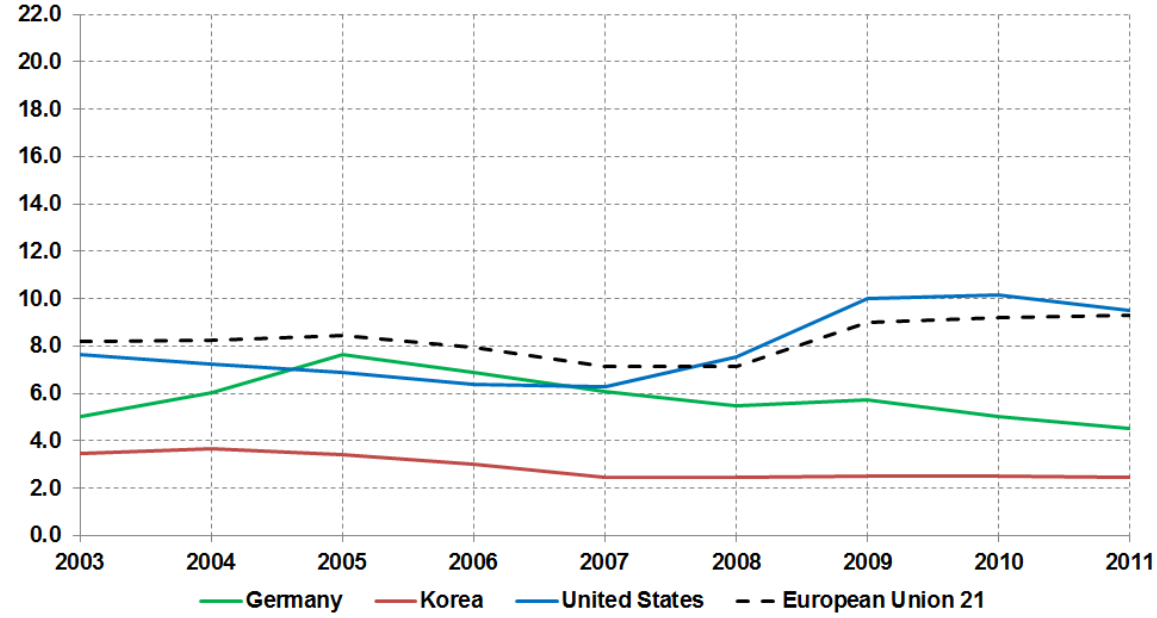
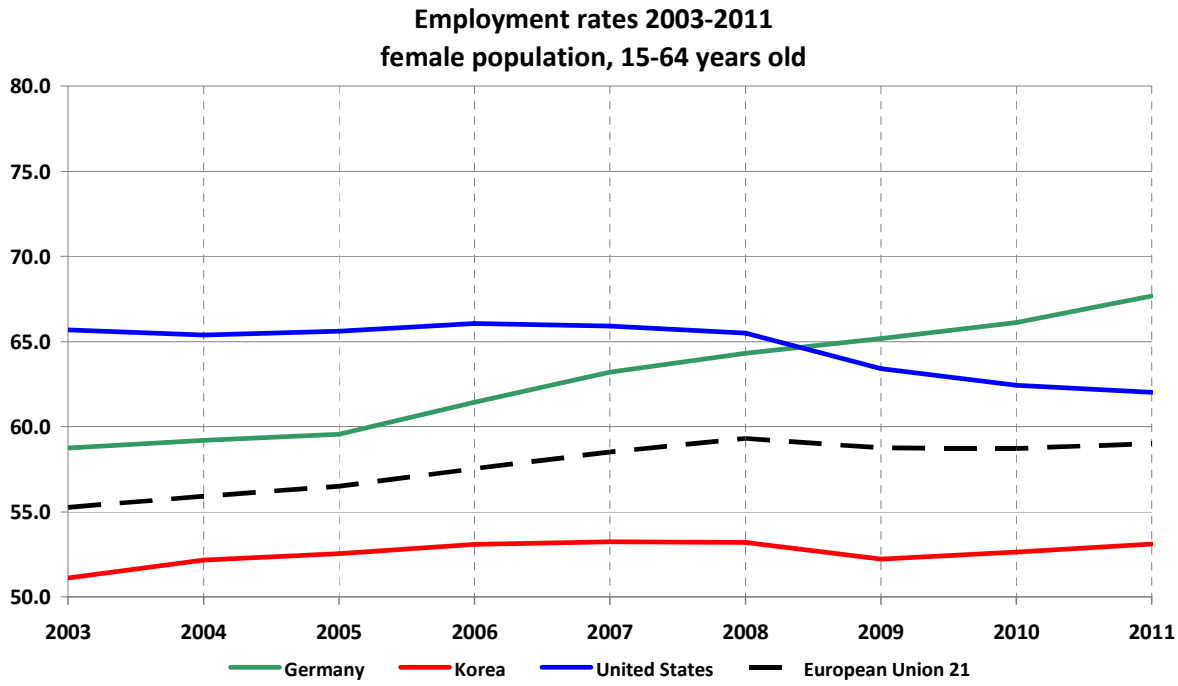
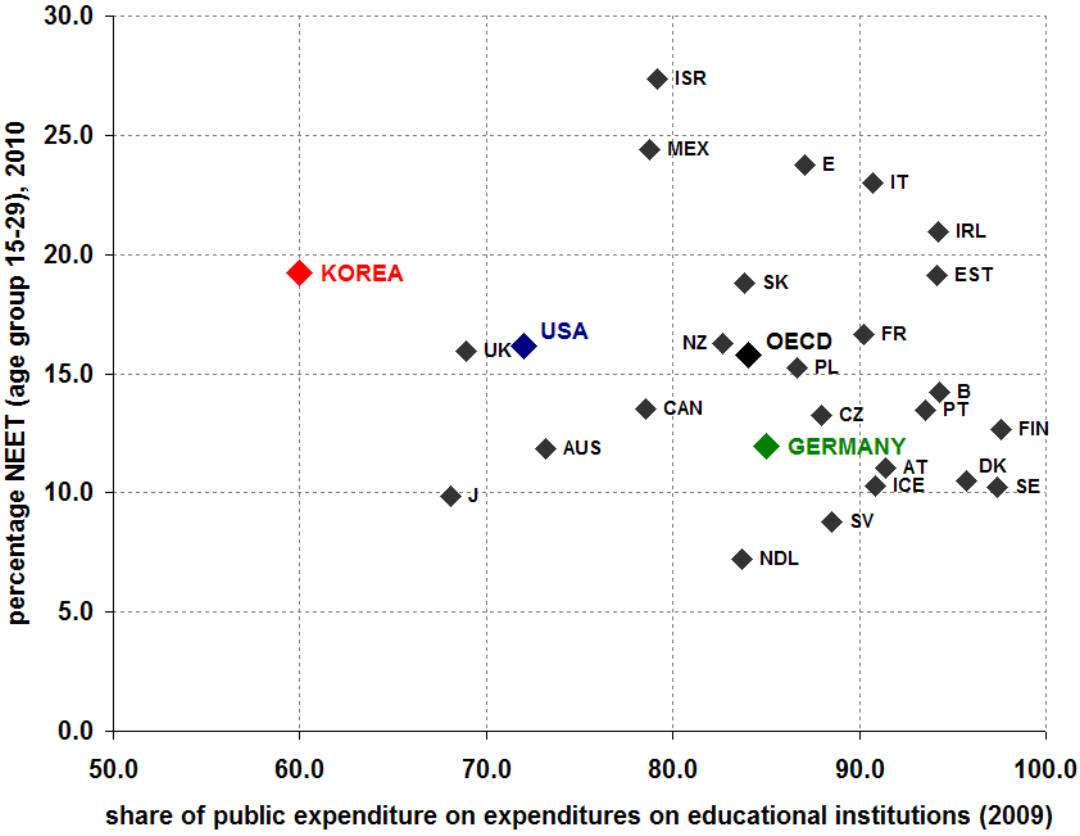


Figure 4A: Employment rates of women in Korea, United States, EU-21 and Germany, 2003–2011



Source: OECD stats

Figure 5A: Youth unemployment measured by NEET, 2010 (age group 15–29) and share of public spending on overall expenditures on educational institutions, 2009



Note: Japan: age group 15–24, Source: OECD Education at a Glance Highlights 2012, p. 23, Figure 1.11; p. 51, Figure 3.10