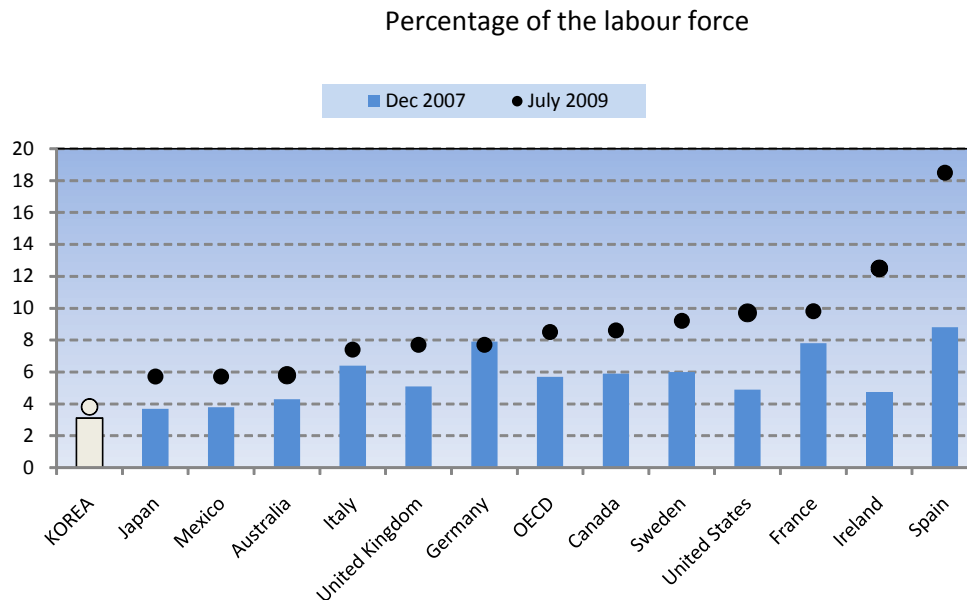




Employment Outlook 2009 – How does KOREA compare?

Korea's harmonised unemployment rate may have peaked in June at 4.0%, since the July rate was slightly lower at 3.8%. The June rate represented a 1 percentage-point increase from its most recent trough in September 2008, but was still only about one-half the OECD average unemployment rate. In part, this is because unemployment has increased much more sharply during the current global downturn in a number of other OECD countries, notable, Ireland, Spain and the United States, than in Korea (Figure 1). As in many other OECD countries, construction and manufacturing have been the hardest hit sectors in Korea.

Figure 1. Unemployment rates in December 2007 and July 2009 in selected countries



Note: Final month available is: March 2009 for Italy, May 2009 for the United Kingdom and August for Canada and the United States.
Source: OECD.

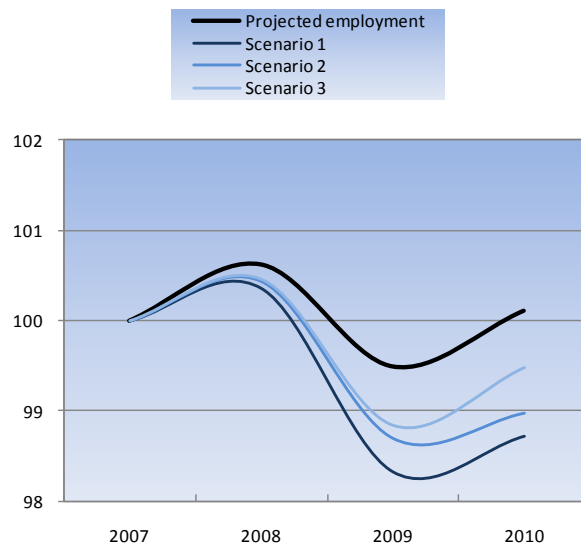
Korea's fiscal stimulus package was the largest in the OECD area at 6.1% of 2008 GDP and it is playing an important role in limiting employment losses. The *OECD Employment Outlook 2009* projects that Korean employment in 2010 will be between 148 thousand and 326 thousand higher than it would have been in the absence of the discretionary fiscal stimulus package (Figure 2). The boost to employment would have been even larger except for the fact that the very open nature of the Korean economy means that some of the potential jobs impact from fiscal stimulus ends up supporting higher imports, rather than higher domestic production.

In contrast to most other OECD countries, wage restraint appears to have played an important role in limiting job losses in Korea. The “grand social compact” which was agreed to on 23 February 2009 set a guideline according to which the social partners should negotiate employment retention as a quid-pro-quo for wage concessions. Although the compact has been restricted to public sector and larger enterprises, 422 mutual concessionary, co-operation agreements had been signed by the end of March 2009.



Figure 2. **Jobs impact of Korean's fiscal stimulus package**

Projected evolution of total employment (2007=100)



Note: Projected employment is taken from the latest OECD projections of employment. The alternative scenarios use data on the size of Korea's fiscal package and different assumptions about the impact of fiscal stimulus on employment to estimate employment as it would be in the absence of fiscal stimulus. Scenario 1 uses the average GDP multipliers from a literature review, adapted to apply to a harmonised and somewhat more detailed taxonomy of spending and taxation categories, and for the tendency for multipliers to be smaller in more open economies and larger in more closed economies. Scenario 2 adjusts these GDP multipliers downward to account for the possibility that the macro models reviewed do not fully account for the fact that some of the extra spending is for imports rather than domestically-produced goods and services. Scenario 3 adds a second downward adjustment to account for the possibility that fiscal multipliers are smaller than normal in the current situation, due to an unusually high propensity to save.

Youth have been the hardest hit group. The unemployment rate for 15-29 year olds not in full-time education increased from 7.4% to 8.5% in the 12 months prior to July 2009. The increase in unemployment was especially sharp for 15-19 year olds, rising from 12.5% to 15.8%. In this context, the Korean government reinstated the Youth Internship Program which has provided approximately 100 000 youth with jobs experience and career development opportunities. This programme is helping ease the youth unemployment problem in the current economic context. However, it was criticised in the past for creating large dead-weight loss and should perhaps be scaled back as the labour market recovers.

A strengthened social safety net following the 1997 financial crisis had improved income security for job losers so that the government could focus more on strengthening re-employment assistance for the unemployed in the current downturn. Like all other OECD countries, Korea has taken a number of measures to expand the assistance available to job losers and other unemployed persons to find a job or improve their vocational skills. For example, a maximum 1 year "Packaged Jobs Service Program" for the poor was introduced in 2009 which is expected to assist 15,000 clients in its first year of operation and possibly up to 25,000 in 2010. The OECD welcomes the vigorous measures taken by Korea and other member countries to minimise the risk that the recession will cause workers to become trapped in long-term unemployment or inactivity.

OECD Employment Outlook 2009 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on Korea, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: stefano.scarpetta@oecd.org) or Hyoung-Woo Chung (tel: +33 1 45 24 92 79 e-mail: hyoung-woo.chung@oecd.org) from the OECD Employment Analysis and Policy Division.