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Dual Labor Markets and Low Fertility in Korea

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Korea Institute of Child Care and Education

Dual Labor Market and Low Fertility in Korea

Ⅰ. Labor Market Dualism

- Labor market duality is usually employed to characterize a labor market consisting of two sections.[1)]
  - ▶ Regular sub-division workers enjoy high wages and social benefits, such as unemployment insurances, and pensions, and have a high level of job security.
  - ▶ Non-regular sub-division workers tend to receive lower wages, are less likely to be covered by social benefits and have lower levels of job security.
- Labor market duality can become a major problem if it results in inefficiencies and welfare losses.[2)]
- Labor market duality can contribute to inequality.
  - ▶ Duality can encourage insider-outsider dynamics, with regular workers enjoying higher bargaining power and ensuring higher wages and job-security.[3)4)]
  - ▶ This can result in very differing working conditions for similar work, which can reduce social cohesion and erode support for important economic measures.[5)]

Ⅱ. Dual Labor Market in Korea

- Non-regular work can take many forms of employment, with potential overlaps.
  - ▶ The OECD provides data from across the country for three forms of employment that could be classified as non-regular; temporary, part-time and self-employment.
  - ▶ Compared to other OECD countries, Korea stands out for having a relatively high share of temporary and self-employed workers.
  - ▶ With regards to part-time employment, Korea lies below the OECD average.

* This manuscript is based on the KICCE's general research report entitled 「Strategies for Fostering Childbirth and Childcare Friendly Workplaces and Society(Jaehee Lee, Nam Hee Do, Ji-won Eom, 2018)」.

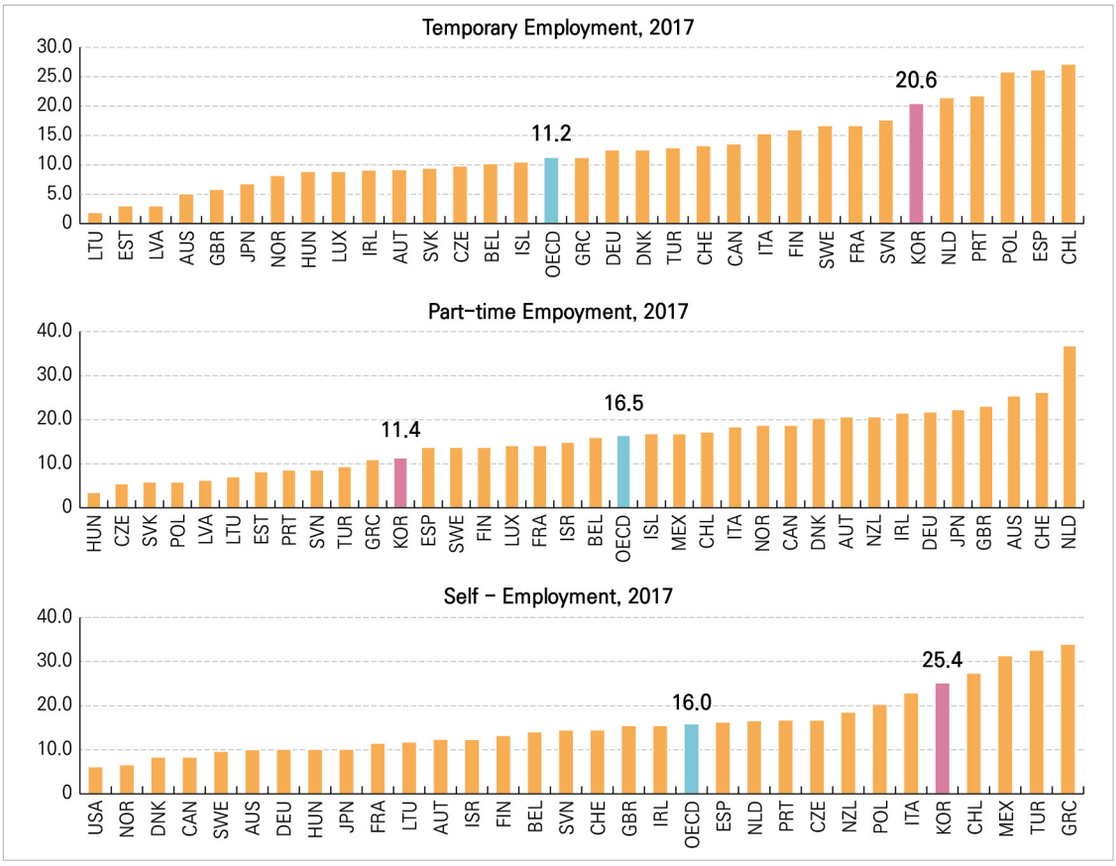
1) Hudson, K. (2007). The new labor market segmentation: Labor market dualism in the new economy. *Social Science Research, 36*(1), 286-312.

2) Piore, M. J. (1980). Economic fluctuation, job security, and labor-market duality in Italy, France, and the United States. *Politics & Society, 9*(4), 379-407.

3) Bentolila, S., & Dolado, J. J. (1994). Labour flexibility and wages: lessons from Spain. *Economic policy, 9*(18), 53-99.

4) Lindbeck, A., & Snower, D. (2002). *The insider-outsider theory: a survey*. Econstor

5) Aoyagi, M. C., & Ganelli, M. G. (2013). *The Path to Higher Growth: Does Revamping Japan's Dual Labor Market Matter?* IMF working paper.



[Figure 1] Non-regular employment of OECD countries in 2017

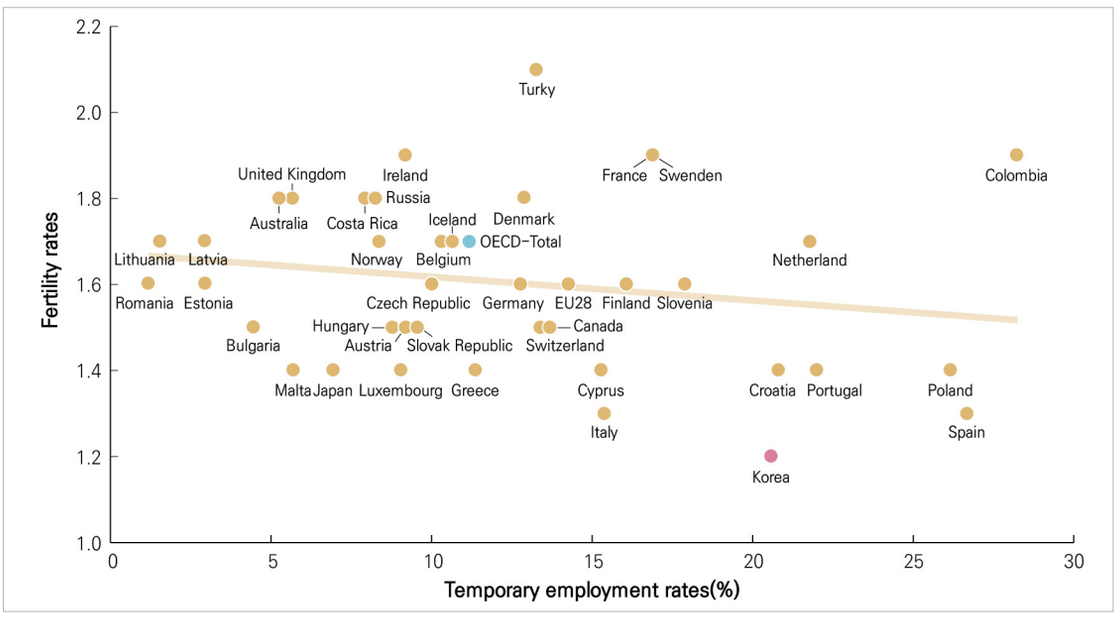
Source: OECD Data(https://data.oecd.org/emp)

Ⅲ. The Relationship between Labor Market Duality and Low Fertility

- Non-regular workers in Korea tend to receive lower wages and are less likely to gain the following social benefits enjoyed by regular worker;
  - ▶ Almost all regular workers are covered by an employment insurance, health insurance and the national pension but less of part-time workers receive these social benefits.
  - ▶ Lower wages and social coverage have been linked to negative long-run effects for non-regular workers and their families.
    - For example, non-regular workers in Korea have lower marriage and fertility rates and spend significantly less on the education of their children as compared to the regular workers.
- A growing empirical literature on the relationship between the fertility and the labor market institutions and policies shows that high rates of unemployment, instable and inflexible labor market, and lack of family-friendly policies affect fertility behavior.[6)]

6) Marcos, V. S., Kaya, E., & Guner, N. (2017). Labor Market Frictions and Lowest Low Fertility. In 2017 Meeting Papers (No. 1015). Society for Economic Dynamics.

- From Figure 2, the relationship between temporary employment rate and total fertility rate was inversely proportional for OECD countries in 2016

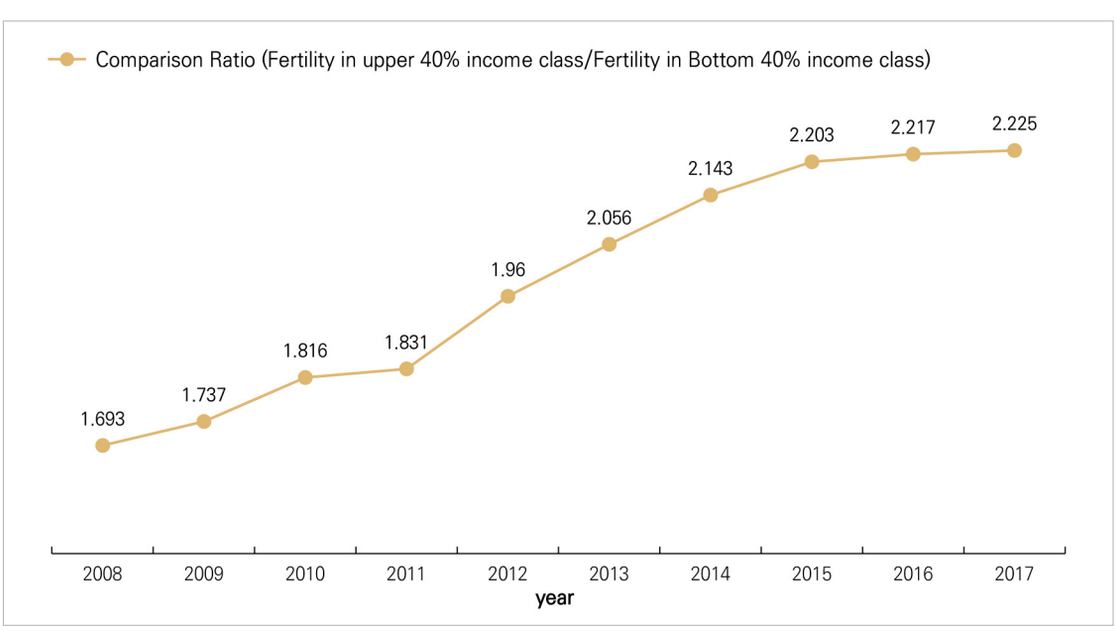


[Figure 2] A relationship between temporary employment rates and fertility rates among OECD countries in 2016

Source: The results analyzed by author using OECD Data (https://data.oecd.org/emp)

- Furthermore, social polarization due to fertility issues has become more serious in Korea after the Asian financial crisis.

  ▶ Fertility rate in high income class has been higher than double that in low income class from 2013 according to the Korean national health insurance data.[7)]



[Figure 3] Social polarization in fertility in Korea.

Source: Money today(2018.8.21.). Koreans giving up childbirths... Social polarization in fertility.

7) Money today(2018.8.21.). Koreans giving up childbirths... Social polarization in fertility.

Ⅳ. Policy Suggestions

- Korea government needs to spend more on family policy, especially for non-regular worker.
  - ▶ It is because most OECD countries with the highest fertility rate had a corresponding higher level of spending on family policy.
  - ▶ Last year, the ratio of Korea's GDP to its public expenditures was the lowest among OECD countries.
- Extending social protection to employees will ensure enhanced social security for the certain group of workers and their families.
  - ▶ Improved regulations are necessary to avoid discrimination against other forms of employment when it comes to family-friendly workplace programs, such as flexible working hours, maternity and child care leave.
  - ▶ The wider adoption of such family-friendly workplace programs would result in greater benefits to society than even the gains obtained by individual firms or workers, as it is linked to increased fertility rate.

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