Labor market dualism — the segmentation between regular and non-regular workers — is deeply entrenched in Korea’s labor market. Regular workers receive higher wages and social insurance coverage and a high degree of job security, while non-regular workers receive lower wages, are less likely to be covered by social insurance and work in precarious jobs. Non-regular workers — defined as fixed-term (i.e., non-permanent), part-
Non-regular workers' hourly pay was 72% of regular workers in 2020 (Figure 1), although a 2007 law aims to prohibit discrimination against non-regular workers who perform similar tasks to regular workers in the same firm. The earnings gap is even larger in practice, as 62% of regular workers received company bonus payments, which account for around a quarter of annual earnings, compared to only 21% of non-regular workers (Figure 2). The significant wage gap appears to be inconsistent with employees' skill levels. The literacy skills of temporary workers in Korea were equivalent to those of permanent workers in the 25-64 age group and even higher in the 16-24 age group (OECD, 2016).

Fixed-term workers are penalized by their relatively short tenure, given the strong link between tenure and wages in Korea. While only around 2.4% of permanent employees left their jobs in 2016, 18.8% of fixed-term workers did so. A 2007 law limits fixed-term contracts to two years, at which point they are considered to be regular (permanent) workers covered by the standard job protection measures. In practice, most fixed-term workers are dismissed before two years, as granting them regular status significantly increases costs to
employers. Moreover, it would limit their flexibility to adjust their workforce over the business cycle as regular workers have higher employment protection. Instead, firms tend to hire new fixed-term workers rather than convert their current fixed-term workers to regular status.

In addition to lower wages, non-regular workers receive less coverage by social insurance. The share of non-regular workers enrolled in the National Pension System (62%), National Health Insurance (65%) and Employment Insurance (74%) was well below the more than 90% for regular workers in 2020 (Figure 2). Moreover, less than a quarter of non-regular workers were enrolled in company pension systems compared to 59% of regular workers. While overtime pay is mandatory in principle for all workers, the share of non-regular workers who receive it is relatively low. Finally, less than 1% of non-regular workers belong to labor unions compared to 13% of regular workers.

The share of non-regular workers is highest among young people and older workers (Figure 3). Moreover, it is concentrated among women, as those who leave regular jobs to care for children typically become non-regular workers when they return to the labor force. Indeed, 47% of female employees were non-regular workers in 2020 compared to 31% for men, making dualism a major cause of Korea’s gender wage gap, which at 32% in 2020 was the largest among OECD countries. Labor market dualism contributes to income inequality and relative poverty. In addition, non-regular workers have lower marriage and
In addition to the negative impact on social inclusion, labor market dualism hinders output growth. First, the high level of temporary employment and short average tenure discourage firm-based training, with negative consequences for productivity and output growth. Non-regular workers receive only 2% of the training opportunities provided via employers. Second, it can encourage firms to create more low productivity jobs and invest in mature rather than innovative technologies. Third, the high rate of non-regular workers among youth, women and older persons discourages labor force participation. Removing obstacles to employment is a priority as Korea faces the most rapid population aging among OECD countries.

**Policies to break down labor market dualism**

Breaking down dualism requires addressing the fundamental factors that encourage firms to hire non-regular workers. Government surveys of employers report that they hire non-regular workers to ensure labor market flexibility to respond to market fluctuations, thus avoiding the cost of laying off workers (OECD, 2013). As the OECD Council stated (2013), “Strict and uncertain procedures concerning the firing of permanent workers along with high severance payments tend to make employers reluctant to hire youth on an open-ended contract.” In other words, it is not the cost of hiring or employing a worker, but the cost of dismissal, which limits the availability of regular employment. Regular workers are protected by labor laws, court decisions, business practices, social customs and labor unions. Removing this incentive to hire non-regular workers requires relaxing employment for regular workers to reduce the cost and uncertainty of dismissal.
A second motivation for hiring non-regular workers is to reduce labor costs. As noted above, their wages are significantly lower than those of regular workers (Figure 1). In addition, labor costs are lowered by about 8-9% for non-regular workers not covered by national pension, health and unemployment insurance (OECD, 2016). Increasing such coverage is a priority. In addition, training for non-regular workers and other active labor market policies are necessary.

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