

Chapter 10

Education, Development, and Politics in South Korea



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South Korea (hereafter Korea)'s rapid economic growth since the 1960s has been labeled "the Miracle on the Han River." In addition to being almost totally devoid of natural resources, Korea was ruined by the Korean War (1950–53), which was fought on its own land soon after it had obtained independence. Its gross domestic product (GDP) per capita was as low as about \$100 in the early 1960s. A state-led development drive started with the economic development plan of the Park Chung-hee administration, which seized power in a 1961 coup d'état. During the authoritarian regime under President Park and President Chun Doo-hwan, state elites imposed order from above and were successful in terms of economic development. The June 29 Declaration of 1987 triggered a shift toward democratic rule in Korea's political system, including a gradual decline in government control over the private sector. Meanwhile, the Korean economy continued to grow, and its GDP per capita exceeded \$10,000 in 1995. The Asian Financial Crisis of 1997 devastated Korea, forcing it to ask the International Monetary Fund (IMF) to provide a bailout package. After Korea made economic structural adjustments under the IMF-supported program, its economy became more integrated with the global economy. Its GDP per capita exceeded the benchmarks of \$20,000 in 2007 and \$25,000 in 2013. As the Korean economy went through this development process, its main exports (and the chief engines of its growth) were, first, textile products, then steel and automobiles, and, in recent years, electrical and electronic products such as semiconductors (Fig. 10.1).

Korea is generally acknowledged as a typical example of one of the most influential concepts in explaining the rapid economic rise of East Asian countries: the developmental state (Amsden 1989; Woo-Cumings 1999; Chu 2016). Until recently, most researchers had attributed the Korean economy's sophistication to the adaptation of government policies and corporate strategies to the nation's circumstances; the role of the labor force, which has actually shouldered production activities, had

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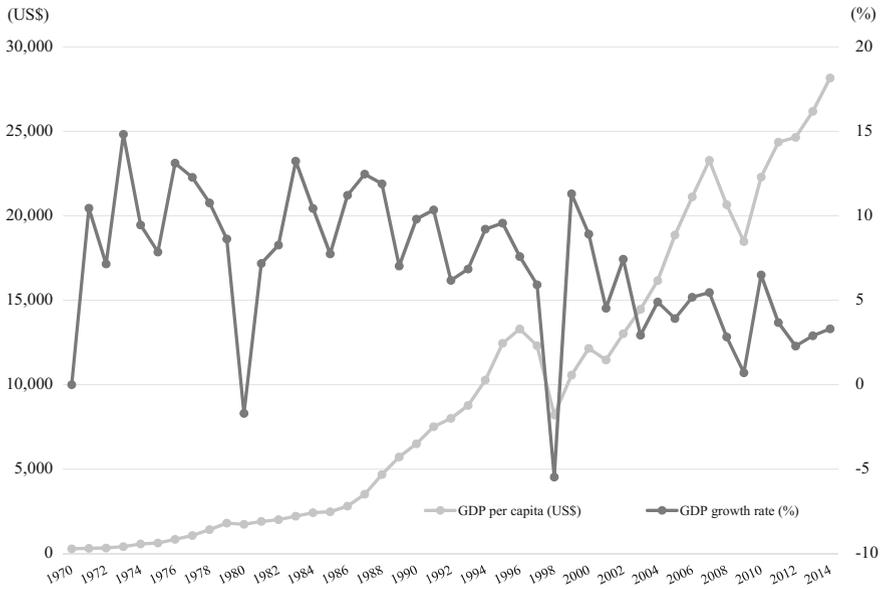


Fig. 10.1 Economic development in South Korea: GDP per capita and growth rate. *Source* World development indicators. <https://data.worldbank.org/products/wdi>. Accessed 25 June 2017

received little attention in research on the developmental process. However, production of Korea's key exports would have been unthinkable without a competent labor force with the necessary expertise, skills, and knowledge. Thus, in this chapter, I explore Korea's economic development from the viewpoint of human capital.¹

Following empirical investigations, scholars from the varieties of capitalism school have conducted comparative studies of political economy, yielding hypotheses regarding institutional complementarities between skill formation and both productive and welfare regimes (Hall and Soskice 2001; Iversen and Stephens 2008). However, these models apply to advanced, democratic, capitalist countries rather than to developing, nondemocratic countries. As Korea has drastically changed, both economically and politically, its case provides a comparative view of skill formation in the development process. To investigate this theme, in this chapter, I examine how Korea secured the necessary human capital—workers whose skills and knowledge were commensurate with the nation's level of economic development—by focusing on expanding education. As Goldin and Katz (2008) showed, the expansion of educational opportunities affects the formation of human capital and the supply of workers who are equipped with the necessary skills and knowledge.

¹Following Becker's (1964) definition, "human capital" is herein defined as the expertise, skills, and knowledge that are useful in production activities and that are acquired through education, training, and job experiences.

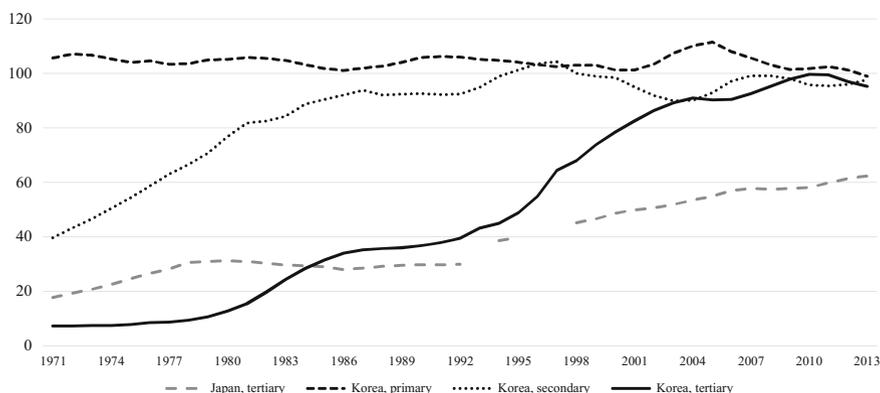


Fig. 10.2 Gross enrolment ratio in South Korea and Japan (%). *Source* World development indicators. <https://data.worldbank.org/products/wdi>. Accessed 25 June 2017

First, I provide a survey of Korea’s education expansion and list the proposed research questions. “Education fever” in Korea (Seth 2002) has been attracting attention from scholars around the world. As shown in Fig. 10.2, Korea’s gross enrollment ratio (GER)² for tertiary education reached 80% in 2000 and then nearly 100% in 2010—the highest ratio of any country. However, the GER for higher education did not begin to reach these heights until the 1990s. Moreover, as recently as the 1960s, even Korea’s GER for secondary education was very low.³

Even after primary education became universal in Korea in the late 1950s, many students chose not to enroll in middle school. Although primary education has been officially financed and compulsory since the country’s founding in 1948, middle-school education was not free until 1984.⁴ Korea’s GER for middle school remained as low as about 40% even in the early 1970s, probably because many parents and children judged that it would be more beneficial for the children to start working in agriculture immediately after finishing their primary education than to advance to middle school and impose financial burdens on their families. However, this ratio began to rise rapidly after the 1970s, and it reached nearly 100% in the mid-1980s. The first question is this: What incited parents to send their children to middle school, even when they had to pay for it, as in the early 1970s?

²GER is a statistical measure of the number of students enrolled in school at a given grade level. United Nations Educational, Scientific and Cultural Organization describes this ratio as a country’s enrollment “in a specific level of education, regardless of age, expressed as a percentage of the population in the official age group corresponding to this level of education.” <http://uis.unesco.org/en/glossary-term/gross-enrolment-ratio>. Accessed 15 October 2017.

³The source of the GER statistics in this chapter is World Development Indicators.

⁴The Constitution of South Korea stipulates that compulsory education should be provided without compensation. Middle school was not included in compulsory education until 1984 due to shortages in the educational budget.

This rapid expansion of secondary education paralleled the development of the heavy and chemical industry (HCI) in Korea even as the GER for higher education remained near 10% throughout the 1970s. However, this ratio rose sharply in the early 1980s, reaching 35% by the end of the decade before doubling in the 1990s. As Fig. 10.2 shows, Korea's expansion of higher education was rapid, even compared to that of Japan, which had become an advanced country much earlier. The second question is this: How and why did higher education expand so rapidly in Korea?

Moreover, these days, the difficulties that university graduates face in securing employment have become a major social problem even as the GER for higher education has remained high; the educational fervor and competition have become excessive. Thus, this is the third question: How should the current supply-and-demand imbalance of highly educated workers be understood?

In this chapter, to answer the above questions, I intend to review the connection between demand and supply in human capital by focusing on both demand-side factors (e.g., industrial policy and business activities) and supply-side factors (e.g., nurturing human capital through formal education and considering the preferences of both the children who enroll in education and their parents). In addition, I mean to examine how democratization and globalization have influenced the formation of human capital in Korea and to clarify the challenges that Korea faces as a country that became developed and democratized relatively recently.

10.1 The Park Chung-Hee Framework for Human-Capital Development

10.1.1 Initial Stage: Expansion of Middle-School Education

The Park Chung-hee government (1961–79) prepared the framework of Korea's educational system, including its national entrance examinations; this framework still provides the foundation for today's systems.

Upon the country's founding in 1948, Korea adopted a 6-3-3-4 formal education system (i.e., six years of primary education, six years of secondary education (three years of middle school and three years of high school), and four years of higher education). Primary education had been compulsory from the beginning of the nation, but middle-school enrollment was not compulsory until 1984. The Park Chung-hee administration instituted radical changes to the education system in 1969, forming the basic framework of Korea's education system.

Immediately after seizing power through a coup d'état in 1961, Park Chung-hee announced a five-year economic development plan that was to be launched in 1962. Park constructed a system by which state funds were allocated to the private sector via financial institutions, thus consolidating a capitalistic system that nevertheless allowed the state to control the resources that it needed to sustain its economic activities. In the 1960s, Korea was still an agrarian society, with close to 70% of its

working population engaged in agriculture. Although the GER for primary school exceeded 90% in that era, the GER for noncompulsory middle school was under 50%. On the other hand, a few elite people could afford to send their children to school (including university) and those children were encouraged to attend a few prestigious middle schools, thus causing fierce competition among applicants.

Under these circumstances, the government's mission was to correct the inequalities surrounding middle-school enrollment. This effort, in the latter half of the 1960s, coincided with a period of economic growth that was driven by exports of inexpensive, labor-intensive products such as textiles; during this period, light industry hired the bulk of the labor force. The expansion of middle-school enrollment was an important measure in developing workers with the necessary skills and knowledge to engage in manual factory work.

In 1969, the Park administration revised the nation's education law in two important ways. The first was the Middle School Equalization Policy, which contained such measures as (1) the complete abolition of middle-school entrance examinations to allow all applicants to enroll, (2) a lottery-based enrollment selection process for when applicants exceed a school's capacity, and (3) the equalization of educational levels across schools through the abolishment of the few prestige schools. These measures were applied universally to private schools as well. This policy was a declaration to parents and children that middle-school enrollment would be provided equally to all.

The second change was the introduction of a system for governing higher education. First, the government would set the enrollment limit for each university and graduate school, and second, applicants to all universities, including private institutions, were obliged to undergo a standardized preliminary entrance examination.⁵ The government applied these quantitative restrictions to maintain quality.

In response to the above educational reform, the GER for middle school in Korea rose rapidly. In previous studies on Korean educational policy, researchers have corroborated the government's claim that the main purpose of this equalization policy was to stem excessive educational competition; however, the goal of human resource development turned out to be more important.

This educational reform coincided with the spread of rapid economic growth into rural areas. In the 1970s, the government carried out *Saemaul Undong*, or the New Community Movement, a state-led agrarian modernization drive that facilitated development in rural villages, which then began to benefit from the national economic growth. Convinced that children who acquired skills and knowledge during their education would have brighter futures in the rapidly growing society, farmers chose to send their children to middle school, even at their own expense. The possibility of social mobility was a key factor in this choice. The number of children who received

⁵The enrollment limit eventually became subject to each university's discretion, but the obligation for all university applicants to take a unified test (the National College Scholastic Aptitude Test) persists today.

secondary education rapidly increased in the 1970s, and these students became the core group of blue-collar workers in labor-intensive industries.⁶

10.1.2 Heavy and Chemical Industry: Expansion of Upper Secondary Education

President Park amended the Constitution of South Korea in 1972 to launch the authoritarian Yusin System, which further strengthened his dictatorial authority. In 1973, Park announced an HCI development plan, emphasizing the promotion of industries focusing on steel, nonferrous metals, shipbuilding, machinery, electronics, and chemicals. During this process, the chaebol (large, family-controlled corporate groups) made inroads in the priority industrial sectors, allowing those groups to expand and diversify their economic activities thanks to the government's preferential treatment.

In this stage, large enterprises (LEs) needed workers who were equipped with professional knowledge. For instance, Hattori attributed Korea's rapid HCI development to the spread of numerically controlled machine tools. Korea's LEs used highly educated engineers as shop-floor managers to educate and train workers at the shop level in how to operate these numerically controlled machine tools; as a result, the LEs were able to grow into competitive exporters in a short time (Hattori 2005, pp. 212–213). These LEs then required many more workers who could acquire the necessary knowledge and skills.

In the early 1970s, the GER for upper-secondary education, which comprised high school and vocational school, was less than 30%. At that time, high school in Korea was an institution only for those elite students who were competing to attend a university. To remedy this situation, in 1973, the Park administration adopted the High School Equalization Policy, in which high-school applicants were first screened with a regional uniform examination; those who qualified on this exam were allocated to individual high schools within their school districts by lottery. This policy was an attempt to raise the nation's high-school GER by making such schools more egalitarian, following the pattern used in middle-school reform. At the same time, the government also drastically increased the number of vocational schools with the goal of producing a large number of industry-ready graduates. As a result of these policies, Korea's upper-secondary GER exceeded 60% by the late 1970s.

⁶The initial conditions, such as the prior administration's land reform and the already high level of primary-school enrollment, were important determinants of the Park administration's development path.

10.1.3 Higher-Education Zeal and the Demand for Technical Experts in the Late 1970s

Even as it equalized secondary-education institutions, the Park government also exercised direct control over the screening of university applicants and restricted the expansion of university enrollment limits. Working against these measures, there was increasing social pressure to open up the universities as the high-school enrollment increased.

The government stressed the principle of equalization of educational opportunities and the acceptance of social norms such as that opportunities for education are universally open and that hard work enables children to obtain academic qualifications that their parents have not. In addition, an increasing number of parents sought to send their children to university—even though they had to bear the high tuition costs—on the belief that academic qualifications were the key to success in life. For instance, in a 1977 survey, even among parents with only a middle-school education, 66.1% hoped that their sons would receive a university degree (Hattori 2005, p. 126).⁷

On the other hand, as Korea's HCI operations expanded, the shortage of engineers meant that their wages increased sharply in the late 1970s. In tandem with LEs' need for increasingly sophisticated technology, their demand for sophisticated engineers increased rapidly. Along with engineers, white-collar professionals who focused on business management were in high demand, particularly in chaebol enterprises. As the scale of business expanded, the demand for more university graduates grew.

In response, the Park administration changed its policy to gradually expand the university enrollment limit from 58,000 in 1975 to 76,000 in 1978 and 182,000 in 1979 (Umakoshi 1995, p. 253). These figures included enrollment in special vocational colleges, which prior to that point had not handled college-level courses. Although President Park was assassinated in October 1979, his successors maintained this shift in educational policy and continued to increase university enrollment limits in the early 1980s.

⁷Moreover, in a 1987 survey, even among parents with a primary education or less, 56.3% wanted their sons to obtain university diplomas, but their expectations for daughters were somewhat lower (Hattori 2005). When discussing human capital in Korea, the gender gap is a salient issue that awaits future exploration.

10.2 Science and Technology Development and Human Capital in Higher Education

10.2.1 *Advancement to Science and Technology Development*

In May 1980, the military intervened in Korea's politics and organized a new authoritarian regime led by President Chun Doo-hwan. Economic officials set the long-term goal of economic deregulation by restricting government interventions and adopting the principle of market mechanism. The new government also proposed, as a longer-term goal, an emphasis on scientific and technological development to shift the Korean economy away from its reliance on the export of products that required cheap labor and toward the production of high-value-added products. Thus, the government prepared a system to promote technological development centered on private enterprises.

In 1981, the Chun government announced a preferential tax scheme to assist in private enterprises' research and development (R&D) efforts, thereby promoting those businesses' investments in R&D activities. In December of the same year, the government amended the Technological Development Promotion Law and introduced a system by which the government could entrust specially designated research projects to corporate-attached laboratories by allotting them public funds. According to Lee (2013)'s computation, the government was the chief funding source for such R&D in the late 1970s, and the private sector's share of that funding was as low as 18%. That value increased, reaching 40–50% toward the end of the decade, but after 1983, it rose more rapidly, reaching 70–80%. Today, Korea is one of the few countries in the world where the private sector's share of R&D funding is extremely high. The nation's total expenditures for R&D also expanded rapidly in the 1980s and exceeding 1% of GDP—a benchmark of a country with high technological development—in 1983. Subsequently, this value exceeded 2% of GDP in 1993 (Lee 2013, p. 36).⁸

The Chun administration also established the educational institution for advanced science and technology. As a result, in 1981, two research institutions merged to become the Korean Advanced Institute of Science and Technology, the nation's premier science and engineering research institution, which established its undergraduate program in the mid-1980s and soon became one of the best public research universities in Korea.

Korea's HCI, which was in an embryonic stage in the 1970s, became the central player in the country's economy in the mid-1980s. Previously, apparel products had been the country's primary export, but in the 1980s, exports of electrical equipment surged, overtaking light-industry products by 1986. Subsequently, electronic products and automobiles became Korea's major exports. Along with this shift in export items, technological development on the corporate level advanced rapidly, as each company strove to increase its products' added value. The 1980s also coincided with

⁸Lee (2013, p. 36)'s computation based on Korea Statistical Yearbook (various years); Korea Intellectual Property Office; Yearbook of Intellectual Property (various years).

Samsung Electronics' successful launching of a new type of semiconductor memory, 64 K Dynamic Random-Access Memory in 1983. This was Samsung's first step toward its eventual global enterprise.

10.2.2 Corporations' Demands and Students' Responses in the 1980s

The presence of workers with advanced education supported the technological development of private enterprises in Korea. As discussed above, after the 1979 policy change that eased university enrollment restrictions, enrollment rapidly grew, reaching 180,000 at four-year universities and 110,000 at professional vocational universities by 1981. The university enrollment limit remained more or less unchanged for a while after that, but the total number of university students continued to increase until the mid-1980s, raising Korea's higher-education GER from 9.4% in 1978 to 31.6% in 1985. A few top universities' graduate schools continued to emphasize the training of scientists.

In the 1980s, along with professional engineers who were engaging in technological development and similar fields, white-collar professionals in such fields as management, marketing, and product design came into high demand, particularly in chaebols. Management planning divisions increased in importance, and the population of university-trained clerical employees in these enterprises underwent a remarkable expansion.

Behind this phenomenon was, at least partly, the chaebol conglomerates' adoption of a system for recruiting recent university graduates: simultaneous recruiting by a corporate group. Instead of each company individually recruiting employees, these corporate groups entrusted a collective personnel department with the recruitment of thousands of university graduates, who would be assigned to individual companies in the group only after receiving across-the-board training. Arita estimated that the top 50 chaebol enterprises recruited about half of the male four-year university graduates from in 1985 (Arita 2006, p. 169). Other white-collar jobs such as public servants, teachers, and journalists were also presented as plausible posts for university graduates, further stimulating the fervor for university enrollment. Most Korean parents and students considered higher education to be the most effective means for social advancement.

10.3 Democratization and Bloated Higher Education

10.3.1 Transition to Democracy and Economic Liberalization

The expansion of employment opportunities in chaebol groups led to incentives for university enrollment and raised expectations, and the transition to democracy that began in 1987 further invigorated private-sector activities. Under the new political regime, which became increasingly unstable, the government's power decreased, and regulations on private companies eased.

In this section, I first examine the political system under the newly enacted Constitution of South Korea—particularly its instability. The transition to democracy in 1987 transformed Korea's political system. In this system, the president was to be directly elected for a single five-year term. The term for members of the National Assembly was set at four years. Most such members were elected in single-seat constituencies. Although presidential power over the executive branch remained quite strong, the National Assembly's authority over the executive branch was expanded, and as a result, the president's performance in state affairs was dependent on his or her control over the legislative branch (enacted through the presidential party). However, the prohibition of presidential reelections and the difference in the term lengths of the presidents and the national legislators served as constraints on the president's leadership over members of the government-ruling party. Party membership linked the president and members of parliament, but the institutionalization of political parties in Korea continued to lag. Under this system, the basic direction of major policies changed drastically every five years, thus hampering the implementation of long-term policies.

Furthermore, the government promoted economic liberalization and deregulation under the banner of globalization. Economic management based on the Korean government's control of private enterprises became infeasible in the 1990s. The series of economic development five-year plans that had started in 1962 was also terminated after the seventh plan (for 1992–96), which had been announced in 1991.

10.3.2 Transformation of University Policy and Swelling Higher-Education Enrollment

In the 1990s, domestic demand for products and services increased due to wage growth, a consumption boom, and a high-rise-building construction boom, all of which helped to raise Korea's GDP per capita above \$10,000 in 1995. The desire to attend universities rose in anticipation of the Korean economy's continued growth.

The Kim Young-sam administration (1993–98), which was the first civilian government since the 1961 military coup, drastically relaxed the government's control over universities as part of its educational reform. This government formed the Presidential Commission for Education Reform, which included teachers and parents as

Table 10.1 Expansion of the tertiary education

| Year | Number of students (thousands) | | | Number of institutions | | |
|------|--------------------------------|---------|--------|------------------------|---------|-------|
| | Public | Private | Total | Public | Private | Total |
| 1990 | 471.4 | 1133.1 | 1604.5 | 55 | 210 | 265 |
| 1995 | 723.3 | 1506.8 | 2230.1 | 55 | 272 | 327 |
| 2000 | 871.6 | 2262.6 | 3134.1 | 62 | 293 | 355 |
| 2005 | 834.3 | 2432.2 | 3266.5 | 60 | 325 | 385 |
| 2010 | 809.1 | 2518.5 | 3327.5 | 51 | 320 | 371 |

Source Department of Education and Korean Educational Development Institute (various years) *Statistical Yearbook of Education*

members and which was meant to reflect the people's desire to expand university education.

In 1994, as the Kim administration drastically relaxed the university enrollment limit, each university gained greater discretion over its own enrollment limit. In 1996, the government then issued a presidential decree regarding the rules and regulations for university establishment and management, explicitly and drastically relaxing the standards for founding a university; this further prolonged the university-establishment boom, as shown in Table 10.1.

Thus, Korea's GER in higher education rose rapidly from 39.5% in 1992 to 64.5% in 1997. As a result, the majority of higher-education institutions in Korea became private, and the majority of university students enrolled in those private institutions. This enrollment led to an oversupply of university graduates, which affected the country's labor market. The increased supply of university graduates drove down those graduates' premium value in the labor market, thereby reducing the wage gap. On the other hand, in calculating the cause of the wage gap, the determination coefficient of the corporate scale variable increased, showing an obvious trend toward company size determining wage levels. The wage gap that emerged among university-educated, white-collar workers was based on company size; this promoted wage disparity. The expansion of higher education was accompanied by expectations of occupational upgrades, but the job offers that university graduates were hoping for did not increase in the globalization era, especially after the Asian Financial Crisis.

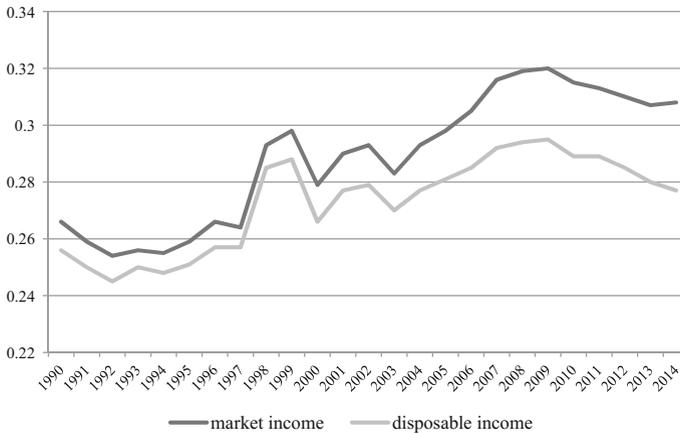


Fig. 10.3 Gini coefficient in South Korea. *Notes* The Gini coefficient can range from 0 (perfect equality) to 1 (perfect inequality). *Source* OECD (2016, p. 125). <http://dx.doi.org/10.1787/888933356408>. Accessed 18 August 2017

10.4 Enterprises and University Students in the Globalized Economy

10.4.1 Changes in the Economic Structure After the Asian Financial Crisis

South Korea's economic structure changed drastically after the Asian Financial Crisis of 1997. Due to the conditions that the International Monetary Fund required in return for its bailout package, President Kim Dae-jung, who succeeded Kim Young-sam in 1998, promoted the structural reforms, including financial and corporate sector reforms. As shown in Fig. 10.1, the GDP growth rate sharply declined in 1998, but a V-shaped recovery happened immediately afterward. Korea maintained growth throughout the 2000s as it integrated with the global economy. However, as Fig. 10.3 shows, inequality expanded in this period (Cheon et al. 2014, pp. 417–419).

Chaebol groups, which had enjoyed preferential government treatment, underwent a major corporate shakeup during this time and tried to revitalize themselves, carrying out significant personnel downsizing and rationalization, including the relinquishment of businesses. As a consequence, the LEs' recruitment systems underwent a significant change. LEs in Korea, which were revitalized as global companies due to the structural reforms, did not continue to employ massive numbers of university graduates in full-time positions, as they previously had. In 2004, the Ministry of Labor and the Korea Labor Institute published an analysis of the employment situations for Korean youth, revealing that, in LEs with 300 or more employees, the relative proportion of young workers was declining. As shown in Table 10.2, the

Table 10.2 Proportions of young employees

| Year | A | B | C |
|------|------|------|------|
| 1996 | 26.0 | 36.7 | 12.9 |
| 1997 | 25.2 | 34.8 | 11.8 |
| 1998 | 23.7 | 30.0 | 11.0 |
| 1999 | 23.1 | 28.1 | 9.6 |
| 2000 | 23.1 | 28.8 | 9.6 |
| 2001 | 22.3 | 27.8 | 9.6 |
| 2002 | 21.6 | 25.0 | 8.5 |
| 2003 | 20.8 | 25.2 | 9.8 |

Notes A: The proportion of young employees in total enterprises. B: The proportion of young employee in LEs (with 300 or more employees). C: The proportion of employees in LEs among all young employed persons

Source Ministry of Labor and Korean Labor Institute (2004, p. 4)

proportion of young employees was higher among LEs than in the national average, but it nevertheless declined after the Asian Financial Crisis and into the 2000s. This rate of decline was much greater than the national average decline. The proportion of young workers who were employed by LEs also declined.

This decrease in young workers occurred because, after the financial crisis, LEs preferred to employ industry-ready, experienced workers who did not require extensive training. The Ministry of Labor and the Korea Labor Institute (2004) also showed that experienced workers' share of all recruitment at large companies increased rapidly after the financial crisis (39.6% in 1996, 61.9% in 1998, 77.0% in 2000, and 79.0% in 2004). The nation's globalized enterprises also began to secure excellent human capital from all over the world. At the same time, LEs also started employing more part-time workers to reduce labor costs. According to the Ministry of Labor, in 2015, as many as 37.7% of the workers employed at the top 10 chaebol enterprises were nonregular (Kim and Choi 2015, p. 5). Due to these changes, it became apparent that LEs' capacity for providing employment to domestic university graduates had declined markedly.

Next, consider small and medium enterprises (SMEs), which expanded dramatically in Korea during this period. Due to corporate structural adjustments, banks' mergers and abolition, and public-sector reforms (under International Monetary Fund supervision), many workers lost their jobs. In response, the government introduced social policies to protect SMEs by providing uncompetitive companies with subsidies so that they could absorb the unemployed (Hattori 2005, p. 162; Yun 2009).

Through these measures, Korea's unemployment rate, which had shot up to 7% in 1998, went down to 4.4% in 2000; it has remained stable at 3% since 2002. In the meantime, though, too many SMEs employed the formerly excess laborers, leading to fierce competition. Companies with low productivity had to rely on subsidies and to offer low wages; SMEs with better performance were also affected by price competition, leading to a spread of nonregular workers and low wages.

Table 10.3 Korean SMEs in 2010

| | LEs ^a | SMEs | Of which: | | Total |
|----------------------------|------------------|------|-----------|--------------------------|-------|
| | | | Core SMEs | Micro-firms ^b | |
| Number of enterprises (%) | 0.2 | 99.8 | 7.7 | 92.1 | 100.0 |
| Numbers of workers (%) | 22.5 | 77.5 | 37.5 | 40.0 | 100.0 |
| Operating profit (%) | 61.5 | 38.5 | 18.5 | 20.1 | 100.0 |
| Average wage (million KRW) | 36.5 | 15.2 | 24.5 | 6.6 | 20.0 |

Notes ^aFirms with more than 300 employees; ^bFirms with less than five workers in services and less than ten in other sectors

Source OECD (2016, p. 80)

10.4.2 *The Dual Labor Markets and the Oversupply of University Graduates*

As shown in Table 10.3, in 2000, the gap between LEs and SMEs was wide. The Organization for Economic Co-operation and Development (OECD) reported that the wages paid by firms with 30–99 employees, as a percentage of those paid by firms with more than 300 employees, fell from nearly 100% in 1980 to only 65% in 2010, despite the considerable government assistance for small firms (OECD 2013, p. 51).

Because the disparity in wages and benefits between LEs and SMEs was so wide, university graduates did not consider SMEs to be worthy workplaces. Even when they were rejected by LEs, recent graduates tended to avoid SMEs, resulting in an increase in the unemployment rate in that group. According to the Ministry of Labor and Korea Labor Institute (2004), even though the overall unemployment rate remained at 3%, the rate among recent university graduates was more than 6.5%.

In this way, unemployment increased, not only for those with more education but also for youths who were not in education, employment, or training (NEETs for short). This group exhibited increased pessimism about the future. Korea became one of the countries with the highest rate of NEETs who had a tertiary education. This high rate, combined with the low incidence of nonregular employment among those with a tertiary education, suggests that those in this group preferred to stay out of the labor market rather than to accept nonregular jobs. As shown in Fig. 10.4, Korea is one of the few countries in which the rate of NEETs among tertiary graduates (24.8%) is higher than it is for the overall 15–29 age group (18%) (OECD 2016, p. 152).

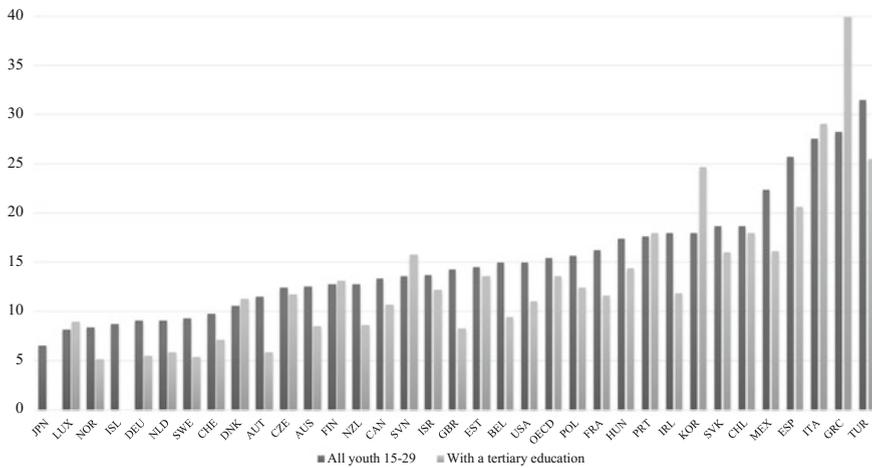


Fig. 10.4 The rate of NEETs among 15–29 years old and those with tertiary education in OECD countries (2014). *Source* OECD (2016)

Despite the oversupply of university graduates, most Koreans in this era thought that higher-education credentials were the best and only way to get good jobs and to upgrade their social status; thus, LEs only recruited the graduates of highly ranked universities (according to the National College Scholastic Aptitude Test), which further prompted parents to prepare their children for the university entrance examinations starting in early childhood.⁹ The competition to enter these highly ranked universities became even fiercer. The university enrollment did not decrease, although it temporarily stagnated due to the Asian Financial Crisis; it bounced back to 90% in the 2000s and has not significantly decreased since. Indeed, although past students could choose not to go to university, under the current system, such people would be considered failures in today’s Korean society.

⁹The other major problem is a reliance on private tutoring. To enter high-ranking universities, students rely on private tutoring, starting in childhood. This creates a financial burden for families, and this higher spending on private tutoring means that family income determines children’s access to higher education. One researcher found that 16.9% of students from upper-middle-income families attended upper-level universities, compared to only 5.8% of lower-income students; for lower-level universities, the situation was reversed (Jones 2013, p. 40).

10.5 The Government's Limited Response to Imbalanced Human Resources

10.5.1 *Successive Governments' Responses to Economic Disparity*

As noted above, the mismatch between demand and supply among higher education graduates is closely linked to the problem of dual labor markets. Successive governments have tried in vain to solve this problem. Why have they failed? Consider the measures enacted by the successive governments of the reformists Kim Dae-jung (1998–2002) and Roh Moo-hyun (2003–17), as well as the conservatives Lee Myung-bak (2008–12) and Park Geun-hye (2013–17)—particularly the causes of those governments' failures.

The main labor-market problem under the Kim Dae-jung administration was high unemployment, which was caused by the restructuring and development of the welfare system. This administration provided SMEs with a generous expansion of credit guarantees and policy loans to help them absorb the unemployed. The unemployment rate thus decreased, starting in 2000. In 1999, the government also expanded the Employment Insurance Program to cover all employees, and in 2000, it enacted the National Basic Livelihood Security System, which provided poor people with a minimal income.

The 2002 presidential campaign was affected by protests against the military-base policy of the United States, and none of the major presidential candidates presented socioeconomic problems as a main aspect of their agendas (Shin 2018, p. 165). Subsequently, the Roh administration gave priority to political reforms over the solutions to socioeconomic problems, at least until the middle of his term. In 2006, President Roh abruptly announced Vision 2030, which focused on complementary welfare policies and which were intended to raise social expenditures from 7% of GDP to the OECD average of 21% by 2030. The backlash against the resulting tax increases was so strong that, in the 2007 presidential election, the candidate for Roh's ruling party lost to the conservative Grand National Party candidate Lee Myung-bak, who promised comprehensive tax cuts and aggressive neoliberal policies (Yang 2017, pp. 163–165).

Following the 2008 crisis, Lee's administration supported SMEs by doubling government spending on them, but its market- and business-oriented policies were more favorable to LEs. As economic inequality increased, discussions about welfare policies spread gradually, and in the 2010 local elections, welfare was the main issue for the first time. Throughout the 2000s, these successive administrations did not address new graduates' difficulties in obtaining jobs. Instead, they carried out higher-education reforms such as Brain Korea 21 and the World Class University Project to foster world-class graduate schools by providing funds to elite, research-oriented higher-education institutions. This effort expanded graduate-school enrollment, and the number of highly educated youths continued to increase. Toward the end of Lee

Myung-bak's term, however, youths began to express anxiety about their futures (including their ability to get a job) in the form of discontent with the political establishment.

Conservative *Senuri* Party¹⁰ candidate Park Geun-hye was elected president in December 2012. During the election, she promised an economy that would fund the people's livelihoods and provide economic democratization. In the first part of her term, she prioritized job creation and welfare expansion, and she tried to position the youth employment problem as a part of her plan to build a creative economy. However, the Park administration retreated from these popular welfare pledges and did not implement much of an increase in social expenditures (Yun 2017, p. 483). The National Assembly impeached Park in 2016 on charges related to influence peddling by her close adviser; Kim (2017) argued that the mass protests demanding the resignation of President Park were fueled by young Koreans' discontent founded in lost opportunities for social mobility and a lack of chances for advancement.

10.5.2 Development and the Institutionalization of the Political System

In the two decades after the Asian Financial Crisis, the central socioeconomic problem shifted; it was now job polarization rather than high unemployment. The government's ability to solve this new problem has been constrained by two factors.

One is the financial constraints created by the norm of low taxation. As a developmental state, Korea has had low public social spending—among the lowest in the OECD countries.¹¹ The practice of low taxation has long functioned as a substitute for social spending, as it offers citizens more disposable income. The norm of low taxation has been so strong in Korea that it has been difficult for the government to fund improved welfare policies through tax increases. The Park administration could not carry out its policies because of these financial constraints (Yun 2017, p. 493).

The other factor is the newly democratized political system. Behind these government failures was a delay in the institutionalization of party politics, as explained in Sect. 10.3.1. Each administration's policies were pursued only during its president's tenure. Every time a new administration formed, the budget for the previous administration's policies was eliminated; instead, new policies or projects were introduced. This occurred when the new president was from the same party as the predecessor; the new administration still tried to differentiate itself by adding new policies to

¹⁰On February 2012, the Grand National Party changed its name to the *Saenuri* Party, meaning “New Frontier” Party to prepare for the forthcoming Legislative Election on April and the Presidential Election on December 2012.

¹¹When it was a developmental state, Japan also kept its tax burden relatively low compared to that of other OECD members, and many of its social security costs were covered by deficit bonds. Meanwhile, Korea has been committed to fiscal conservatism since the Chun administration of 1980 and has thus maintained fiscal balance.

the current ones.¹² This occurred because the degree of institutionalization among political parties was still low in Korea, which allowed elite politicians to dominate politics by forming new parties.¹³

Needless to say, policies that could change a country's economic system can be effective only when they are carried out sustainably and with a long-term perspective¹⁴. The accumulation of short-term policies, even if each they catch people's attention temporarily, does not lead to solutions. For example, President Park launched the "Creative Economy" initiative to strengthen the role of venture businesses and SMEs using the digital economy. However, this program provided no long-term incentives for the youth to join new businesses. An OECD survey showed that entrepreneurship was most often driven by necessity; the start-ups founded by adults under the age of 30 accounted for less than 10% of all Korean start-ups in 2014. Moreover, survey data indicated that Koreans perceived few entrepreneurial opportunities and were fearful of failure (OECD 2016, pp. 101–102).

10.6 Conclusion

As mentioned above, the formation of human capital is connected to a government's development policies and to corporate strategies. Korea's broad educational framework is meant to nurture and supply human capital, and it was created to carry out the state-led development of workers who could engage in the country's early industrialization. One could say that this education system has effectively promoted the country's development for several decades. The key to Korea's success in supplying human capital is that it offered equal opportunity in education and social advancement. Education was a tool for social advancement in Korea's developmental state.

Korea achieved rapid economic growth and eventually transitioned into a formal democracy in 1987. However, its development strategy from the globalization era now is causing social and economic problems (Cheon et al. 2014, pp. 422–427), including the mismatch between the supply and demand for human capital, particularly the oversupply of higher-education graduates. The large number of university graduates who have been unable to find jobs that match their skill levels has driven down the youth employment rate and increased the rate of NEETs. The vitality of Korean

¹²For instance, President Lee Myong-bak and his successor, President Park Geun-hye, were from the same party, but there was no policy continuity between them.

¹³After democracy was restored, Korea's liberal political parties underwent repeated alignments and realignments, leading to the emergence of countless "so-and-so Democratic Parties": the New Korean Democratic Party, Reunification Democratic Party, New United Democratic Party, and Millennium Democratic Party, to name a few.

¹⁴Recently, some researchers have examined the correlation between political institutionalization and economic development empirically. Simmons (2016) argues, based on a wealth of cross-national empirical evidence, the properly constructed political parties are essential for economic development, because in such parties are time horizon long enough for governments to encourage innovation and technology adoption in the economy.

society has thus declined, and many youths have been frustrated by Korean society because they have lost opportunities for advancement.

This failure is due to structural problems, including the fact that there are dual structures for the economic and labor markets (Kim 2018, pp. 181–189), as well as flaws in the education system. The educational framework and the applicant screening system, which were once driving forces for development, have since become social hindrances. The country's monolithic educational system, in which all students are equally provided with primary and secondary education (without choices) and in which university entrance exams more or less decide their futures, is lacking an alternative route by which students can acquire knowledge and skills according to job-market demands.¹⁵ The Korean government should formulate a plan to reform the current education system as part of a socioeconomic policy for future development. Without reforms of the antiquated system that the old, predemocratic regime create, the overseas outflow of Korean youths might gain momentum.

Korea succeeded in achieving both rapid economic growth and low social inequality as a developmental state. As studies on the Korean welfare system have shown, the Korean state kept its social expenditures low and shifted the welfare responsibility onto companies and families as part of the notion of developmental welfare. This plan, which required only low public social spending, was replaced with occupational welfare and family welfare. In the developmental state, the disposable income from low taxes served as people's educational funds; this system functioned well as long as shared growth was possible.

However, after the financial crisis of 1997, as the split in the economic- and labor-market structures deepened, occupational welfare began to be limited to regular workers in LEs. As the inequality between the rich and the poor has widened, public support has become necessary. To raise social spending to the OECD average, the government needs to increase taxes, which could provoke a political backlash, as described above. On the other hand, from an economic rationality viewpoint, it is difficult for the government to abolish its base's preferred policy. Solutions to the youth unemployment and NEETs problems are just part of a comprehensive development strategy, including the reform of social and political systems. The government has failed to produce a reform plan based on long-term prospects or to make its plans reliable. Korea's socioeconomic difficulties are related to the inability of the executive branch to solve problems characteristic of emerging democratic systems.

¹⁵One attempted alternative is the Meister High School program launched by the Lee administration. These schools are special-purpose vocational high schools that provide a technically focused education; a few pilot cases seemed to do well, but these schools' influence has been very limited because there are so few of them. At times in the 1970s, enrollment at vocational high schools increased due to government encouragement. Since the 1980s, however, society as a whole has been geared toward university enrollment, and vocational high schools have been regarded as institutions for students who are not fit for universities. The role of vocational high schools in Korea is very limited.

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