

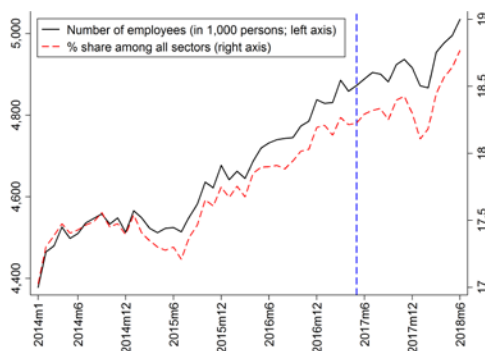
## Public and Social Services Employment in Europe and its Implications for Korea

Dong-Hee Joe Associate Research Fellow, Europe and Americas Team, Advanced Economies Department (dhjoe@kiep.go.kr)

### I. Situation in Korea

Employment in the public and social services sector is on a rising trend in Korea,<sup>1</sup> in terms not only of the number of jobs, but also of the share of these jobs within the whole economy, as Figure 1 displays. The latest data suggests that this sector could soon account for more than 20% of total employment.

**Figure 1. Rising Employment in the Public and Social Services Sector in Korea**



Note: Seasonally adjusted data.

Data: Statistics Korea.

This trend is likely to continue under the current government. This is because, for instance, the Moon Jae-in administration has included detailed and explicit plans for job creation in this sector (Tasks 16 and 17) in its *100 Policy Tasks*.<sup>2</sup> Also, cross-sectional evidence from European countries suggests the possibility that this sector's employment expands with income level, as explained below. Against this background, and given Europe's reputation for high levels of development in this sector, this Brief looks at the public and social services employment in Europe and draws policy implications for Korea.

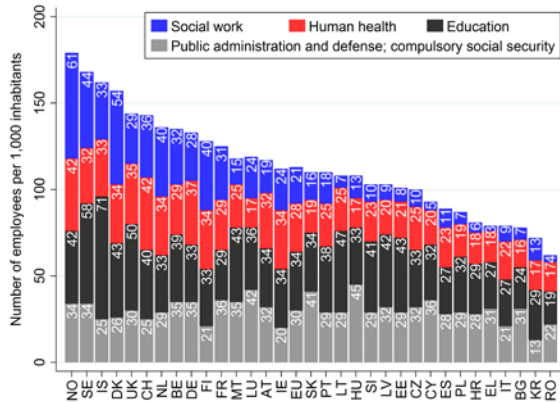
1 The public and social services sector is defined in this Brief as the aggregation of Sections O (public administration and defense; compulsory social security), P (education) and Q (human health and social work activities) of the International Standard Industrial Classification (ISIC), Rev.4.

2 Government of the Republic of Korea (2017), *100 Policy Tasks: Five-year Plan of the Moon Jae-in Administration*.

## II. Situation in Europe

### 1. Size and Distribution

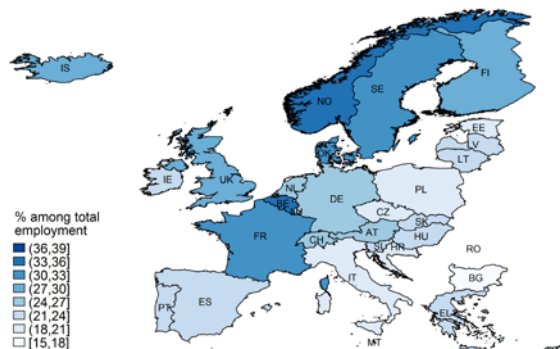
Figure 2. Public and Social Services Employment per Population in 2017



Data: Eurostat, IMF and Statistics Korea.

As Figures 2 and 3 show, Scandinavian countries have the largest employment per population in this sector in Europe, where the sector accounts for more than 30% of total employment. Among the biggest economies in Europe, the UK follows most closely the Scandinavians. Among these countries, the largest sub-sector in Norway and Denmark is social work, while in Sweden and the UK it is education.

Figure 3. Share of Public and Social Services Employment in 2017



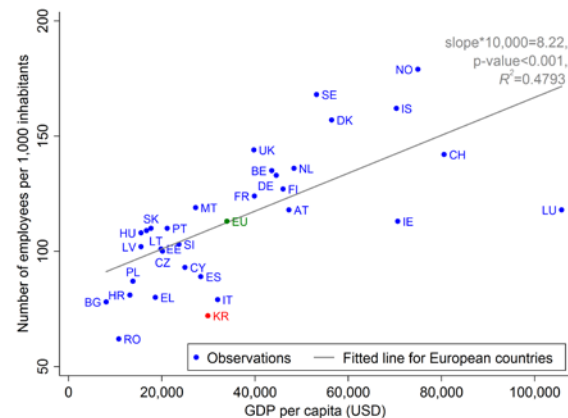
Data: Eurostat and IMF.

### 2. Correlation with Income Level

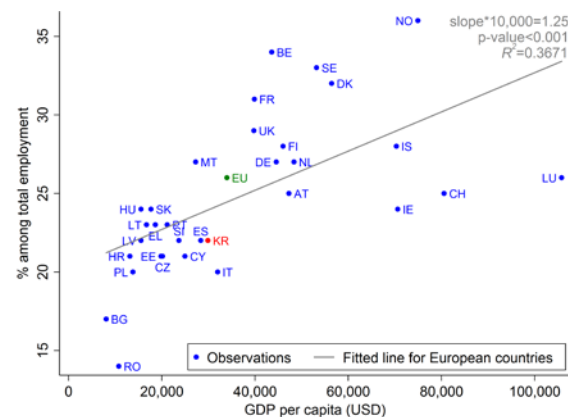
Another noticeable observation from the data on public and social services employment in Europe is the strong correlation with income level shown in Figure 4. The correlation is robust to controlling for its usual explanatory factor, namely the age distribution within each population.

Figure 4. Public and Social Services Employment versus Income Level in 2017

(a) Employees per Population



(b) Share in Total Employment



Data: Eurostat, IMF and Statistics Korea.

Looking at each sub-sector, as reported in Table 1, the correlation is the strongest in social work, followed by human health and education. Income level is not correlated with the sub-sector of public administration, defense and compulsory social security.

**Table 1. Sub-sectoral Employment versus Income Level in 2017**

Number of observations=3 1	Social work	Human health	Education
<b>GDP per capita in 10,000 USD</b>	<b>5.432 (0.000)</b>	<b>2.443 (0.010)</b>	<b>1.002 (0.089)</b>
% of population of age<10	5.325 (0.017)	2.614 (0.138)	4.194 (0.076)
% of population of age≥60	3.433 (0.006)	1.687 (0.024)	0.683 (0.474)
<b>R<sup>2</sup></b>	0.6598	0.5461	0.2961

Note: Numbers in parentheses are p-values computed with robust standard errors. A constant is always included.

Data: Eurostat and IMF.

### III. Implications for Korea

As we saw in Figure 2, Korea falls far behind Europe in the size of employment in public and social services. This is so in comparison not only to Scandinavian countries and major economies, but also to the whole of the European Union which includes many countries with income levels significantly below Korea. Among the sub-sectors, Korea's employment lags the most in social work.

This observation supports the Moon administration's plan to expand employment in the sector. And if we assume that the strong correlation observed in Figure 4 and Table 1 between the size of employment in this sector and the level of income in Europe comes from increasing demand for public and social services as income level rises, the timing of this expansion is also right as Korea reaches a per capita income of 30,000 USD. Recent survey results also point to a similar conclusion: Koreans' demand for social services is increasing, and more than 70% of respondents agree with expanding this sector.<sup>3</sup>

3 Ministry of Health and Welfare (2017), *Social Services Survey* (in Korean).

At the same time, the government must prepare to reduce the possible negative impact this expansion can have on the private labor market. In particular, if this expansion occurs in the government's payroll, where job security is known to be significantly better than in the private sector, private employers could find it more costly and competitive to attract job seekers. This can result in a reduction in private employment and a distortion in the allocation of human capital within the economy.<sup>4</sup>

One way to reduce this negative impact is to introduce, or expand the use of, flexible forms of labor in this sector. Full-time work may not be the most efficient form for social work, for instance, given the nature of the job. By offering flexible forms of work, the social services sector can attract those who are willing to work, for less hours than full-time workers, such as homemakers. Because these workers would not consider a regular full-time work in the private sector, offering flexible working hours could reduce the negative impact. Doing so could also ease the way for career-interrupted women back to the labor force.

KIEP

4 Lamo, Perez and Sánchez-Fuentes (2013), "Crowding-in or crowding-out? Employment in the public and the private sector in the OECD," Arijit Mukherjee ed. *Wages and Employment: Economics, Structure and Gender Differences*.