Addressing Korea’s Fertility Crisis

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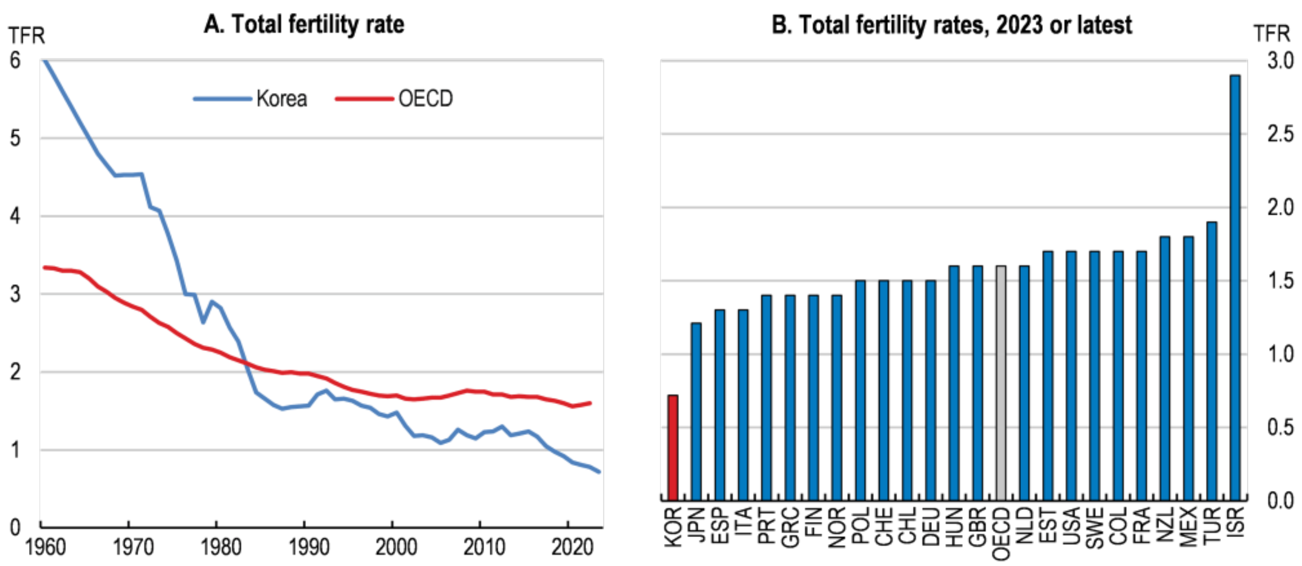
In 2023, Korea’s fertility rate fell to a world-record low of 0.7. Its sharp decline implies a faster increase in the old-age dependency ratio than in any other OECD country. As the proportion of retirees grows, labour shortages will intensify, and the costs of health care, long-term care, and pensions are expected to more than double to 17.4% of GDP by 2060. The government has declared the situation a national emergency and announced plans to establish a new ministry focused on population strategy, alongside a range of policy initiatives. These demographic challenges are the main topic of the 2024 Economic Survey of Korea. It emphasises the importance of addressing obstacles preventing young adults from having the number of children they desire and implementing policies to mitigate the economic impact of an ageing population.

Fertility rates in Korea have declined reaching the lowest in the world



Source: Statistics Korea; OECD (2024), Fertility rates (indicator). doi: 10.1787/8272fb01-en; OECD Pensions at a Glance (2023).

A key cause of ultra-low fertility is the high opportunity cost of having children in Korea. Rapid economic development and higher access to education have enabled women to pursue increasingly rewarding careers. But long hours, insufficient protections against workplace discrimination, and a work culture where work is expected to take priority over family make it very challenging to combine work and motherhood. This leads to a large career cost for women who become mothers and underpins the widest gender pay gap in the OECD.

Improving the work-life balance must be a top priority to reverse the decline in fertility rates. While policies have made childcare nearly free, there is still room to expand access to popular childcare services, ensure consistent quality across all types, and align childcare opening hours with work hours. Raising the take-up of paid parental leave, which is currently very low, especially for fathers, is also essential. This can be achieved by relaxing strict eligibility, raising the benefit ceiling, and strengthening sanctions for workplace discrimination.

The weak financial position of youth holds back family formation. Labour market duality with large differences in pay, job quality and social protection weaken the economic position of young adults. Many young people either postpone their careers to land high-quality jobs in large firms, or start at smaller companies with non-regular contracts. Duality also spurs a race for credentials, which leads to high spending on private education. Addressing labour market dualism by relaxing employment protection for regular workers and expanding social insurance would help strengthen the financial prospects of young people and encourage family formation.

However, boosting fertility alone will not suffice to offset the rapid decline in the workforce. Even tripling fertility to 2.1 children per woman by 2040, the level associated with a stable population in the long term, would not prevent the workforce from declining. Korea must therefore prepare for and adapt to the challenges of an ageing and shrinking population.

Lengthening working lives is essential to counteract inevitable population ageing. Careers are shortened by the seniority-based wage system which renders older workers less appealing to firms when their wage rises above their productivity. Company-specific mandatory retirement ages below the legal pension age and the practice to encourage older employees to voluntarily leave before reaching the mandatory retirement age also contribute to premature retirements from their main job. Reforming these systems, raising the statutory retirement age, and offering upskilling opportunities for older workers can help keep them in the workforce longer.

Increasing the supply of foreign labour is another vital strategy. Although Korea has significant potential to boost immigration, various visa hurdles for skilled immigration as well as poor working conditions for low-skilled immigrants hold back immigration. Korea’s immigration policies need reform to enhance opportunities for both low-skilled and skilled immigrants. Removing entry barriers for qualified foreign talent and integrating low-skilled immigrants better will help increase the foreign labour force.

Further reading:

OECD (2024), *OECD Economic Surveys: Korea 2024*, OECD Publishing, Paris.

Yang, Y., H. Hwang and J. Pareliussen (2024), "Korea's unborn future: lessons from OECD experience", *OECD Economics Department Working Papers, No. 1824*, OECD Publishing, Paris.

Choi, S., S. Ham., Y. Yang, and J. Pareliussen (2024), "Women's employment and fertility in South Korea: A literature review", *OECD Economics Department Working Papers, No. 1825*, OECD Publishing, Paris.

Addressing the challenges of high government debt and population ageing in Japan

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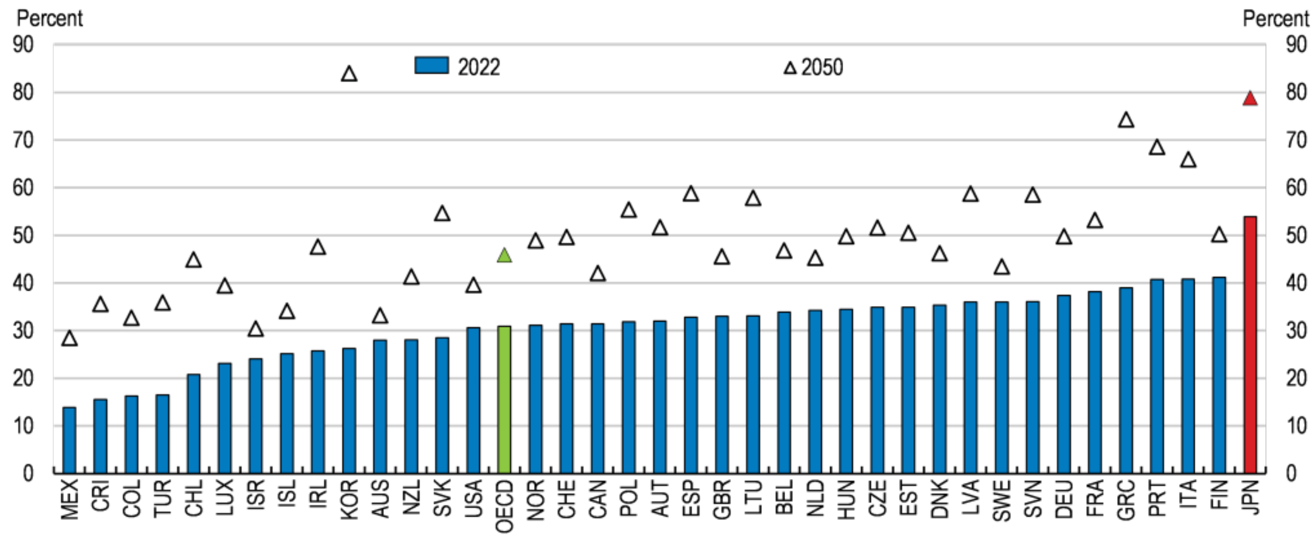
Japan has coped well with the pandemic and the energy crisis, but the fiscal support to help mitigate their impact has pushed up gross public debt to an unprecedented level of almost 245% of GDP in 2022. Demographic change will exacerbate these challenges. Japan’s population is projected to decline from 135 million to around 96 million in 2060, while the elderly population will reach 79% of working-age population, one of the highest in the OECD (Figure 1). The government projects that with ageing, social security spending will rise from 21.5% of GDP in 2018 to around 24% by 2040. Without corrective action, this would substantially worsen long-term fiscal sustainability.

The *2024 OECD Economic Survey of Japan* discusses fiscal and structural reforms to bring debt levels down. Japan lacks a credible medium-term fiscal consolidation strategy to put public debt on a downward path and build fiscal buffers to increase resilience to shocks, which should include both revenue and expenditure measures. Containing spending growth requires health and long-term care reforms. Lengthy hospital stays and a high number of medical consultations suggest room for efficiency gains in providing high-quality care to Japan’s ageing population. Gradually raising tax revenues, including by increasing the consumption tax rate further in small increments, should be another element of broad fiscal reforms. Raising productivity and employment, particularly among women and older people, is also key to limit the effects of demographic headwinds.

Figure 1. Japan’s elderly dependency ratio is high and will continue rising

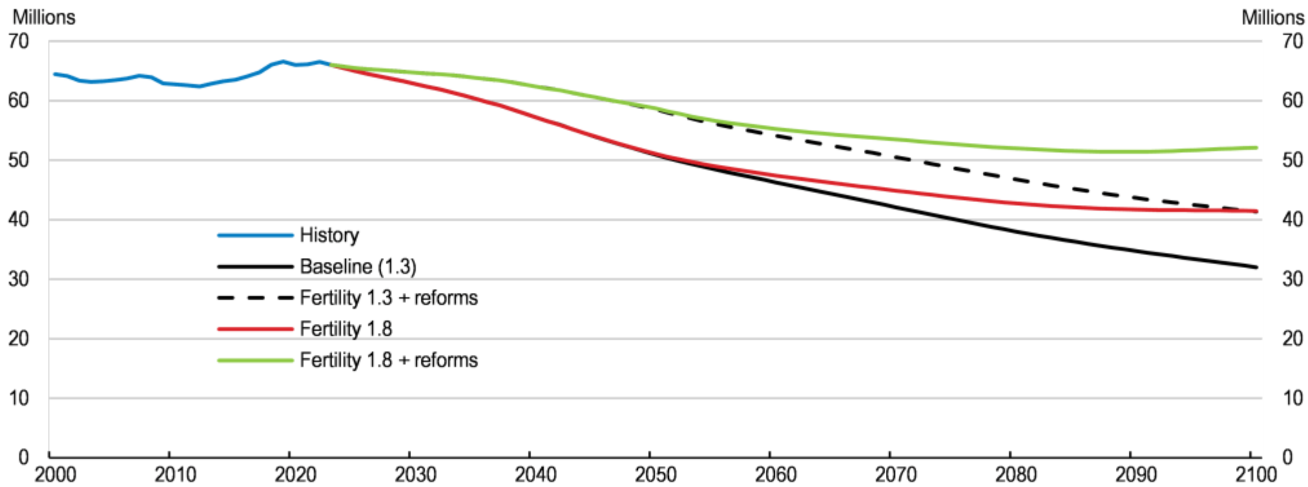


Note: Ratio of population aged 65 and above to population aged 20-64. Projections are based on medium fertility variant.
Source: OECD Demography and Population Statistics database.

Under current fertility, employment and immigration rates, employment would fall by 52% by 2100 (Figure 2). The government aims to increase the fertility rate from 1.3 to 1.8, which would help mitigate the decline in employment. One priority is to strengthen the weak financial position of youth, which leads many to delay or forgo marriage and children. Making it easier to combine paid work and family is also critical so that women are not forced to choose between a career and children. Increasing the take-up and duration of parental leave by fathers can also boost fertility rates. Policies should also cut the cost of raising children, the key obstacle to couples achieving their desired number of children.

Given the difficulty of raising fertility, which partially reflects changing social norms, and the decades-long wait for a pay-off from higher fertility, it is essential to prepare for a low-fertility future, in part by raising labour force participation. Hence, Japan should also continue to remove obstacles to the employment of women and older persons and make greater use of foreign workers, which would have a more immediate impact on labour shortages. Breaking down labour market dualism, which disproportionately affects youth, women, and older people, is a priority. Abolishing the right of firms to set a mandatory retirement age (usually at 60) and raising the pension eligibility age would also promote employment. These reforms should be accompanied by measures to re-skill older workers, whose participation in lifelong learning is relatively low. Offering long-term residency to workers and their families and broad policies to increase the integration of foreign workers would boost foreign worker inflows.

Figure 2. Reforms to boost fertility, employment rates and foreign worker inflows would mitigate the decline in employment



Note: The reforms include; *i)* a doubling of inflows of foreigners to 200 000 per year; *ii)* a convergence of female employment rates to those of men by 2050; and *iii)* the employment rate for each five-year cohort from 60-64 to 70-74 converges to that of the preceding cohort (i.e., the rate for the 60-64 group would rise to the 2021 rate for the 55-59 age group, etc.) by 2050.
Source: OECD calculations based on the OECD Long-term Model.

References

OECD (2024), OECD Economic Surveys: **Japan 2024**, OECD Publishing, Paris. https://doi.org/10.1787/41e807f9-en