Characteristics of Employment Volatility by Group and Policy Implications

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Abstract

Despite the importance and necessity of studying employment volatility, this topic has not been actively studied in Korea. One of the main reasons for the lack of research in this area is the limited data available to track changes in the employment status of individuals. This paper uses household survey data such as the Economically Active Population Survey and the Korean Labor and Income Panel Survey (KLIPS) and administrative data such as the Job-to-Job Flows Statistics to examine the characteristics of employment volatility by group and explore policy implications.

In Chapter 2, we first examine the characteristics of annual transitions between employment statuses for each group using the Job-to-Job Flows Statistics. These statistics are a compilation of all employed persons aged 15 and over registered in administrative databases, such as the four major social insurance and national tax databases, covering about 25 million employed persons. Looking at changes in employment status by type of employed person, the share of job stayers increased by 1.8%p between 2016 and 2021, while the shares of new entrants, job movers and unregistered workers decreased. This is consistent with previous research showing that the volatility between employment statuses tends to decrease. The five-year mobility results show that about two-thirds of the employed move, while about 20% are unregistered, including the unemployed. After five years of employment, men are 9.1%p more likely to remain employed than women, suggesting that it is more difficult for women to remain employed over time. In terms of age, 74.1% of those in their 40s were remain employed, compared with 43.1% of young people, and 66% of those aged 60 and over. Overall, for the core age groups, the proportion of job movers was higher than that of new entrants, while for older people the proportion of job movers was lower than that of new entrants, and for young people the proportion of new entrants was higher. Regarding job transitions between company sizes, the transition from SMEs to large companies, which is necessary to overcome the job polarization between large companies and SMEs, was only 11.1%. It was highest among young people at 16.2% and declined as the age went up.

Meanwhile, in order to overcome the limitations of the Job-to-Job Flows Statistics, which only track employment status during the month of December each year, this study used the Economically

Active Population Survey data to examine the characteristics of fluctuations in employment status by age group and their correlation with economic fluctuations. While the job creation rate is declining overall, its level by age group takes the shape of a sideways S, with both the age group with the lowest job creation rate and the age group with the highest job creation rate moving upwards to a higher age group than in the past, indicating an aging phenomenon. A high job creation rate, high volatility, and high vulnerability to cyclical fluctuations are observed among people in their late 40s to early 60s, implying that the process of finding a new job after retiring from one's main job has a significant impact on the overall job creation rate and its volatility. In the meantime, the rate of transition from employment to unemployment shows a downward trend in people in their 20s and an upward trend in people over 60 years of age. What is noteworthy is that after overcoming the COVID-19 crisis, the rate of transition to unemployment. A more detailed analysis of the cause and sustainability will be required in the future.

Regarding the unemployment retention rate, there are no clear age-specific patterns or deviations for those aged 60 and below. The unemployment retention rate after the age of 60 increased from less than 50% in 2003 to more than 60% in 2023, indicating that older adults are not dropping out of the labor market as easily as in the past and are looking for work. Volatility due to cyclical fluctuations remains high for those in their late 40s and early 50s, but has declined significantly for those aged 66 and over. Given that cyclical fluctuations are largely related to labor market demand, this suggests that the decision to continue looking for work in the late 40s and early 50s is more responsive to labor market demand than to personal circumstances compared to other age groups. It also suggests that at age 66 the job search itself remains short and independent of cyclical fluctuations, or that the decision to continue searching is driven more by health or other personal motivations.

The rate of transition from economically inactive to unemployed decreases with age, from 3.8% in the late 20s to 0.4% after age 66, with the late 20s also experiencing lower rates of transition from economically inactive to unemployed after 2015. It is not surprising that the rate of transition from economically inactive to unemployed is the highest in the late 20s, as this is the time when people move from jobseeker status to employment status through job searching, such as receiving education and training or preparing for various exams. On the other hand, the trend of the direct transition rate from employment to economically inactive status has decreased significantly from around 5% to 3.2% in 2017. The highest rate of economically inactive transition is in the age group before 25, with an average of 7.4% over the period, and 5.5% in the age group 66 and older. The high rate of inactivity in the early 20s can be attributed to the fact that this age group is characterized

by non-economic activities such as study, training, and job preparation, and since employment is relatively temporary and the motivation for changing jobs is often study or job preparation rather than searching for a new job, people often skip the unemployment stage and move directly to economically inactive status after changing jobs. The increase in the economically inactive transition rate from the late 50s onwards reflects an increase in the proportion of people who leave the labor market for a period of time or permanently due to retirement or job change.

The above findings, which show that the characteristics of job transitions and their relationship with cyclical fluctuations are very different across age groups, suggest that the characteristics of job transitions and their relationship with cyclical fluctuations across age groups need to be closely examined when designing policies to reduce frictional unemployment and help human capital accumulation. In addition, follow-up studies need to analyze fluctuations in employment status taking into account other factors such as occupation and skill level.

From the perspective of analyzing gender labor market disparities, Chapter 3 focuses on the changes in labor market status after the labor market transition, analyzing the status dependence of labor mobility and labor market status and examining whether gender disparities exist in these changes. The main findings derived from the analysis of data from the 12th (2009) to 25th (2022) waves of the Korean Labor and Income Panel Survey (KLIPS) are as follows.

First, labor market status was divided into six categories (regular jobs at large companies, non-regular jobs at large companies, regular jobs at SMEs, non-regular jobs at SMEs, non-wage jobs, and the unemployed) based on two axes: company size and employment type. After analyzing the labor market status mobility through a transition matrix, it was found that transition between employment types has been expanding recently, at least for men, from non-regular jobs to regular jobs. However, this trend was not confirmed among women, and it was observed that transition to non-employment accounts for a large portion of the labor transition of female non-regular workers. Meanwhile, as seen in the Job-to-Job Flows Statistics, transition between company sizes from SMEs to large firms appears to remain at a very low level for both men and women, re-confirming that Korea's labor market is completely divided into large enterprises and SMEs. In addition, to understand the long-term labor market status mobility, we analyzed the probability of labor market status change between 2009 and 2020, and found that women are more likely to move downward in terms of labor market status than men, and are more than twice as likely to move into non-employment.

Second, mobility between labor market statuses was observed through an event sequence graph, and the transition between labor market statuses for men was found to be relatively small compared to women. In contrast, women often transitioned from being unemployed to being employed over time, and in this case, the most frequent transition was entry into non-regular jobs at SMEs. In addition, it was confirmed that many women go back and forth between being employed and being unemployed.

Lastly, a dynamic panel random effects model was used for analysis to account for unobserved heterogeneity of individuals, and a strong status dependence in labor market status was found. These findings can be interpreted as the existence of a trap effect in the secondary labor market. However, it was confirmed that the probability of transitioning from a non-regular job or a job at SMEs to being unemployed was lower than the probability of transitioning to a regular job or a job at large firm. This means that both men and women have a strong tendency to maintain employment after entering the labor market, even if they are in relatively poor labor market status.

The above analysis results suggest that policy efforts are needed to improve the dual structure of the labor market, and in particular, to enhance working conditions for female workers, most of whom are placed in relatively low labor market status. Women's labor market history confirms that they frequently go back and forth between being employed and being unemployed, reflecting the reality that women's employment is vulnerable to changes in the economic environment. In addition, although the employment rate of women has been increasing recently, it should be noted that the proportion of non-regular workers at SMEs among women is gradually increasing. Therefore, with regard to women's employment in the future, there will be a need to seek policies for structural improvement that include qualitative dimensions.

In addition, the analysis results showed that women move more frequently between wage jobs and non-wage jobs than men, and that if they have underage children, the probability of being in low labor market statuses increases, unlike men. These results mean that, in order to expand women's participation in economic activities and alleviate the gender gap in the labor market, it is necessary to promote work-family balance so that they can continue to work after entering the labor market. In addition, considering that women who have the burden of caring for children tend to prefer jobs with relatively short working hours and high flexibility, policy efforts are further needed to guarantee the time for childcare and life activities for female workers and to strengthen their time sovereignty.

In Chapter 4, using data from the 18 Consolidated Sample in Waves 1-4 of the KLIPS, the labor market transition of the elderly was analyzed and the impact of economic fluctuations on their job volatility was estimated with an aim to determine what characteristics the employment volatility of this particular age group has compared to that of young and middle-aged. First, the elderly had

a lower economic activity participation rate than young and middle-aged, and the gap appeared to be largely due to the difference in employment rates. The difference in employment rates is attributable to the elderly's low educational level and a significant gap in health status. The results of the labor market transition were also found to be unfavorable to the elderly. The majority of the elderly and young and middle-aged people who were employed maintained their employment status for three years after employment, but the gap between these age groups widened over time, and a high percentage of the elderly who were unable to maintain their employment status transitioned to an economically inactive status. The transition rate from unemployment to employment was also lower for the elderly than for young and middle-aged. Even in cases where employment was maintained, older wage workers had a higher rate of transition from full-time employment to temporary or daily employment than young and middle-aged. On the other hand, in the case of business owners, the elderly appeared to maintain their status in a more stable manner than young and middle-aged people.

The unfavorable labor market transition results are believed to be the outcome of high employment volatility. Older workers had a lower rate of maintaining their first job for 3 years than young and middle-aged, with the gap widening for those with a college degree or higher. Factors such as highly-educated elderly being relatively well prepared for retirement, and retirement systems that asymmetrically affect the elderly, may have contributed to this phenomenon. The separation rate of the employed elderly and the hiring rate of the non-employed elderly were also found to be lower than those of young and middle-aged, suggesting that opportunities for reemployment are limited for older ones. Meanwhile, it is difficult to say that the low job retention rate among the elderly was due to a high number of voluntary retirements. The involuntary retirement rate of the elderly did not differ significantly from that of young and middle-aged. However, in the case of highly-educated elderly, the involuntary retirement rate was exceptionally higher than that of young people.

Heterogeneity within the elderly was also found. This study divided the elderly group into the super elderly(65-74) and younger elderly(55-64), and it was found that the difference between the elderly and young and middle-aged mainly occurred in the super elderly. Among the elderly, a high percentage of super elderly respondents answered that they have a low educational level and are not healthy. Not only did the super elderly have a low employment rate, but even those who were employed were mostly engaged in lower quality jobs. Additionally, their workweek was short and the hourly wage was low. Among the elderly, both the job retention rate and the hiring rate were low for the super elderly, suggesting that they are facing low employment stability and limited opportunities for re-employment. However, the involuntary retirement rate was low among the

super elderly, especially among the highly-educated. The rate of retirement due to health reasons was high among super elderly, especially among men. These characteristics of retirement reasons partly explain the low job retention rate and hiring rate among super elderly.

It is unclear whether cyclical fluctuations and economic forecasts have had an additional adverse effect on employment of the elderly. This study estimated the monthly employment rate, separation rate, hiring rate, and unemployment rate using the KLIPS data to estimate their relationship with economic fluctuations. The results indicated that employment and job entry are procyclical and unemployment is countercyclical. The direction and magnitude of the estimate suggest that the elderly are not a vulnerable group in the labor market, but the lack of statistical significance makes it difficult to be certain. Meanwhile, the estimate that job transitions are not affected by cyclical fluctuations may be due to a failure to control for the type of job transition, and further research is needed in the future.