

WAGE DISPERSION, LABOR MARKET DUALITY AND YOUTH UNEMPLOYMENT – THE CASE OF SOUTH KOREA

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ABSTRACT

This study attempts to uncover the causal relationship between wage dispersion, labor market duality, and youth unemployment. Youth unemployment is one of the focal social issues that most countries encounter seriously. Many solutions, including expansion of job skill training, more efficient job matching, and ample provision of job experience opportunities, have been suggested to deal with the rising youth unemployment. However, these suggested solutions are mostly supply-side remedies, and many of them do not appear very successful to reduce youth unemployment rates. Unlike the previous literature, this study attempts to pay a special attention to the possibility that some fundamental characteristics of a labor market structure might be the primary culprit that aggravates youth unemployment. We particularly take note of the widening wage dispersion among jobs and the deepening labor market duality between small and medium-sized enterprises and larger ones and between temporary and permanent jobs as a potential stumbling bloc to worsen the youth unemployment. The theoretic background for the empirical analysis in this study is based on the job search theory, which predicts that an increase in the variance in the wage distribution cause individuals to raise their reservation wage and wait longer for a better job offer, leading to a longer unemployment spell and ultimately resulting in a higher unemployment rate in the economy. Despite the theoretic prediction, relatively little attention has been paid to test the causal relationship. Korea is a good example as the wage dispersion is increasing and the labor market duality is still substantial. The fixed effects results provide some evidence that wage dispersion among jobs and labor market duality can have detrimental effects on youth unemployment.

KEY WORDS: youth unemployment, wage dispersion, labor market duality, job search theory