

Factors behind Lackluster Recoveries in the Employment-to-population Ratios of Major Countries and Their Prospects

Woo, Shin Wook*, Do, Yeong Woong**

Although major countries have shaken off the influence of the global financial crisis and are showing a modest economic recovery, the levels of the employment-to-population ratios in major countries are running below their pre-crisis levels, as the degree of the recovery in their employment-to-population ratios (the number of persons employed/productive population) has failed to match the extent of the decline during the crisis period (2008~2010).

This paper looks into factors underlying this weak improvement in employment-to-population ratios in major countries, and classifying them into two groups; structural factors and cyclical factors. According to the results of an empirical analysis, the scantness of the improvement was influenced more by structural factors than cyclical factors. Firstly, the changes in demographic structure in line with population aging can be cited as a major structural factor. Specifically, an increase in the numbers in elder-age brackets with low employment-to-population ratios and a decrease in the numbers in younger and core age brackets with high employment-to-population ratios is analyzed as a major factor constraining improvement in national employment-to-population ratios since the crisis. Meanwhile, the extent of the decline in employment-to-population ratios caused by cyclical factors is estimated to be around 1/5~1/2 of the total decline, and the full extent of this decline during the crisis period has not been made up due to the lethargic pace of the recovery in business activity even after this ended.

In the light of these results, even if major countries experience a full-blown economic recovery, we judge that it will not be easy for their employment-to-population ratios will not easily return to the pre-crisis period

levels, due to the persistence of structural factors associated with population aging. Notably in Korea, given the progressively growing sway of population aging and other structural factors, there is a great need for preemptive structural reforms in the labor market. Therefore, we judge it vital to strengthen policy efforts to enhance the employment-to-population ratios of the younger and core age brackets, which are lower than those of major countries, along with structural reforms to moderate the dual labor market structure and ease labor market rigidities.

* Economist, Global Economy Analysis Team, Research Department (Tel : +82-2-759-5293, e-mail : swwoo@bok.or.kr)

** Junior Economist, Global Economy Analysis Team, Research Department (Tel : +82-2-759-4279, e-mail : hero@bok.or.kr)

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