The Long-Term Effects of Labor Market Entry in a Recession: Evidence from the Asian Financial Crisis

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Background and Data

1997-98 Asian Financial Crisis

- The Asian financial crisis induced a sharp and deep recession in South Korea starting from November 1997
- The crisis was unexpected in South Korea due to sound macroeconomic indicators until 1997 Q3
- GDP growth rate precipitated from 5.8% to 5.7%, and unemployment rate soared from 2.6% to 7.0%
- The recovery took about 3 years until the early 2000s
- Compared to the Great Recession in the US, similar magnitude but faster recovery

Data and Analysis Sample

Korean Labor and Income Panel Study (KLIPS)

- Yearly longitudinal data on 5,000 households (and individuals therein)
- Yearly longitudinal data on 5,000 households (and individuals therein)

National and regional unemployment rates

- Yearly rates in 1989–2010, reported by Statistics Korea

Empirical Strategy

Regression Models

For labor market and financial outcomes

\[ y_{it} = \alpha + \beta_t U_{it} + \beta_c y(f(c)) + \delta_t + \delta_c + \tau_t + \epsilon_{it} \]

- \( y_{it} \): time-varying outcome of person \( i \) (who graduated from college in year \( c \) and region \( r \)) in calendar year \( t \)
- \( U_{it} \): unemployment rate in college graduation year \( c \)
- \( \beta_t \): person \( i \)’s baseline characteristics
- \( f(c) \): cubic function of college graduation year (cohort) \( c \)
- \( \delta_r \): fixed effects for region \( r \) of college graduation
- \( \phi_c \): fixed effects for calendar year \( t \)
- \( \tau_r \): fixed effects for potential labor market experience \( e (E \equiv t - c) \)

For family formation outcomes

\[ y_{it} = \alpha + \beta_t U_{it} + \beta_c y(f(c)) + \delta_t + \tau_t + \epsilon_{it} \]

- \( y_{it} \): family formation outcome of person \( i \) (who graduated from college in year \( c \) and region \( r \)) as of the most recent survey year \( t \)
- \( \beta_t \): effect on \( y_{it} \) of a 1 pp increase in \( U_{it} \)

Balance Checks

A. Individual balance test

<table>
<thead>
<tr>
<th>Gender</th>
<th>Coeff.</th>
<th>N</th>
<th>Mean</th>
<th>N</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>0.009</td>
<td>0.060</td>
<td>2.474</td>
<td>0.002</td>
<td>0.065</td>
</tr>
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<td>0.071</td>
<td>10.22</td>
<td>2.436</td>
<td>0.012</td>
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</table>

Mother’s y of education

<table>
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<tr>
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<th>Mean</th>
<th>N</th>
<th>Mean</th>
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</thead>
<tbody>
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<td>Male</td>
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<td>8.32</td>
<td>1.988</td>
<td>0.069</td>
<td>9.41</td>
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<td>0.007</td>
<td>3.66</td>
<td>2.401</td>
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</table>

Parent’s job status at age 14

A. Log expenditure per capita (Men)

B. Log expenditure per capita (Women)

<table>
<thead>
<tr>
<th>Gender</th>
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<th>N</th>
<th>Mean</th>
<th>N</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0.016</td>
<td>0.198</td>
<td>0.001</td>
<td>0.016</td>
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<tr>
<td>Female</td>
<td>-0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Conclusion

- A deep economic downturn at labor market entry has long-term consequences on multiple dimensions of life well beyond labor market outcomes
- Different effects on men and women who face different constraints and choice sets in work and life
- Compared to previous studies, our estimates are generally larger in magnitude likely due to:
  - A sharp and deep recession with substantial job losses even for high skilled labor
  - Rigid labor market institutions
  - Gender-based specialization within household