

## Transition to Self-employment in Dualistic Labor Market: the Case of Korea

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### Abstracts

The purpose of this paper is to analyze the decision to enter self-employment in countries with a dualistic labor market like Korea. The study focuses on clarifying whether entering into self-employment was an inevitable decision forced by economic recession (push hypothesis) or a voluntary move driven by entrepreneurship (pull hypothesis). In comparison with previous studies, this study places an emphasis on the market structure as a factor determining the validity of the push or the pull hypothesis. Empirical results showed that the push side of self-employment is strong in Korea when the economy is weakening, supporting the push hypothesis. Furthermore, the results indicated that the push side exerts more influence on females and workers in temporary positions who are concentrated in the peripheral labor market than males and workers with permanent jobs in the core labor market.

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## I. Introduction

The simple theory of income choice has been the basis for a range of studies focusing on the decision of individuals to start a firm and become an entrepreneur. The theory suggests that economic depression will lead to an increase in start-up activity, because it will lower the opportunity cost of starting a firm (Blau, 1987; Evans and Jovanovic, 1989; Evans and Leighton, 1989; Blanchflower and Meyer, 1994). However, the main counterargument is that the unemployed tends to possess lower endowments of human capital and entrepreneurial talent required to start and sustain a firm, suggesting that economic depression may be associated with a low degree of entrepreneurial activity. Economic depression may also imply lower levels of personal wealth which in turn would reduce the likelihood of becoming self-employed (Johansson, 2000). Entrepreneurial opportunities are not just the result of (the threat of) push effect generated by stagnant economic activity but also of the pull effect induced by a thriving economy and past entrepreneurial activities. The ambiguities found in the empirical evidence reflect these two conflicting sides (Acs, Audretsch and Evans, 1994; Parker, 2004; Carree, 2002).

Most of the literature fails to consider the market structure factor in the discussion of transition to self-employment. Dual labor market or integrated labor market is a factor affecting entrepreneurial activities in a country.<sup>1)</sup>

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1) Cho and Keum (2004), Cho (2004), Nam (2005) reported that the 1997 Asian financial crisis aggravated the dualistic structure of the Korean labor market. They report that permanent, male wage workers with a college degree quickly regained job stability after 1999, whereas less-educated female wage workers on temporary positions experienced a slow improvement in their working conditions, aggravating the dualistic structure of the labor market.

Thus, this study aims not only to find an answer to whether self-employment is forced or voluntary but also to investigate how the market structure qualitatively affects the transition to self-employment.

## II. Empirical Analysis

### 1. Description of Data

This study used the *Economically Active Population Survey of Korea* for understanding of the transition to self-employment. The survey, aimed at compiling macro-indices for employment, includes Koreans aged 15 years old and above from sample households of about 33,000 nationwide. Data is gathered monthly and compiled with focus on the main categories of personal information and labor market status. The *Economically Active Population Survey of Korea* is considered adequate for the purpose of this study, as it has a wide subject basis and enables us to understand the monthly movement of people between jobs.

For this study, we utilized the data from January 2000 to December 2004. Table 1 explains the definition, the average and standard deviation of the key variables. As can be seen, the data used has an average, self-employed ratio of 30.8% (not considering survey weight).<sup>2)</sup>

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2) *The Economically Active Population Survey of Korea* conducted by the Korea National Statistical Office categorizes the status of occupations as the following: 1. permanent worker 2. temporary worker 3. daily worker 4. owner 5. own-account worker and 6. non-wage contributing family worker. In this study, owners and own-account workers were included in the definition of self-employed persons, while regular, temporary and daily workers were included in the definition of wage workers. Non-wage contributing family workers, who accounted for 5.86% of the total sample in 2004, were included neither in the self-employed nor in the wage

This study utilized macroeconomic variables in order to examine the effects of economic situation on the decision to enter into self-employment. The Composite Component Index (CCI) is used as the leading variable of the economic situation. The average value of the data used was 101.06.

## 2. Estimation Results

Table 2 contains the analysis results of the effect of personal attributes and economic situation on the decision to enter self-employment. In our models, we used unemployment instead of the CCI as a macroeconomic variable in order to see whether higher unemployment led to increased or decreased entry into self-employment. As the models indicate, there is a significantly positive relationship between entry into self-employment and unemployment in Korea. In other words, the higher the unemployment, the greater the entry into self-employment. It is implied that Korean people are pushed into self-employment as a result of job loss, and is in line with previous findings on the relationship between entry and economic circumstances.

As for the interaction term between Female and Unemployment, the estimated coefficient was significantly positive in Model (2) and Model (5), implying that females were more inclined to enter the self-employed sector than males. Similarly, for the interaction term between Temporary Worker and Unemployment, the estimated coefficient was significantly positive in models (4) and (5), implying that temporary workers were more inclined to enter the self-employed sector than permanent workers. This holds for workers with a low level of educational attainment even if the estimated coefficient was insignificantly positive.

[Table 1] Variable Explanations & Summary Statistics

Variable		Variable explanation	Basic statistics			
			Mean	Standard deviation	Min.	Max.
Self-employed at period t	Self1	Dummy(1: self-employed)	0.301	0.459	0	1
Self-employed at period t+1	Self2	Dummy(1: self-employed)	0.301	0.459	0	1
Gender	Female	dummy(1: female)	0.424	0.494	0	1
Age	Age	Age	42.49	13.05	15	100
Single	NotMar	dummy(1: single)	0.184	0.388	0	1
Married with spouse	Spouse	dummy(1: married)	0.740	0.438	0	1
Divorced-widowed	Divorce	dummy(1: Divorced/widowed)	0.075	0.264	0	1
Educational Attainment	LessHigh	dummy(1: less high school)	0.731	0.443	0	1
Unemployment rate	Unemployment	unemployment rate	3.781	0.638	2.7	5.7
Temporary worker	TemWorker	dummy(1: temporary worker)	0.299	0.458	0	1

Note: The number of observations was 2,190,272.

From the previous and subsequent period data, the subsequent period (period t-1) was used for match merged self-employment dummy, and the previous period (period t) was used for marital status, age, educational attainment, unemployment rate, and temporary worker state data.

The overall results indicate that the push side of self-employment dominated when economic conditions deteriorated in Korea, supporting the push hypothesis. Furthermore, it showed that the push factors played a more prominent role among female workers and those in temporary jobs, who are concentrated in the peripheral market than male workers and those with permanent positions in the core market.

**[Table 2] Analysis of Effects of Unemployment and Personal Attributes and Economic Situation on Entry into Self-employment**

	Dependent Variable: Entry or not				
	(1)	(2)	(3)	(4)	(5)
Female	-0.583 (0.014)**	-0.73 (0.078)**	-0.583 (0.014)**	-0.583 (0.014)**	-0.71 (0.080)**
Age1	0.016 (0.001)**	0.016 (0.001)**	0.016 (0.001)**	0.016 (0.001)**	0.016 (0.001)**
Spouse	0.584 (0.023)**	0.584 (0.023)**	0.584 (0.023)**	0.584 (0.023)**	0.584 (0.023)**
Divorce	0.863 (0.032)**	0.863 (0.032)**	0.863 (0.032)**	0.864 (0.032)**	0.864 (0.032)**
LessHigh	0.091 (0.017)**	0.091 (0.017)**	0.026 (0.090)	0.091 (0.017)**	0.094 (0.094)
TemWorker	0.397 (0.014)**	0.397 (0.014)**	0.397 (0.014)**	0.245 (0.076)**	0.262 (0.079)**
Unemployment	0.105 (0.010)**	0.091 (0.012)**	0.092 (0.020)**	0.085 (0.014)**	0.076 (0.021)**
Female*Unemployment		0.039 (0.020)*			0.033 (0.021)*
LessHigh*Unemployment			0.017 (0.023)+		0.001 (0.024)+
TemWorker*Unemployment				0.04 (0.020)**	0.035 (0.020)*
Constant	-5.71 (0.046)**	-5.654 (0.055)**	-5.66 (0.082)**	-5.632 (0.060)**	-5.596 (0.086)**
Observations	1,531,155	1,531,155	1,531,155	1,531,155	1,531,155
Log likelihood	-121799.4	-121797.59	-121799.13	-121797.33	-121796.03

Note: The parenthesis ( ) indicate standard errors  
+, \* and \*\* are statistically significant within a range of 10%, 5% and 1%, respectively.

### **III. Explanation of Pushed Factors in Dualistic Labor Market**

This section will examine the factors as to why, as suggested by the results of the empirical analysis, the pushing hypothesis is more persuasive in the dual labor market situation. The uneven growth of Korean industries has caused the service sector to develop at a relatively slower speed and consequently the sector consists largely of family-based self-employers working to maintain their livelihoods in the peripheral labor market. It is highly possible that small-sized self-employment in the service sector is the last resort to employees who have exited from wage-earning employment (Ministry of Labor, 2005). Second, the 1997 Asian financial crisis and the subsequent opening up of the Korean economy led to intensification of global competition, and pressured companies to restructure and adopt cost-saving personnel management, thus increasing job instability. Under such circumstances, we can assume that workers who involuntarily lost their employment had limited opportunities of reemployment in other wage-earning jobs and were therefore pushed into self-employment. Female workers, temporary workers and workers with low level of educational attainment are more intensively employed in the self-employment sector. Third, in a society with less developed social security programs including unemployment insurance in comparison with those of developed countries, those seeking reemployment in the wage sector may be burdened with a high job search cost due to the lack of government assistance. And that could have led the people to start their own businesses rather than waiting to find a job in the wage sector. Female workers, temporary workers and workers with low level of educational attainment are more likely to be adversely affected by

the less developed social safety net.

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## 이중 노동시장하에서 자영업으로의 이행분석

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### 논문초록

본 연구는 이중노동시장구조 하에서의 자영업 진출을 분석하고 있다. 자영업 진출이 경기침체가 촉발한 측면이 강한 것인지(구축가설), 아니면 기업가 정신(entrepreneurship)의 발현이라는 측면이 강한지(유인가설) 밝히는데 초점을 맞추고 있다. 분석결과 우리나라의 경우 구축가설을 지지하는 것으로 나타났으며, 2차노동시장에서 이러한 현상이 더 뚜렷하게 나타났다.

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