

# **Impacts of Rigid Labor Mobility Across Industries on Macroeconomy**

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The gap in labor productivity (wages) between industries in the Korean economy has continued to widen. Contrary to neoclassical economic theory according to which the gap narrows as labor moves from industry to industry, the migration of labor to highly productive industries has instead declined. This phenomenon suggests that the labor market's function of allocating human resources has been undermined due to constraints on inter-industry labor mobility. In this regard, this paper discusses factors that could limit labor mobility between industries and examines the effects of such constraints on the macroeconomy, such as the wage gap between industries and GDP.

The factors limiting labor mobility can be categorized into two aspects – labor demand and supply. First of all, labor demand is weakening, affected by automation and other labor-saving technological advances in highly productive industries. However, while the weaker labor demand works as a factor causing the “decline in labor mobility into highly productive industries,” it cannot explain the phenomenon of the “widening wage gap between high- and low-productivity industries.” Meanwhile, in terms of labor supply, the costs of migration to highly productive industries, including the costs incurred in learning technologies, have been on the rise. This can explain not only the phenomenon of decreasing labor mobility into highly productive industries but also that of the widening wage gap.

For analysis, we set up a two-sector general equilibrium model and incorporated inter-industry mobility restrictions on the labor supply front. The analysis result shows that labor mobility between industries in Korea has become more rigid. The increased constraints on labor mobility are estimated to have heightened the wage gap between industries and led to the inefficiency of labor misallocation, causing economic losses through GDP erosion.

When labor mobility rigidity worsens in this way, not only could the labor market dualism be entrenched but also labor productivity in the economy as a whole could decrease and growth potential could be impeded. Therefore, it is critical to create conditions for mitigating labor mobility restrictions.

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