Aging of Workers and New Hire

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The recent "substitution" hypothesis claims that the protection of elder workers' employment reduces the flexibility of labor market and it deprives young people of their jobs. This paper re-examines the "substitution" hypothesis using a new method and original data. A firm' s labor demand in a dynamic setting is analyzed under the existence of adjustment cost of elder workers. A main empirical implication of the theoretical model is that those firms that expect fall of product price in the future reduce new employment of young people. As a result of the reduction in youth employment, older worker / younger worker ratio goes up. Thus, the reduction of youth employment and the increase in older worker / younger worker ratio moves together but there is no causality between these two variables. As a way to estimate the causality, the original survey of 400 companies implemented by Rengo Souken is utilized. This survey asks surplus and shortage of workers by age groups. Exploiting this unique information, the effect of the surplus elder workers on youth new employment is directly estimated. The results indicate that the surplus elder workers reduce youth new hire.