

Ageing EU looks into future labour market

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More part-time jobs will affect employment

Population ageing will affect the future labour market in the European Union. The size of the workforce is set to decline in the long term, even if labour force participation rises.



Photo: Wim de Jonge

The European Union projects that the number of people aged 65-plus in the EU-27 will increase from 81 million in 2005, approximately 17 percent of the total population, to 112 million around 2025 (23 percent of total population) and 141 million in 2050 (30 percent). A relatively large number of older workers will reach retirement age in the future and will withdraw from the labour force. At the same time, the number of (young) people entering the labour market will decline substantially as a result of the expected fertility decline.

Labour force scenarios

In 2005 the European Commission initiated the development of long-term labour force scenarios for all member states of the then EU-25 for the period 2005-2050. The so-called base sce-

nario assumes no policy changes other than the pension reforms that are already being implemented or planned. The scenarios did take account of generation differences, such as the fact that younger generations of women participate more actively in the labour force than older generations of women did at their age.

The base scenario projects that the labour supply and employment will show only limited growth in the next 15 years, after which they will dip despite an expected increase in labour force participation and declining unemployment. This may be attributed primarily to the shrinking and ageing working-age population (15-64 years). Old people are less active in the workforce than young people are. In the EU-25, the labour force participation of the 15-64 age group was projected to increase from 70.3 percent in 2005 to 74.9 percent in 2025 and to 75.5 percent in 2050. The number of employed is expected to grow by 20 million until around 2018, after which it is set to drop by almost 30 million in the period until 2050. The percentage of the 55-64 age group in the total employed workforce will climb from 11 percent in 2005 to around 18 percent in 2050.

Part-timers

The total level of employment in full-time equivalents is determined by the number of people with a job and the number of hours worked per person. In 2005, women in the 27 current member states of the EU worked an average of 7.5 hours less per week than men. The percentage of female part-timers is higher than that of men: in 2005 this was 30.7 and 6.7 percent respectively. Marked differences exist between the various EU member states. In the Netherlands, more than 70 percent of women and over 20 percent of men work part-time. In the other EU countries, working part-time is mainly the realm of women. In Belgium, Germany, Luxembourg, Austria, the United Kingdom and Sweden about 40 percent of all working women have a part-time job. In Bulgaria, Greece, Hungary, Ireland, Lithuania, Slovakia and the Czech Republic this is less than ten percent.

The percentage of part-timers has risen among men and women of all age groups in the past ten years, with the exception of women aged 55-64. We also see that the percentage of part-timers is highest among the lesser educated, yet it has risen among all levels of education.

Fluctuating number of hours worked

The rising percentage of part-timers in the European labour market has a negative effect on the number of hours worked, but this is

EUROPEAN COMMISSION

This article explores the possible impact on the future labour supply of policies designed to increase labour force participation. Particular attention is paid to the effect of part-time employment. The study draws on the labour force scenarios developed by the Directorate-General for Economic and Financial Affairs of the European Commission (DG ECFIN) for a study into the future of public expenditure.

The article is based on a Research Note written for the European Observatory on Demography and the Social Situation, commissioned by the European Commission: Ekamper, P. (2007), *Qualitative scenario study of the European labour force*. Research Note - European Observatory on Demography and the Social Situation - Demography Network. Brussels: European Commission, Directorate-General Employment, Social Affairs and Equal Opportunities.

compensated by cohort effects as women and the elderly born to younger birth cohorts are expected to be more active in the labour market in the future. This process set in several decades ago among women and much more recently among older workers as a result of government policy that encourages people to retire later. This policy is in response to the expected financial and other consequences of an ageing population for society at large. If the current percentage of part-timers in the labour market does not show any further increase, total employment expressed in full-time equivalents will, under the base scenario, be about seven percent higher in 2025 than in 2005. And whereas the number of people of working age will be somewhat lower in 2025 than in 2005, labour force participation will be higher as a result of the cohort effects referred to. In 2025 the biggest cohorts will be between 40 and 54 years old, the most economically active age group. In 2050, however, these cohorts will no longer be of working age, and so the base scenario predicts that the working-age population will be about 18 percent smaller in 2050 than in 2005. The higher labour force participation will no longer be able to compensate the population decline, and the total number of hours worked will be about eight percent lower than in 2005 as a result.

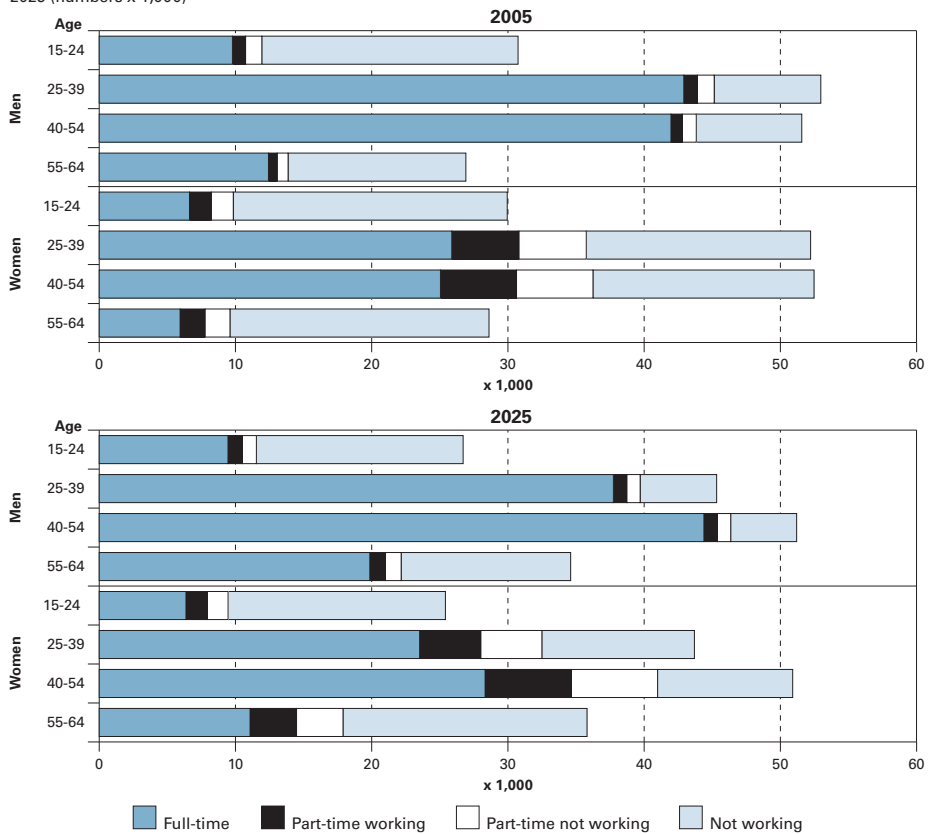
The figure presents the population of working age, broken down by full-time and part-time jobs in 2005 and 2025 based on the same percentage of part-timers per age group and sex. The figure shows that under the base scenario, labour force participation is lowest, in relative terms, among the young, the elderly and women, indicating that this is where most potential lies.

Policy

In accordance with the Lisbon targets, EU policy is aimed at turning the EU into the most competitive and dynamic knowledge-based economy in the world. This will require raising the level of education, professional skills, labour force participation and labour productivity in the future. For the young in particular, investments in boosting participation in education and the level of education will conflict with efforts to raise their labour force participation. That is why young people are not the primary target group in such efforts. Policy that focuses on (further) increasing the labour force participation of older workers would appear to be more effective. In the base scenario the labour force participation of people aged 55-64 years will remain relatively low, despite the pension reforms implemented. In order to substantially boost the participation of older people in the workforce, more far-reaching policy reforms aimed, among other things, at delaying retirement will have to be put in place.

Encouraging part-time work has both a positive and a negative effect on the number of hours worked. Facilitating access to part-time jobs could increase the labour force participation of people who have never worked, or no longer

Population in full-time units by sex, age group and type of (working) hours in the European Union (EU 27) in 2005 and 2025 (numbers x 1,000)



Note: Part-time workers refers to the number of part-time workers expressed in full-time working units; part-time not working refers to the number of part-time workers expressed in full-time not-working units.

Source: NIDI calculations based on Eurostat and Carone (2005).

work. In the EU the labour force participation of women is lower than that of men. The participation of women who are not, or no longer active in the workforce could be increased in terms of both jobs and volume by offering work on a part-time basis. Assuming that facilitating part-time work would bring the participation of women up to the same level as that of men – in which case there would be more women in part-time jobs than men – would in

Percentage change in employment rates and number of hours worked in the European Union (EU-27) in 2025 and 2050 compared with 2005 according to the DG ECFIN base scenario and three alternative scenarios

	2025			2050		
	Total	Men	Women	Total	Men	Women
% change in participation rates						
Base scenario (DG ECFIN)	12	8	17	13	8	18
Participation older workers	22	16	29	22	16	29
Participation women	21	8	37	21	8	37
Part-time Netherlands	12	8	17	13	8	18
% change in number of hours worked						
Base scenario (DG ECFIN)	7	5	10	-8	-10	-6
Participation older workers	12	9	17	-4	-6	-1
Participation women	11	5	21	-5	-10	3
Part-time Netherlands	-10	-3	-19	-22	-16	-31

Note: The scenario *participation older workers* assumes an increase in the employment rates of older workers (aged 55-64 years) bringing them up to the employment rates of the 40-54 age group, effectuated in part-time jobs only; the scenario for the *participation of women* assumes an increase in the employment rates of women bringing them up to the employment rates of men, effectuated in part-time jobs only; the scenario *part-time Netherlands* assumes that the percentage of part-timers in the EU is identical to that in the Netherlands.

Source: NIDI calculations based on Eurostat and Carone (2005).



Photo: Wim de Jonge

N I D I

NIDI RESEARCH: LIVES IN CONTEXTS

Populations change because people change. Demographic trends at the macro level are the results of behaviour at the micro level. To explain why populations change we need to understand why individuals change and thus how 'contexts' affect lives. Relevant contexts include family or household, the generation, and the many institutions in the broader social, cultural and economic settings. 'Lives in contexts' is NIDI's overarching research theme.

the long term boost rather than decrease the total number of hours worked by women (see table). Older people are also less active in the labour force. Among men, this may be attributed largely to early retirement. In the case of women, in particular older generations of women, this can usually be explained by the fact that they have never taken part in the workforce or, alternatively, because they stopped working to raise children. Labour force participation could be stimulated by discouraging people to retire early or to exit the labour market, and by encouraging people to extend their working lives, either full-time or part-time. This, too, could boost workforce participation in terms of both jobs and volume. If we assume that offering opportunities for part-time work would increase the participation of older people in the labour force, the decline in the total number of hours

worked could be cut by half in the long term (see table). That said, greater access to part-time work could also attract people who now have full-time jobs. The total labour force participation of this group would then remain stable in terms of number of jobs, but decline in terms of hours worked (volume). If working on a part-time basis were to become just as common in other EU member states as it is in the Netherlands through a shift from full-time to part-time employment, the number of hours worked would drop almost threefold (see table).

To conclude

In the long term, the working-age population in the EU is expected to be much smaller than it is now. The positive effects of an increase in full-time and part-time labour force participation on the number of hours worked will most likely not be sufficient to compensate for the declining number of hours worked as a result of the shrinking working-age population. Labour force participation could also be raised by increasing the number of hours worked per person. This would, however, require a major reversal of the current trend of an ever-growing percentage of part-time workers.

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LITERATURE

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