5.1 Labour Force Participation of the Elderly: Unused Capacity?
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Introduction
Europe has witnessed an unprecedented increase in longevity and at the same time Europeans excel in early retirement. Isn’t there a huge unused capacity for active work?

Economic activities and retirement decisions of the older population in Europe occupy much of the political debate around pensions reforms. The focus is on the possibility of increasing the working lives of current and future cohorts of workers, also in view of higher life expectancy, in order to provide adequate resources for retirement. The question rests on the opportunities to work longer offered by the institutional set up of the different countries (namely social security and pension arrangements) and on the ability that individuals have, given their health and social conditions, to supply labour in older ages. Economic research has explored the determinants of retirement (exits from the labour force) by stressing the role of economic incentives embedded in social security and pension systems (Gruber and Wise 1999, 2004). To what extent social security and pension rules play a role in shaping labour supply decisions? Some workers may be leaving the labour market earlier than it would be desirable, given their health conditions and their socio-demographic characteristics, possibly because “pushed” by the generosity of the pension system.

Of course measuring “unused work capacity” is not an easy task, precisely because one needs information on the labour market position of individuals as well as their health conditions, social conditions and preferences for leisure. This contribution shows that the SHARE sample permits new views on these questions because all the relevant dimensions of the individual’s decision framework are jointly documented. A richer analysis of the responses of individuals to changes in one of these dimension (e.g. onset of a disease or a policy change) and a full description of the transition from work to retirement will be possible on a longitudinal sample.

Economic Activities of the Elderly: An Overview
Our analysis is mainly based on the self-reported current economic status of the respondents, which is elicited by presenting a mutually exclusive set of answers. We distinguish six possible cases: worker, retired, unemployed, disabled, homemaker and “other”. This question is asked to all age-eligible individuals (including the first respondent’s spouse, irrespective of age). In Figure 1 we focus on workers and retired individuals and group all others activities into “all other”: it is immediately apparent that work and retirement are the two prevalent economic activities in the SHARE sample.

Tables 5A.1 and 5A.2 (see the Appendix to this chapter) provide the (weighted) average distribution of all the six categories with their standard errors, by country and also by country-gender. A first inspection of Tables 5A.1 and 5A.2 suggests a rather stable distribution of activities, with the proportion of workers ranging between 17% (Austria) and 38% (Switzerland), while retired individuals range between 34% (Spain) and 66% (Austria). However, a detailed cross-country and gender analysis unveils the heterogeneity possibly due to institutional differences and social norms (Table 5A.3). Other individual characteristics could explain the pattern in the labour force participation. Throughout this paper we focus on three relevant dimensions of variability in economic activities: age, gender and countries and then correlate with health conditions. In Austria, France, Italy and
Greece the percentage of men reporting themselves as retired is much higher than in other countries (58% and above), while in Sweden, Denmark and Switzerland we find a high percentage of workers. Furthermore, the Netherlands have a larger fraction of respondent reporting to be permanently sick or disabled than the other SHARE countries.

![Graph showing age distribution of workers, retired, and all other respondents.](image)

*Figure 1. Self-reported economic activity by age*

The prevalence of self-reported “working” is generally lower for women than for men, mostly because of the relatively large fraction of women who report their status as ‘house-maker’.

![Graph showing distribution of women working by country and age class.](image)

*Figure 2. Distribution of economically active individuals by gender and age-class*

By and large a general pattern emerges, whereby men have higher rates of labour market participation or retirement (the latter most likely from a previous job). It is highly probable
that “homemaker” women never had a labour market experience during their lifetime, in this sense the “unused labour capacity” interpretation does not apply to this group of the SHARE-population. Once we will have actual transitions we will be able to study the pathways from work to retirement, however the age distribution of work (and retirement) provided in Figure 2 and Table 5A.3 already suggests possible interpretations.

Less than 1 out of 10 men over 65 report themselves as working in all countries (except Switzerland), the age-work pattern of women is less clear-cut. Austrians and Italians, both men and women, seem to exit the labour force at earlier ages than other Europeans (possibly moving into retirement). In particular 19% of Italian men between age 60 and age 64 define themselves as worker, compared to 60% of Swedish men. This evidence suggests that pension policies adopted by the different countries are an important determinant of labour force participation decisions at older ages.

**Unused Labour Capacity, Full-Time Work and Part-Time Work**

![Graph showing the distribution of self-reported and actual economic activity among women and men across different countries.](image)

*Figure 3: Distribution of self-reported and actual economic activity*

Labour market participation rates are of extreme policy relevance in Europe and it is worth investigating labour supply behaviour in relation to actual current economic activity of the SHARE sample.

In fact, self-reported economic status could be affected by individual perceptions and also by institutional features of the pensions systems: for example in some countries individuals may be allowed to work while collecting pension benefits (possibly subject to an earnings test) and report themselves retired even if working. To investigate this further we
make use of actual current work status (Figure 3) and also distinguish between full-time and part-time workers on the basis of hours worked (Table 5A.4). We define a full-time worker reporting working hours of 30 or more per week. Although this threshold may vary between countries when looking at actual contractual agreements, we find this definition to be prevalent in the SHARE countries and strictly comparable with the ELSA study (English Longitudinal Study on Ageing). Figure 3 shows that on average there are more elderly people in paid work than self-reported, even when we restrict the condition to people with 15 hours or more of work.

Table A5.3 shows a related fact: the distribution of economically active individuals between full-time and part-time for different age groups, across countries and disaggregated by gender. The distribution of types of economic activity within the active groups varies considerably by gender and also by age.

Before age 65, the proportion of economically active respondents working part-time is much higher for women than for men. However, the frequency of part-time work increases for both genders at older ages (after 65). Across countries, at all ages women are more likely than men to be working part-time. These findings suggest that in some countries partial or gradual retirement could be an important feature of the labour market.

The intuition of “unused capacity” hinges on the incentives, embedded in social security and pension systems, to retire early. However, other determinants of early retirement should be considered, for example the health status of individuals. Figure 4 and Table 5A.5 show the distribution of actual work and retirement by restricting the attention to individuals in “good health”. This latter is defined on the basis of two indicators: (i) self-reported absence of limitations in daily activities; (ii) “functioning”, i.e., counting zero limitations out of fourteen daily activities (ADL and IADL).

![Economic activity of "healthy" respondents](image1)

![Economic activity of "functioning" respondents](image2)

*Figure 4 Economic activity and physical health*
In order to make the comparison sharper we focus on three groups of individuals: those who are self-reported working and are actually currently active, those who are self-reported retired and have no hours of work (retired) and those who are self-reported retired but do some hours of work (retired but work). Results are obviously affected by the “health” composition of the population in different countries, but there is a strikingly high frequency of people with no limitations (or who are “functioning”) who report themselves fully retired, in Austria, France and Italy. This is true even for people in early retirement (younger than 60). Further evidence in support of the cross-country variability in “unused labour capacity” can be found in Table 5A.6, which looks at the “main reason for retirement” for three age groups (age 55-59; 60-64 and 65+). While health-related problems are one of the reasons for retirement, there exists a substantial proportion of retirees who report eligibility for retirement, early- or pre-retirement as a cause, particularly in Germany, the Netherlands and France.

Conclusions

- Institutional differences in welfare systems clearly affect the distribution and the age pattern of participation to the labour market and of retirement. Countries where early retirement is allowed and/or is generous see a prevalence of early retirees (typically Southern countries, but also Austria and France).

- There is potentially huge unused labour capacity in countries such as Austria, Italy and France where “healthy” individuals are not in the labour force.

- Longitudinal data will allow us to further clarify the role of health and family conditions, as opposed to policy incentives, in shaping work and retirement decisions.

References

