

# Classifying Welfare States Based on Elderly Labor Force Participation <sup>i</sup>

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## Introduction

According to Seike (2006), the low birth rate and aging population are consequences of economic development and the improvement of the living standards and medical care. However, it is also predicted that the increase of elderly population would lead into the rising of socio-economic cost, calling for a measure to reduce it. Particularly, the main problems would be how to design the life of elders in the graying societies and find a way to support them.

Among the problems, the instability as to the old-age income is more than a problem of individuals but rather a matter of the entire society and its governing states. Responding to this problem, I recommend labor force participation of old-age people as one of the solutions. Utilizing elderly population as labor force is thought of as a solution for future socio-economic crisis; the participation in economic activities and the resulting income are found to enliven the life at older ages (Kanou 2007, Seike 2006, OECD 2006).

As a matter of fact, the shift in policies towards encouraging elderly generation to participate in labor market along with the reduction of pension benefits is shown in many countries nowadays. There are many studies demanding the protection and invigoration of elder people's labor force participation. Specifically, studies on finding factors pertaining to the retirement and labor market participation of the elders are of utmost frequency. Among the factors considered in precedent studies are: pension,

retirement age, vocational status prior to the retirement, health condition, and the technological progress in workplace. Moreover, numerous researches are conducted on the needs of elder people in job search with respect to active aging and productive aging (Park 2011). Such researches can serve as essential references in understanding the circumstances involving elder people's labor force participation and formulating proposals thereto.

### **An International Comparative Study**

More efficient policies based on scrutinizing and reflecting upon current policies will be required to boost labor force participation of elder people. An international comparative study could be one option for studying the matter. It has the benefit of finding unique features of a specific state by examining cases in other countries and making comparisons, which cannot be easily achieved if the research is solely focused on the internal or domestic cases without comparison. Furthermore, with international comparative study, one can grasp the global tendency on the policies, broadening the available options for future policies (Uzuhashi 1998, Park 2005).

### **Studies on Classifying Welfare States**

Recently, thanks to quantity expansion of social welfare policy and services, many studies upon welfare regimes and welfare states are being conducted, resulting into diverse accomplishments. Studies on classifying welfare states have advantages on understanding the flows of welfare policy and service of the targeted country at large. Also, they enable one to find tendency in a series of policies.

Currently, studies on classifying welfare states are being carried out, using various indexes. De-commodification and stratification, as Esping-Andersen suggested in "The three worlds of welfare capitalism", are the most representative indexes. And, lately, many studies on classifying welfare states based on new indexes are being conducted. For example,

Kim (2008) did a research based on social investment strategy. In his research, 20 countries are categorized into the Social Investment States (Sweden, Denmark), the Active Labor Market Policies Centered States (Germany, Netherlands), the Family Service centered States (UK, Luxembourg, Australia), and the Liberal Welfare states (USA, Japan, Korea) according to their employment rate, female employment rate, unemployment rate, and gini coefficient. KRÖGER (2011), proposing an original concept, called dedomestication, which differs from defamilisation, suggested a new index to international comparisons of child care and service provision.

On the other hand, a great number of studies are using indexes related to pension, medical care, and long-term care while significantly less to labor force participation of elder people, when it comes to the international comparative studies using indexes related to elder people. Miura (2003) is trying to classify welfare states using the employment rate and social expenditure of males of age from 55 to 64, focusing on the relationship between employment and welfare; the purpose of it is to clarify the relationship between welfare and employment, not the labor market participation of elder people.

As it is the case, in international comparative studies or researches on classifying welfare states, only a limited number of researches primarily concentrating on labor market participation of elder people have been carried out. However, due to the rise of life expectancy, low birth rate and population aging, the need for labor force participation of elder people and the job opportunity for them are expected to grow, correspondingly. Hence, more studies focused on labor force participation of elder people are to be conducted.

In this paper, as mentioned above, it will be explained that it is required to enhance and secure labor market participation of elder people, and in terms of studying methods, classification of welfare states through international comparative studies will be adopted realizing the insufficient number of researches on international comparative studies.

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Also, a new index for studies on welfare states is to be suggested, based on the reality of labor force participation of elder people and indicators pertaining to it. The suggestion is believed to become a new axis of international comparative studies on labor force participation of elder people, and to broaden the scope of such areas.

## **Methods**

Ebbinghaus (2006) and OECD (2006) analyzed the cause for whether a senior citizen decides to retire or to participate in labor market in two perspectives. Namely, Pull factor toward retirement and Push factor toward retirement (Fig. 1).

Pull factor is characterized by weakening the will of an elder person, centered on income security by means of economic incentives, to participate in the labor market. Along with one's desire to do more leisure activities or switch to other non-occupational jobs, different social policy programs provide alternatives that facilitate retirement: Pensions, unemployment benefits. Push factor is rather compulsory, which has less to do with one's will. Push factor is more concerned with labor market than pull factor: unemployment rate, the technological progress in workplace, health condition, mandatory retirement system, a preference for job to youth.

In this paper, the index is to be suggested, referring to the two factors.

*Public expenditure on pension* is adopted as pull factor in that the decision to retire of an elder person is closely related to retirement pension income. *Unemployment rate* is adopted as push factors in that the job opportunity of the elder is closely related to the level of entire unemployment rate. Additionally, in order to verify how each factor affects labor force participation, average labor participation rate of both sexes at the age from 55 to 64, specifically in this paper, OECD's survey of 28 countries conducted in 2005, is used.

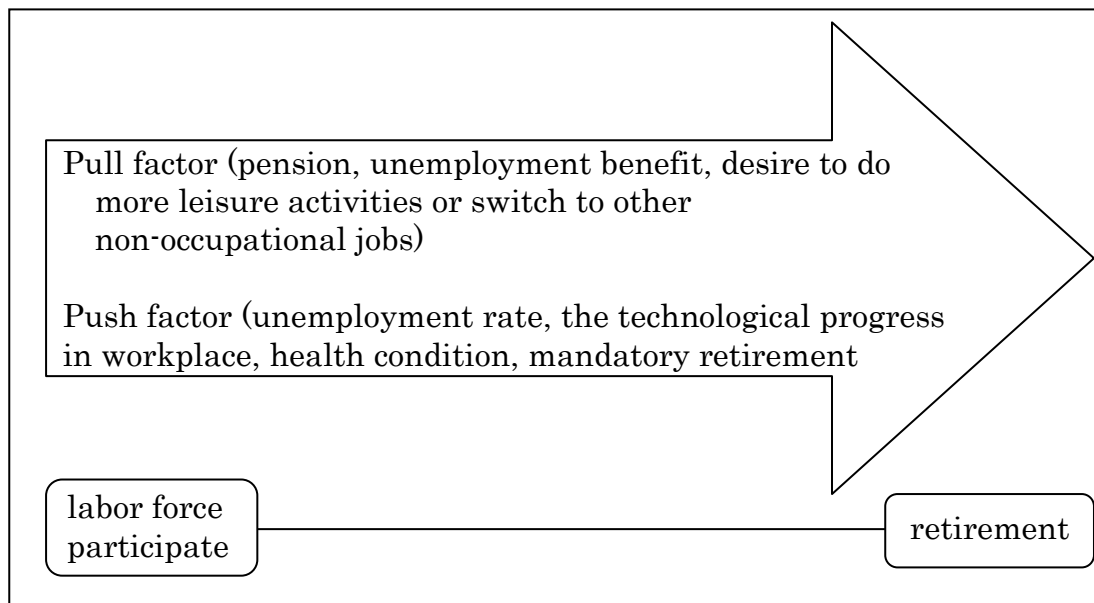
The reason for this paper, to use labor force participation rate instead of employment rate, is that employment is a limited form of labor, i.e.

contract-based labor. In Korea, it is to be considered that the retirement age is mid-50s and a significant number of workers are engaged in primary industries such as agriculture and fishery (OECD 2004), which do not fall into the category of employment, e.g.

In this paper, unemployment rate is thought of as having a negative impact on elderly labor force participation among OECD states, whereas unemployment rate does not play much role on labor force participation in the research of OECD and Ebbinghaus.

Additionally, I tried to use other indicators as push factor such as economic growth rate (percentage change of real GDP from previous year), the unemployment rate of age 55 to 64. Yet, those indicators are found to have no correlation with the labor force participation rate of age 55 to 64. Seniority wage structure has correlation with labor force participation rate aged 55-64 only for 13 countries (Australia, Belgium, Canada, Czech Rep., France, Germany, Ireland, Japan, Korea, Netherlands, Norway, UK, USA). However, the data wasn't useful for the classification because the amount of the data is very limited and it shows very irregular distribution.

**Fig.1 Pull factor and Push factor**



Source: Ebbinghaus(2006) ,OECD(2006)

In this paper, I will use these three indexes for classification purposes.

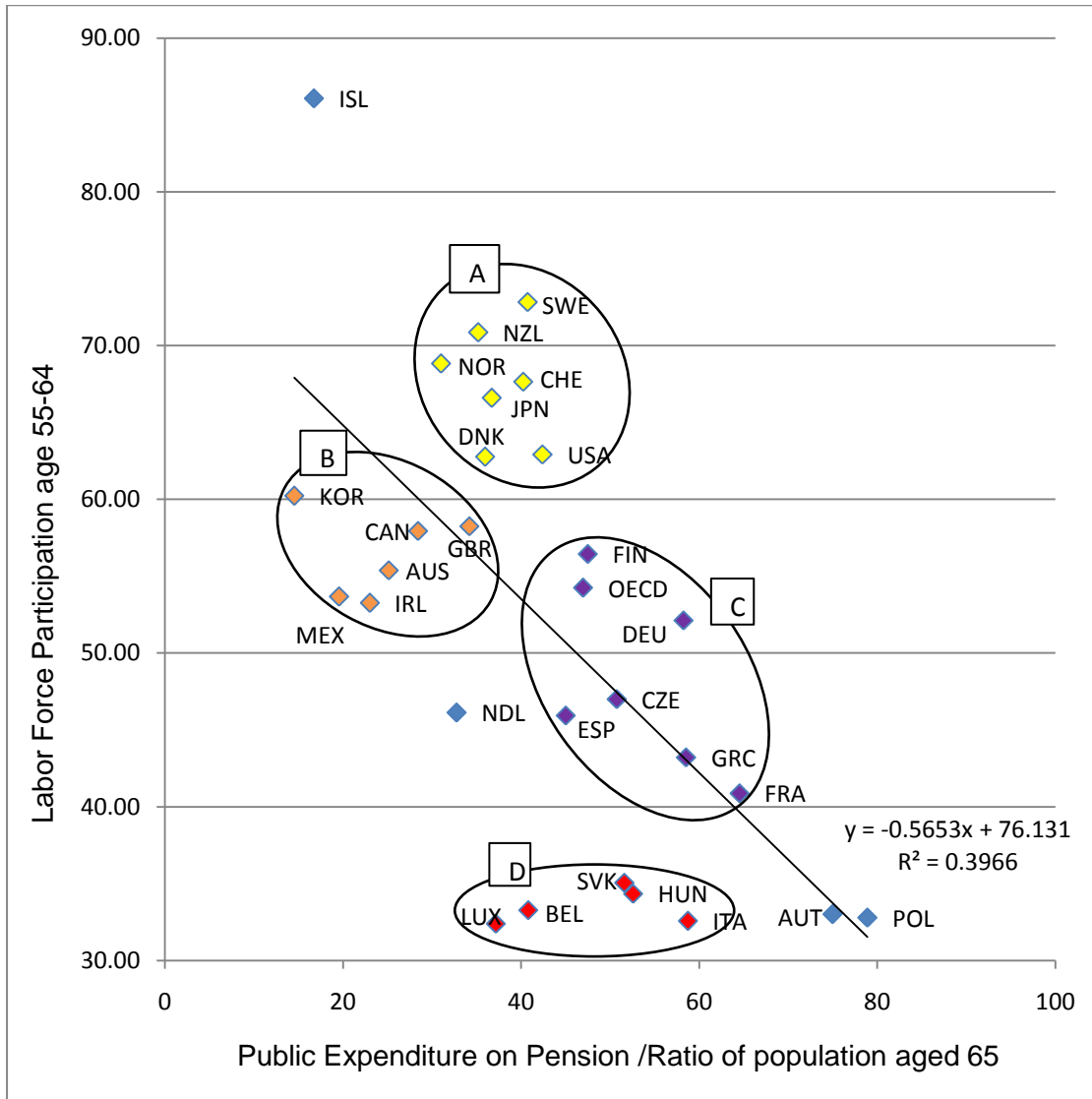
- Pull factor : Public expenditure on pension as a percentage of GDP/ratio of population ages 65<sup>ii</sup>
- Push factor : entire unemployment rate
- Independent variable : labor force participation rate aged 55 – 64

### **Fact Findings**

The analysis, confirmed that pension expenditure and unemployment rate are negatively related to labor force participation rate of elder people. In other words, in countries the unemployment rate and pension expenditure of which are low, labor force participation rate of elder people is high, and the opposite is the case in the countries where unemployment rate and pension expenditure are low.

First of all, 4 groups classified according to their level of pension expenditure and labor force participation rate in Fig. 2 are as follows. Group A involves the countries such as Sweden, Norway, Japan and United States where the labor force participation rate is high and the level of pension expenditure is lower than OECD average. The countries in Group B (Korea, Canada, Ireland and United Kingdom) are located more closely than those in Group A to the linear trend line, have the lower level of pension expenditure and labor force participation rate close to OECD average. Group C (Finland, France, Spain and Germany) features the nearest positions to the linear trend line and high level of pension expenditure, while Group D (Italy, Belgium, Hungary and Luxembourg) has high level of pension expenditure and the lowest labor force participation rate.

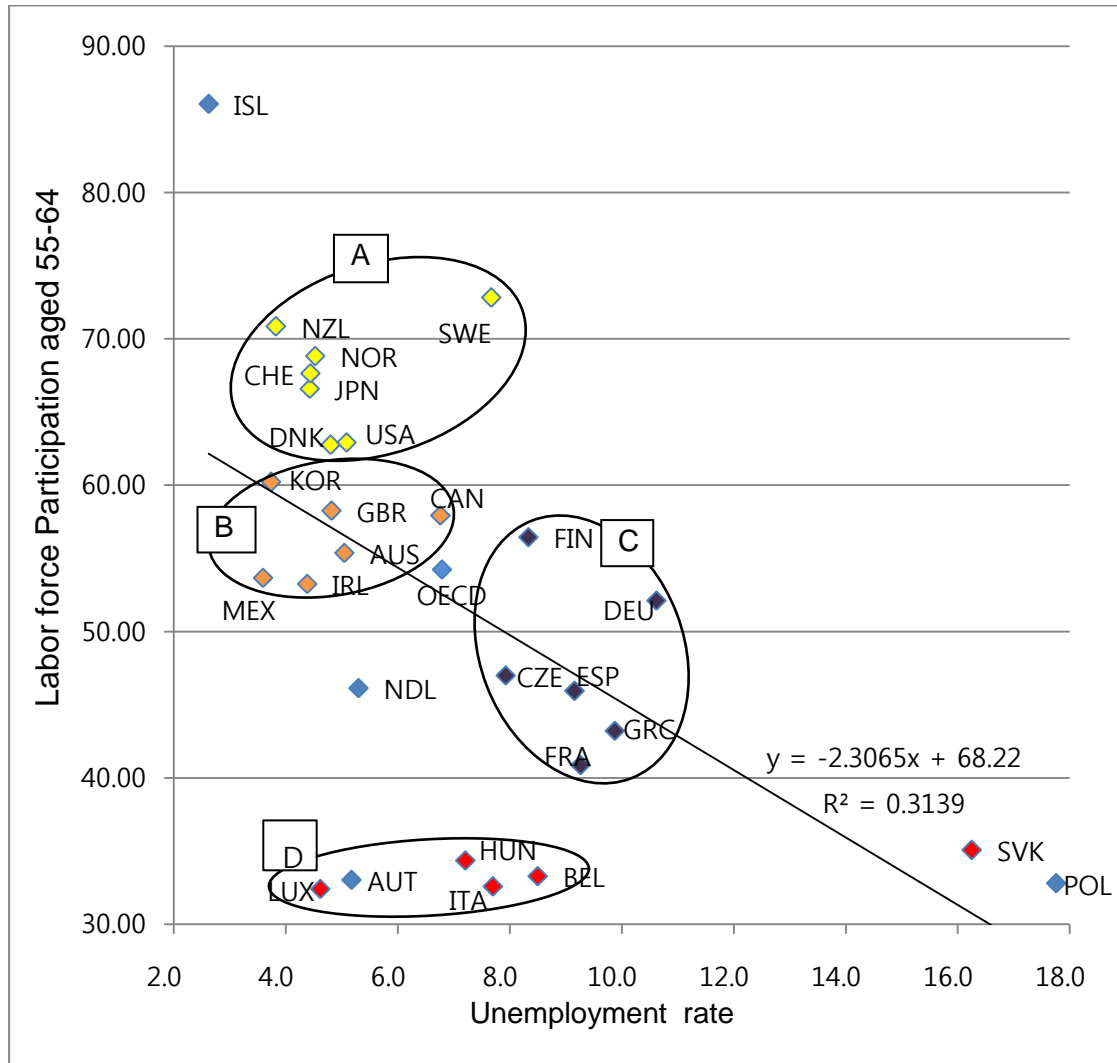
**Fig. 2 Public expenditure on pension and labor force participation rate aged 55-64**



Source: OECD (2010)

Also, Fig. 3 shows a trend similar to that of Fig. 2, allowing analogous assortment. Although Groups A and B have similar unemployment rates, Group A's labor force participation is 60~70% while Group B is 50~60%. While Groups C and D have similar public expenditures on pension level, the unemployment rates of Group D were lower than Group C. Nevertheless, Group D's labor force participation rates were lower.

**Fig. 3 Unemployment rate and labor force participation age 55-64**



Source: OECD (2010)



## Conclusion

Owing to the fact that it is hard to discuss all characteristics and background of the whole States whereupon this research is made, the general trend and characteristic of 5 countries (Sweden, Germany, USA, Japan, Korea) should be mainly discussed.

Firstly, the classification made in this paper seen in Fig. 2 and Fig. 3 is analogous to the Esping-Andersen's three welfare regime-type. A trend at large, Social-democratic regime-type → Liberal regime-type → Corporatist regime-type in order of A-B-C-D, is shown. Even so, the trend does not always fit the data. USA in Group A is a typical example of liberal regime state, and Finland has long been understood as Social-democratic regime. Such difference can be explained as follows.

This research on welfare states has a purpose to see a general trend among the target countries, and thus not every idiosyncrasy of each state is to be taken in to account; it is assumed that there exist differences in culture, economic situation and the perspective on the elder's labor force participation.

The highest labor force participation rate is shown in Sweden except for Iceland. Sweden has the highest labor force participation rates of elderly, despite the higher unemployment rate and pension expenditure rate than those rates of other countries in the group A. It seems to be affected by its high degree of entire employment rate and expenditure of active labor market policies.

USA belongs to group A, although it is a liberal regime-type state. USA prohibit the age discrimination in employment by ADEA (Age discrimination in Employment Act), and high entire employment rate in USA would be a reason for this fact.

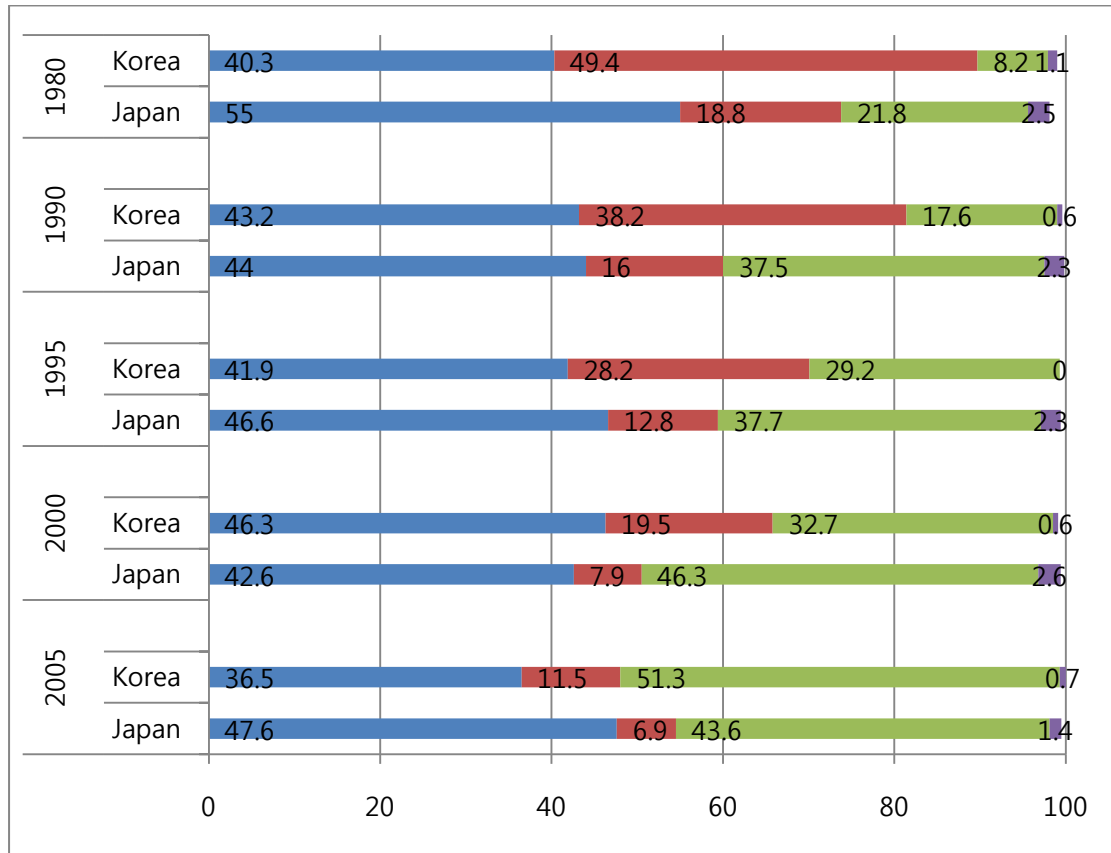
Since the 1970s, a political scheme to spur early retirement has been settled in the European states including Germany. However, Germany have higher labor market participation rate of the elderly than Italy, France, which are the same Corporatist regime-type countries. From 1990s, German political scheme begun to change. Pension reform and

create new Act for elderly part-time jobs to be combined with partial pensions(ATG).

Korea and Japan are classified in different groups, while in many other studies, Korea and Japan fall in the same category. There would be many reasons for the labor force participation rate of Japan to be higher than Korea despite the fact that Japan has higher pension expenditure rate, which is found out to be a pull factor, having negative impact on labor force participation.

A view about sources of income in the elder's life is one of the reasons. In terms of living expenses of seniors, Japan has higher sense of self-reliance than Korea. In Korea, there are higher expectations for social security and stronger opinions calling for the financial support from family.

**Fig. 4. View about what should be the source of and older person's retirement income**



Source: Cabinet Office (2007)

Note: ■ People should save money while working and should not have to rely on the government, their family members, or public support, ■ Family members should care for their elderly, ■ Society should care for the elderly through public support such as Social Security, ■ Others

In this paper, OECD countries are categorized into groups according to their Push factors and Pull factors of labor participation of the aged. General trend is examined as to the result of the classification, and the features of Korea and Japan are analyzed.

The further assignment would be to analyze the background of other countries and the characteristic of each group with the labor market theory.

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#### **NOTE**

i I wrote a master thesis [A Comparative Study of Elderly Labor Force and Retirement – an Essay at Classifying]. In that thesis, 5 Countries (USA, Sweden, Germany, Japan, and Korea) are mainly analyzed as to what factors affect the elder whether they decide to retire or to participate in labor market. Also, I tried to classify OECD States according to the international common factors, carefully picked with reference to the analysis, that affect the elder's alternative of retirement or labor market participation. This paper is a revised and contracted version of the master thesis.

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ii Aging rate (ratio of population ages 65) varies among states, and there is a tendency that the higher the aging rate, the higher the public pension expenditure rate as well. Aging rate could directly affect the relationship between public pension expenditure rate and labor force participation, yet, in this paper, I designed the set-up in a way that the classification of states is independent of the variance of aging rate among states.