

Box 9

RECENT DEVELOPMENTS IN LABOUR MARKET PARTICIPATION IN THE EURO AREA

Since 2008 there has been a marked disparity between the euro area and the United States in terms of the effect that developments in labour market participation have had on unemployment rates.¹ In fact, the fall in the United States' labour market participation rate by 2.6 percentage points has dampened the official unemployment rates. By contrast, the euro area participation

¹ See the box entitled "Recent developments in labour force participation in the euro area and the United States", *Monthly Bulletin*, ECB, June 2012.

rate increased by 1 percentage point during the same period, thus having an adverse impact on unemployment rates. Against the background of very different labour market responses over the crisis period, this box explores whether the developments in euro area participation are consistent across Member States.

Factors affecting participation

In comparing developments in participation across euro area countries, both trends and cyclical developments need to be taken into account. Indeed, trends may reflect factors such as the demographic changes of an ageing population with an increasing life expectancy, which, coupled with past pension reforms, have led to an increase in the participation of older workers. In addition, increased female education levels in tandem with changing social norms have led to an increase in female participation.

By contrast, cyclical developments such as an economic slowdown and the associated rise in unemployment may discourage potential workers from seeking work, while an economic upturn may send a positive signal encouraging them to actively look for a job. However, the deep and protracted income adjustments in some euro area countries may have increased the necessity to look for jobs in order to sustain overall family incomes (i.e. an income effect), an influence that would counterbalance the discouraging effect of a depressed economic situation.

Similarly, the sectoral rebalancing triggered by the crisis in a number of countries may have implications for overall participation if, for instance, lower prospects and greater discouragement for workers in previously oversized construction sectors are not offset by better prospects and job market participation in other sectors.

Participation developments in euro area countries

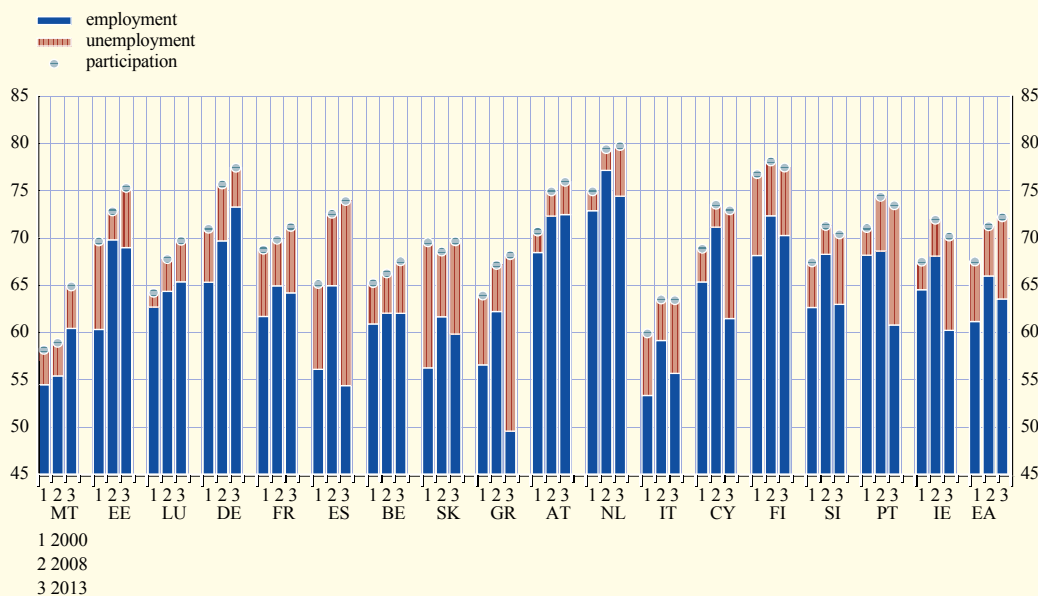
Comparing the latest participation rates with those in 2000 suggests that there has been a steady increase in participation across euro area countries (see Chart A). The increase in participation has also continued over the crisis period since 2008 for most countries, with the most notable exceptions being Ireland and Portugal. Moreover, this continued rise has been observed both in countries that have had relatively low participation rates compared with the euro area average, such as Greece, Belgium and Malta, and in countries with relatively high rates, such as Germany and the Netherlands. These commonalities in participation developments despite very diverse situations across countries suggest that developments are mostly driven by structural factors. The discussion below looks at breakdowns of participation developments since 2008 – with countries listed in the charts in order of the magnitude of participation changes – by gender, age and skills, in order to gauge current developments.

Developments by gender, age and skills

A common trend across all euro area countries is the increased participation of older workers and women. In fact, female participation not only grew twice as fast as total participation during the period 2000-08, it accounted for almost the total increase in participation in the euro area labour market. This also holds true for the period 2008-13, during which only female participation made a positive contribution across the euro area (see Chart B), while male participation made a positive contribution – and to a lesser extent – only in a few countries. Even so, in the euro

Chart A Employment and participation rates

(percentages of the total working-age population (15-64))



Source: Labour Force Survey (Eurostat).

Notes: As the data are not seasonally adjusted, the chart compares developments in the second quarter of the respective year. For France, the figures for 2000 refer to the first quarter as data for the second quarter are not available. Countries are ranked according to the magnitude of participation changes for the total working-age population in the period from the second quarter of 2008 to the second quarter of 2013.

area, female participation is still significantly lower – at 66% – than male participation – at 78%, with Finland having the smallest discrepancy (4 percentage points). In this respect, female participation will probably continue to increase for some time.

Likewise, the participation of older workers increased in all countries during the period 2008-13 (see Chart C). This is likely to be an effect of past reforms related to early retirement schemes and pension reforms aimed at increasing the employment rate of older workers, which may have limited the opportunities to withdraw from the labour force as observed in previous crises.² Only in Cyprus was there almost no change in the participation of older workers.

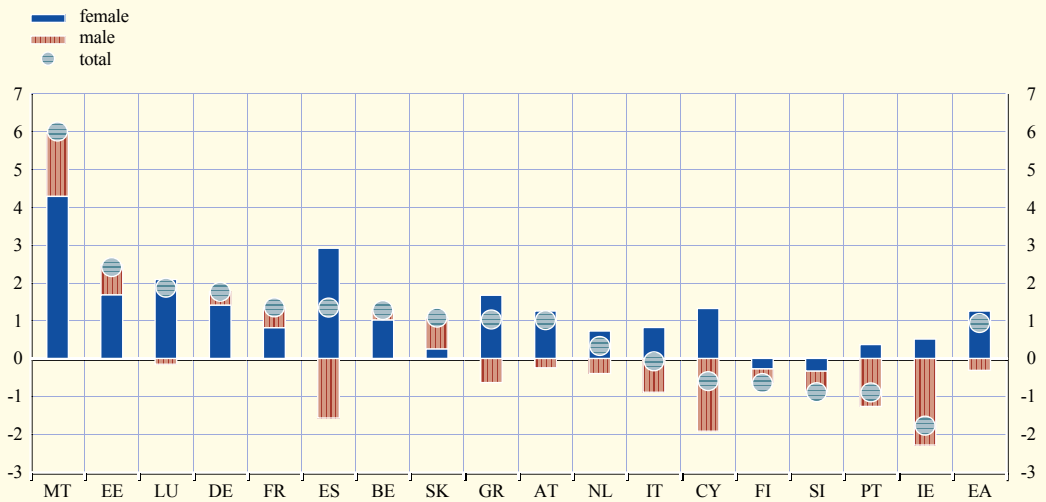
On balance, while there may be income effects related to higher participation of the older and female sections of the population during the crisis (i.e. they enter or stay in the labour market owing to potential pension losses or with the intention of replacing lost family income), these effects cannot be clearly distinguished from trend developments. These two groups are also the ones less affected in terms of falling employment, suggesting that relative employment probabilities are important to participation decisions.³ Female employment has been significantly less affected even in severely hit countries such as Spain, Greece and Ireland. Some labour market specifics such as lower female participation in sectors most hit by the crisis – construction and manufacturing –

² See OECD Economic Outlook, Volume 2011, Issue 1.

³ In the euro area, female employment decreased by 0.1 percentage point, while male employment decreased by 2.3 percentage points over the period 2008-13. In the hardest hit country, Greece, the decrease in female employment accounted for 4.4 percentage points of a total 12.6 percentage point decrease. Older workers made a positive contribution to employment developments in the euro area, adding 1.7 percentage points, while in Greece older workers contributed only 0.8 percentage point to the total decrease in employment.

Chart B Contribution to participation developments during the crisis by gender

(Q2 2008 – Q2 2013; percentage points)



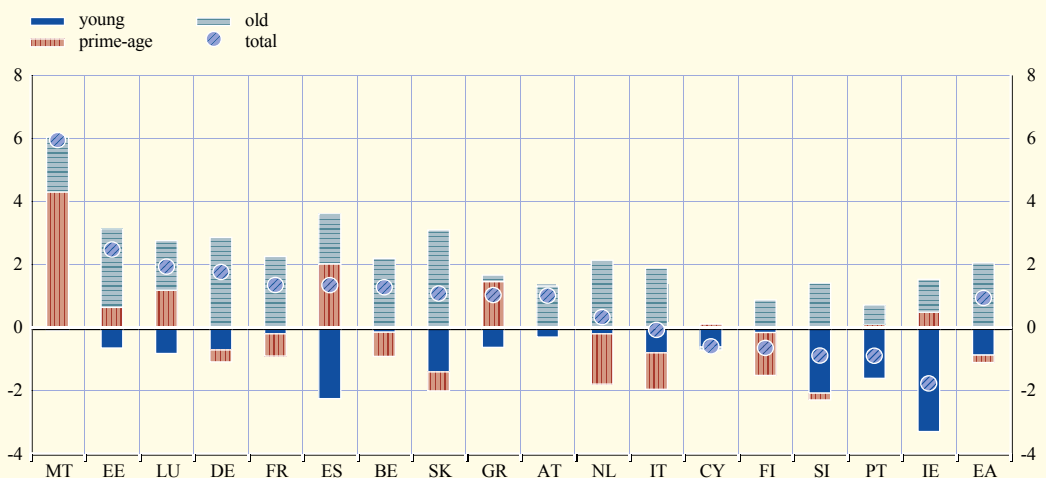
Source: Labour Force Survey (Eurostat).

Notes: Non-seasonally adjusted data. The working-age population covers those aged 15-64. Countries are ranked according to the magnitude of participation changes for the total working-age population in the period from the second quarter of 2008 to the second quarter of 2013.

may explain these developments. As regards employment for older workers during the crisis, it may be that older workers possess firm-specific skills that are not easily replaceable. However, older workers may also have higher employment protection.

Chart C Contribution to participation developments during the crisis by age

(Q2 2008 – Q2 2013; percentage points)

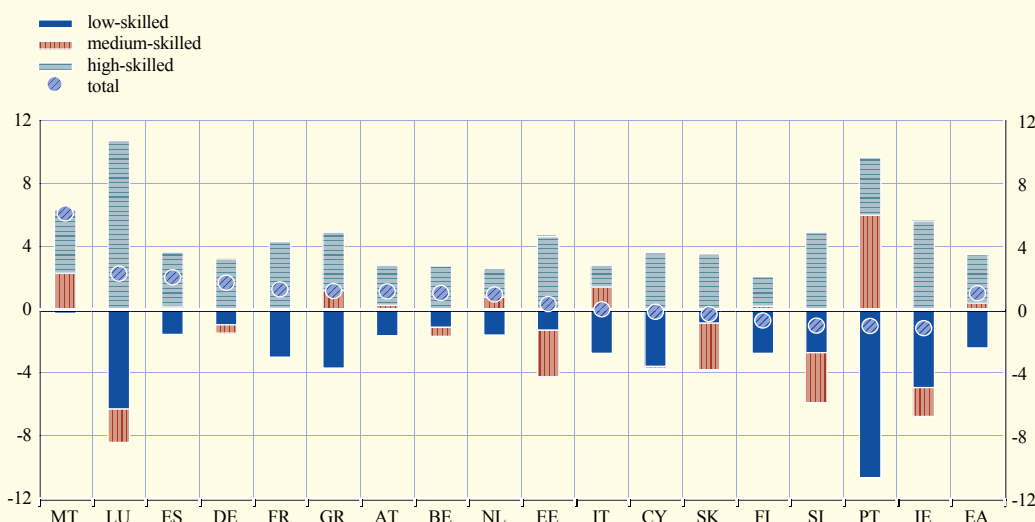


Source: Labour Force Survey (Eurostat).

Notes: Non-seasonally adjusted data. The working-age population covers those aged 15-64. "Young" individuals are those aged 15-24; "prime-age" individuals are those aged 25-54; and "old" individuals are those aged 55-64. Countries are ranked according to the magnitude of participation changes for the total working-age population in the period from the second quarter of 2008 to the second quarter of 2013.

Chart D Contribution to participation developments during the crisis by skills

(Q2 2008 – Q2 2013; percentage points)



Source: Labour Force Survey (Eurostat).

Notes: Non-seasonally adjusted data. The working-age population covers those aged 20-64. "Low-skilled" workers refers to those with less than an upper secondary education; "medium-skilled" refers to those with less than a full tertiary education; and "high-skilled" refers to those with a tertiary education or higher. Countries are ranked according to the magnitude of participation changes in the working-age population in the period from the second quarter of 2008 to the second quarter of 2013.

A breakdown of the data by age shows that withdrawals from the labour market observed so far have been largely concentrated among the young (see Chart C). In Ireland, Spain, Portugal, Slovenia and Slovakia, youth participation has decreased significantly and seems to be largely driven by strongly decreasing youth employment, pointing to a discouraged worker effect. Decreases in youth participation can, however, imply prolonged education. This is mostly evident in Spain, but also in Slovakia, where there have been significant increases in the share of young people in education.

Low-skilled individuals are generally less attached to the labour market than high-skilled ones. Indeed, in the euro area, the difference between these two groups in terms of participation and employment rates is consistently more than 20 percentage points. During the crisis period this difference has become more accentuated, with the low-skilled forming the bulk of the negative contribution to participation developments in all countries (see Chart D), with the exception of Estonia and Slovakia. The positive contributions to changes in participation are largely attributable to the high-skilled. Again, one reason for this stark difference can be found in employment developments during the crisis. The low-skilled have been hit harder, with a decrease in the employment rate of 6 percentage points in the euro area, compared with a decrease of 2 percentage points for high-skilled workers.

Concluding remarks

Labour market participation developments in recent years have followed similar patterns across euro area countries. While there may be some income effects at play, especially in adjustment countries, most of the net increase in participation is likely to reflect a continuation of underlying trends. However, the decline in participation among the young and low-skilled may be cyclical.

For the former group, prolonged education is only a short-term solution and their participation can be expected to increase as the euro area economy recovers. For the latter group, their participation is even more growth dependent and can thus only be expected to rise visibly again once the economy is well into a solid expansion.