

# Improvement in European labor force participation

## Do structural reforms or educational expansion drive higher employment and participation rates?

Keywords: human capital, labor market reforms, tertiary education, aging

### ELEVATOR PITCH

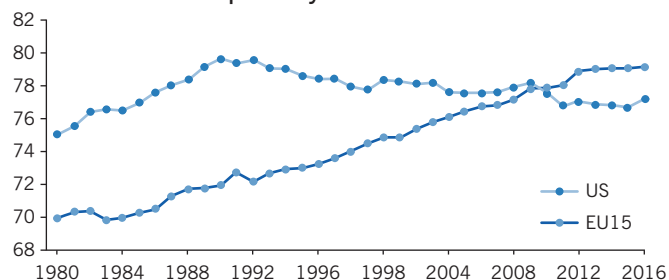
Employment and labor force participation (LFP) rates have increased throughout Europe since the 1990s, with little interruption from the Great Recession. While many credit labor market reforms for this progress, ongoing educational expansion might actually be more important. This implies that the overall employment rate of an economy can change if the share of the population with tertiary education increases, even in the absence of any labor market reforms or effects of the business cycle. Taking this compositional effect into account makes it possible to disentangle the impact of reforms.

### KEY FINDINGS

#### Pros

- ⊕ In Europe, employment and LFP rates have increased trend-wise, since the 1990s, with little interruption from the Great Recession.
- ⊕ Due to their higher LFP rates, a rise in the proportion of highly educated people will lead to higher overall participation rates.
- ⊕ Two-thirds of the improvement in LFP rates observed in Europe can be accounted for by the population's increasing educational achievement levels over the last decades.
- ⊕ There has been a particularly large increase in the LFP rates of the elderly, even accounting for the natural increase expected from their higher education achievements in 2016 (compared to a generation earlier).

Labor force participation rates: US vs EU15 (aged 25–65), quarterly 1980–2016



Note: EU15 = member countries after EU enlargement in 1995.

Source: Author's own compilation based on the AMECO database. Online at: [http://ec.europa.eu/economy\\_finance/ameco/user/serie/SelectSerie.cfm](http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm)

IZA  
World of Labor

#### Cons

- ⊖ The rise in elderly participation rates is easier to explain with changes to pension systems than with labor market reforms.
- ⊖ It is difficult to pinpoint the impact of particular reform episodes on elderly participation rates, whether aimed at labor markets or pensions rules.
- ⊖ Changes in overall LFP rates are not reliable indicators of the state of the labor market when the workforce composition changes.

### AUTHOR'S MAIN MESSAGE

LFP rates have increased trend-wise in the EU. This is primarily due to the upgrading of education levels across most countries and age groups. However, increases in the activity rates of the elderly have been larger than expected, even taking into account their higher overall levels of education. This combination suggests that pension reforms and limits to early retirement have also played a critical role in growing participation rates. Ongoing education expansion, especially strong at the tertiary level in south and east Europe and in many Asian countries, should ensure a further increase in occupation and participation rates.