

The Impact of Delayed Retirement Policy on China's Labor Supply

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Abstract: The issue of aging and delayed retirement is one of the key topics of research today, and researchers have studied the effects and problems of aging and delayed retirement policies on different aspects of society, but there is always a lack of uniform explanation for the issue of the impact of delayed retirement policies on China's labor market. Therefore, this paper explores the impact of delayed retirement policy initiation on China's labor supply by means of data analysis and policy research. It is found that the impact of the delayed retirement policy on China's labor supply is mainly fourfold. First, at the short-term level, it leads to a greater labor supply than demand. Second, at the long-term level, it can alleviate part of the labor shortage caused by aging. Third, it can promote the accumulation and full utilization of labor capital. Finally, delaying retirement may cause the crowding out of labor jobs for young people. This shows that the impact of delayed retirement policy on China's labor supply is both positive and negative. A reasonable retirement policy can ensure a reasonable supply of labor force in the long run, thus ensuring economic development.

Keywords: labor market, aging, delayed retirement

1. Introduction

Today's world is facing a serious population aging problem, according to a report issued by the United Nations on November 15, 2022. In 2021, the global population of people aged 65 and older will be 761 million, and this number will increase to 1.6 billion by 2050. The population aged 80 and older is growing even faster. Regionally, North Africa, West Asia and Sub-Saharan Africa are expected to experience the fastest growth in the number of older people over the next 30 years. Currently, Europe and North America combined have the highest percentage of older adults. From China, according to the National Aging Development Bulletin 2021 released by the China Health and Wellness Commission, there are 20.56 million people aged 65 and older, accounting for 14.2% of the total population. This figure shows that China has a very serious aging problem, and it will continue to worsen in the future as the per capita life expectancy increases and the fertility rate decreases. Therefore, the Chinese government has clearly proposed in the Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035) to "implement a gradual delay of the statutory retirement age". The main purpose of this policy is to avoid the problem of labor shortage caused by aging. But what exactly are the effects of delaying retirement on the supply of China's labor market? This brings us to the topic of this paper: the impact of delayed retirement policy on China's labor supply. The impact of aging

on a country's economic development is mainly reflected in the supply of labor force. Especially for China, this is due to the fact that China's current rapid economic development relies heavily on an abundant labor force for intensive production, and the labor shortage caused by aging largely weakens this advantage. Therefore, an effective and reasonable study of the impact of delayed retirement policy on the labor force can largely ensure the normal development of the economy.

2. Literature Review

Research on aging and delayed retirement policies has been going on for a long time. Especially in some developed countries, the harm of aging to society has been gradually revealed, so some scholars in developed countries in Europe and other regions have done relatively detailed studies according to different situations in different countries, but there are no authoritative conclusions or initiatives, mainly due to the complexity of the impact of aging on society and the need to consider too many factors in the formulation of delayed retirement policies. As China is a developing country and its situation is relatively unique, and China is currently in a relatively abundant labor force, the social and economic impact of the aging problem is not fully reflected. This has led to less research in this area than in some other developed countries. However, the aging problem in China has intensified in recent years and the Chinese government has gradually formulated and clarified the policy of delayed retirement, which has aroused the interest of scholars on a large scale. Since the issue of aging will affect many aspects of society, scholars from different professional fields have explored the impact of aging on their industries or fields. Most of the current research focuses on the impact of aging and delayed retirement policies on economic development, demographics, and social security systems. There is a lack of research on the impact of aging and delayed retirement policies on the labor market. This leads to the purpose of this paper, which is to investigate the impact of delayed retirement policy initiation on labor supply in China.

3. Reasons

In today's China, aging is becoming a serious problem for two main reasons: declining fertility rates and increasing life expectancy, and the projected acceleration of world population aging can be seen in Figure 1. This can lead to serious social problems such as labor shortage, increased pressure on government spending, and a decrease in the savings rate, which ultimately leads to a slowdown in economic growth.

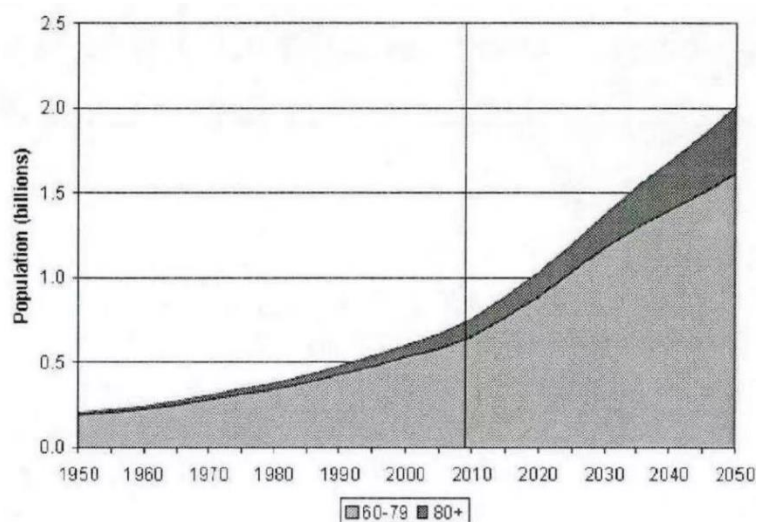


Figure 1: Projected acceleration of world population aging [1].

The current retirement policy in China is that (1) civil servants should retire at the age of 60 for men and 55 for women; (2) professionals and managers of institutions should retire at the age of 60 for men and 55 for women; and (3) workers of institutions should retire at the age of 60 for men and 50 for women. However, the Chinese government has repeatedly proposed that it will implement a progressive retirement policy and will achieve a retirement policy of 65 years of age for both men and women in 2055. And in the “Outline of the 14th Five-Year Plan of the National Economic and Social Development of the People’s Republic of China and Vision 2035” dated March 12, 2021, it is proposed that delaying the retirement age is mainly based on four considerations: the increase of life expectancy per capita; the accelerated trend of population aging; the increase of years of education; the structural changes of the labor force [2]. However, there is no clear answer to the question of whether delayed retirement will have a positive or negative impact on the current labor supply in China, and the main findings of this study are as follows.

3.1. Short Term: Labor Supply will Exceed Demand

China is now in a stage of abundant labor resources, and as a large population country, the total population has been on the rise, and the liberalization of the “second child” policy will lead to a continuous population growth in the future. China’s working-age population reached 1 billion in 2011. And because of the lag in demographic changes, the working-age population will continue to show an upward trend in the future. At least for a period of time, China’s labor market is still in a state of supply exceeding demand, so people will not feel the impact of aging on labor force and so on [3]. Coupled with the delayed retirement policy, labor resources will further increase, exacerbating the problem of supply exceeding demand. This may lead to a series of problems, such as the rise of unemployment rate, etc.

3.2. Long-term Level: It can Alleviate Part of the Labor shortage Caused by Aging

However, the situation that labor supply exceeds demand is only transient. The data found that in 2012, China’s total labor resources declined for the first time, which indicates that China’s sufficient labor supply may be about to gradually weaken. Mother China is in the red period of demographic labor force [4]. Along with increasing aging, China is likely to enter a period of demographic indebtedness after some time. And because of China’s family planning policy in the past decades, China’s aging process may be faster than some developed countries. Therefore, a delayed retirement policy can effectively ensure the labor supply in the long run. It can mitigate the problem of labor shortage due to the increasing aging of the country, which leads to the slowdown or stagnation of economic development. Some developed countries in Europe (e.g. Germany, UK), whose economies are already affected by the aging problem, have raised the retirement age for both men and women to 65 years or older to alleviate this problem [5].

3.3. It Can Promote the Accumulation and Full Utilization of Labor Capital

The current Chinese population is also characterized by a significant and substantial increase in per capita education expenditures and education hours, which is mainly reflected in the gradual improvement of the compulsory education system and a significant increase in college enrollment [6]. This leads to a significant increase in labor costs. A delayed retirement policy can extend the payback period of workers’ education investment, prompting them to further improve their education level and promoting the average education level of social talents [7]. And high investment in education accompanied by premature retirement age can result in a large amount of wasted human capital. Extending the retirement period helps to make full use of the labor force. For example, by using veteran

employees who have worked for many years, companies can save the cost of training new employees [8].

3.4. Delayed Retirees May Cause Crowding out of Jobs for Young People

Delayed retirement will result in a shortage of new jobs as more older people are pushed out of the workforce, thus preventing new graduates or younger workers from gaining access to jobs [9]. Also, older workers usually have better work experience than younger workers, and some companies tend to continue to hire older workers. This can result in young people being denied the opportunity to upgrade their workforce. This situation has the most serious impact within some industries that require mental labor [10]. Non-brain workers, for reasons such as physical work capacity, will gradually withdraw from the workforce in different ways even before the statutory retirement age. Some senior brain workers, such as university professors, researchers, doctors, senior technicians, etc., will be involved in some work and research in disguise even when they reach the statutory retirement age, a phenomenon that is already very common under today's retirement policy [11]. If retirement is delayed, this phenomenon will be further aggravated.

4. Conclusion

After analyzing and summarizing, this paper conclude that first delaying retirement will cause labor supply to exceed demand in the short run, second delaying retirement can alleviate the labor shortage caused by aging in the long run, third delaying retirement can promote the accumulation and full utilization of labor capital, finally delaying retirement may cause the crowding out of labor positions for young people. This means that delaying retirement has both positive and negative effects on China's labor supply. Aging is one of the most important issues facing the Chinese government today, and how to solve this problem is crucial for China to be able to maintain its economic development and social stability. A delayed retirement policy is perhaps the best solution to the problem of insufficient labor supply due to aging. But this policy should not be rigid or monolithic. For example, the Chinese government's current proposal of gradual delayed retirement, which only extends the retirement period by a few months each year until the legal retirement age is reached, is a good way to avoid the problem raised in the first point of this paper, that is, delayed retirement will lead to an oversupply of labor in the short run. Alternatively, there could be some flexible policies, such as allowing those aged 55 or 60 or older to work part-time instead of full-time. Or it could follow the flexible retirement policy currently in place in Sweden, where individuals can choose to retire at any time between the ages of 60 and 70, with most people currently choosing to retire at 65. In addition, the policy should provide support for young people to find jobs, such as developing a job market for young people or offering vocational skills training courses for young people. This can also effectively avoid the third and fourth point of the paper, that is, delaying retirement can promote the accumulation and full utilization of labor capital and may cause the crowding out of jobs for young people.

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