The Effect of COVID-19 on Labor Supply of Older People in the U.S.

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In the U.S. economy, the employment rate has recently recovered to the pre-pandemic level thanks to growing demand for labor. However, labor market tightness is appearing due to disruptions in labor supply. As the large-scale exit from the labor market of the elderly (aged between 55 and 74) and the delay in their returning to work have been cited as major factors causing the ongoing imbalance between labor supply and demand since the outbreak of the pandemic, there is growing interest in labor choices of the elderly. Against this backdrop, this paper analyzes the effect of the pandemic on labor supply choices and wages of the elderly using data from the Health and Retirement Study.

Results show that the large-scale exit of the elderly from the labor force and the delay in their returning to work during the pandemic are mainly attributable to the changes in working conditions caused by the pandemic, rather than changes in the labor supply behavior. A sharp drop in the number of decent jobs with private pension and health insurance benefits contributed most to the cause of the early retirement of the elderly and the delay in their re-entry into the labor market. By status in employment, the number of self-employed workers has declined more significantly than that of wage workers during the spread of the virus. This is mainly caused by the decrease in the transition between wage and salary employment to self-employment — due to increased government transfer payments, the increase in the number of the self-employed

closing their businesses, and the self-employed becoming non-participants (not in the labor force) due to aggravated financial difficulties from the economic lockdowns. We find that in order for retirees to return to the labor market in earnest, working conditions and overall labor demand would need to recover sufficiently to the pre-crisis level. However, even if demand conditions make such full-scale improvement, human capital loss and a decline in the will to work stemming from non-participation could delay the normalization of the labor market.

Next, we analyze the impacts of COVID-19 on wages of the elderly. Even if the unemployment spell was short, job losses have had significant negative impacts on the earned income of the elderly. Older workers experience wage scars when a worker is seperated from a job (changes of employer or business establishment), and the decline in wages has been greater when the job that an elderly worker lost is their career-job (lasting 10 years or longer). However, since job losses that occurred during the pandemic were mainly caused by disease control measures, the wage losses from losing career jobs during this period appears to be limited compared to during normal times.

Putting together all these, it is not easy to create sufficient quality jobs to incentivise older people to return to the labor force. Therefore, the imbalance between labor supply and demand in the U.S. could continue for a considerable period of time and exert upward pressures on wages and inflation.

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