

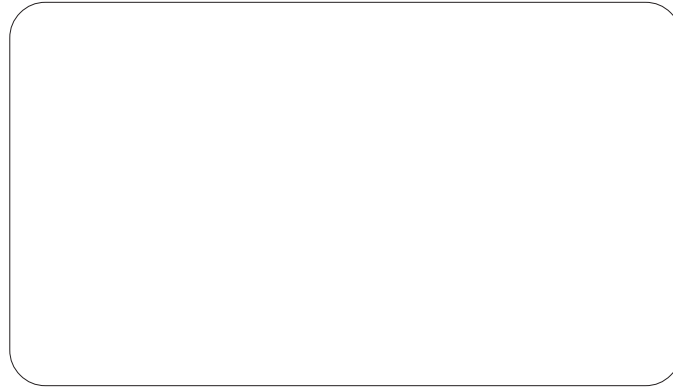
**Population and Labour Force  
Ageing in Six Countries**  
WANE Working Paper #4

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# Workforce Aging in the New Economy

A Comparative Study of Information Technology Employment



WORKFORCE AGING In The NEW ECONOMY (W.A.N.E.) explores the relationships among workforce aging, employment growth in information technology (IT) labour markets, and the transformation of employment relations in the new economy. This work involves a multi-disciplinary, cross-national comparison of IT employment and workforce aging in Canada, the United States, the European Union, and Australia.

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## Abstract

This paper provides an overview and assessment of the issues and themes surrounding population and labour force ageing that have emerged in Australia, Canada, Germany, the Netherlands, the United Kingdom, and the United States. These include the issues related to the perception of a crisis of population ageing, the employment situation of older workers themselves, and the various policy responses that have been undertaken in these countries.

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## Introduction

For more than a century the populations of most Western countries have been getting older. In general, this should be seen as a positive sign of social development, resulting primarily from declining fertility and abetted by increasing longevity. No one would argue, for instance, that people should not live longer lives (Hicks, 2003). Yet, some organisations and governments have identified population ageing as a crisis that will threaten economic stability, social services, pensions, and even national security (England, 2002; CIA, 2001). Although such claims are increasingly appearing on the horizon of public policy discourse, some academics and seniors' organisations have challenged these views suggesting that they are based on "apocalyptic" demography (Gee, 2000; Marshall, 2002). Commentators on both sides of this debate agree that population ageing is an issue that governments, the private sector, and individuals need to take seriously. This paper provides an overview and assessment of the themes surrounding labour force ageing that have emerged in Australia, Canada, Germany, the Netherlands, the United Kingdom, and the United States (henceforth referred to as the study countries), including the issues surrounding the crisis of population ageing, the employment situation of older workers themselves, and the various policy responses that have been undertaken. Before turning to the specifics of these themes, the next two sections provide context for them by considering similarities and differences in the basic demographic trends and social policies among the study countries.

## *I. Population and Workforce Ageing*

Although population ageing is a world-wide trend, there is some variation among the study countries in the rates at which their populations are ageing and in the proportion of persons who are aged 60 and older. As Appendix A, Table 1 shows, the European study countries are somewhat older than are the populations in Canada, the U.S., and Australia and the expectation is that they will remain somewhat older until at least 2050. This is largely because the European countries experienced sharper and earlier fertility declines than did Australia, Canada, or the U.S. The population of the U.S. is the youngest of these six countries, with about 16% aged 60 or older in 2000, while Germany's is the oldest with about 24% aged 60 or older. As well, Appendix A, Table 1 shows how the proportion of the older population which is in the oldest ages, those 80 and older, is projected to increase fastest in the European countries considered here, where people over 80 will make up more than 30% of the population above 60 years of age by the year 2050.

Appendix A, Table 1 also presents measures of the size of the older population relative to the size of younger populations. These "support ratios" and "dependency ratios" reflect the idea that age groups that are not in the labour force must somehow be "supported" by the working-age population. As discussed below, these measures involve some problematic assumptions, but their use has become commonplace. The potential support ratio, or the number of people aged 15 to 64 for every person aged 65 or older in these countries, is projected to fall from at least four in 2002 to between two and three by 2050,

meaning that the ratio of older to younger people will more than double in Canada, Germany, the Netherlands, and the UK, with somewhat less growth in Australia and the U.S.

The total dependency ratio, or the ratio of the population that is of the typical working age to the part of the population that is under working age or over the typical retirement age of 65, is currently highest in the U.K. and the U.S., followed by Australia. When total dependency is disaggregated into the youth dependency ratio and the old age dependency ratio, we can see that the total dependency in these countries is higher than that in Germany and the Netherlands partly because of higher birth rates. When the ratio of those 65 or older to the population aged 15 to 64 is considered, the older age structure of Germany, the Netherlands, and the U.K. is evident, and this will continue to be the case for the next couple of decades. However, in all of the countries examined here, the relative size of the population over age 65 will grow substantially, to about three persons aged 65 or over for every person aged 15 to 64 by 2025.

Changes to the age structure of populations affect labour force participation rates because the likelihood that an individual will be in the labour force varies systematically by age. Appendix A, Table 2 shows the labour force participation (lfp) rates of each country, by age group and sex. In 2002, labour force participation rates among men aged 25 to 54 was fairly similar across the study countries, ranging from 90 to 94 percent. In each country, the lfp rate for women in these ages is lower than it is for men, and the range between

countries is somewhat larger (71 to 78 percent).

Labour force participation is considerably lower among older people, and varies more among the study countries. For those aged 55 to 64, labour force participation was lowest in the Netherlands in 2002 (43 percent) and highest in the United States, where 62 percent of people in this age group were in the labour market. In general, there has been a long-term trend toward earlier withdrawal from the labour force in each of these countries. This is visible in the reduction of lfp rates among men aged 55-64 between 1972 and 2002 in the study countries, as shown in Appendix A, Table 2. An even more dramatic reduction in labour force has occurred among men over 65, with this rate falling considerably between 1972 and 2002. This decline was the least in the United States where almost 18 percent of men in this age group continued to participate in the labour force in 2002 (Appendix A, Table 2). However, while the trend over the past few decades has been toward earlier retirement and lower labour force participation among older workers, there is evidence that this may be slowing or reversing in some countries (Rix, 2000: 377; Quinn, 2003; Taylor, 2002: 5), and Appendix A, Table 2 shows some increase in lfp for men aged 55 to 64 in the Netherlands, and for men aged 65+ in the Netherlands, Australia, and the U.S. between 1982 and 2002.

Thus far, the long-term reduction in the average amount of time that men spend working for pay has been somewhat balanced by the dramatic increase in labour force participation of women in the last three decades (see Table 2). In Canada for instance, the labour force

participation rates of women between the ages of 25 and 54 increased from 42 percent in 1972 to 80 percent in 2002. The increase in women's labour force participation was greatest in the Netherlands, where there was very low participation by women (24 percent) in 1972, increasing to 75 percent in 2002. In the other study countries the increases were somewhat less, ranging from an increase from 57 to 77 percent increase in the U.K. to an increase from 51 to 76 percent in the United States, in the same time period.

Along with the increase in women's participation in paid work, the presence of the baby boom generation in the labour force in some of these countries has also compensated for overall reductions in the average amount of time that people spend working for pay. The baby boom has contributed considerably to the more youthful demographic structure of North America, where the baby boom cohort is largest. In all of these countries, though, the relative size of the working age population will decline considerably as this large cohort passes into what are now typical retirement ages. The implications of the ageing of the baby boom cohort are more significant in North America than in Europe, and will be especially strong in Canada, which has a larger baby boom cohort and lower fertility than the U.S. In Australia the baby boom began later and continued for nearly a decade longer than in North America. Combined with Australia's less rapid fertility decline this means that the effects of the ageing of the baby boom will be moderate in that country compared to Canada or the U.S. In the United Kingdom, the relatively small and late baby boom will have even less effect, and the difficult period of reconstruction in Germany and the

Netherlands after the war has meant that the ageing of these populations has not been slowed much by a baby boom (Foot, 2002).

The ratio of the working aged population to the retired population is influenced by the typical age of retirement in each country, which is in turn affected by the age at which full pension benefits can be claimed, without penalty for early retirement. These country-specific pensionable retirement ages vary somewhat, and in some countries are different for women than for men. In general, men may claim full pension benefits in each of the study countries at age 65, although there may be some exceptions such as in the case of disability (Social Security Agency, 1999; 2002; 2003; United Nations, 2002a). For women, the pensionable retirement age is the same as it is for men except in Australia and the U.K., where this retirement age is 62.5 and 60 respectively. As discussed below, some countries have changed these pensionable retirement ages as part of reforms to their national pension plans. Australia has instituted a policy that will increase the retirement age for women to age 65 by 2013. The U.K. has done the same but the targeted date for full implementation is 2020. The United States is the only study country that has implemented a policy that will gradually increase the full pensionable retirement age of both men and women to 67 by 2027 (Rix, 2000).

As well as being affected by the age at which full pension benefits are available, the study countries also vary in the extent to which they have policies in place that legislate mandatory retirement, or proscribe it. In the United States, discrimination on the basis of age

is illegal except in rare circumstances. In Canada, federal employees are not forced to retire at age 65 but most of the ten provinces have not enacted legislation to prevent employers from establishing retirement ages. In 2000, the EU adopted the New Framework Equal Treatment Directive, which directed member states to adopt legislation against age discrimination by 2006 (EIRO, 2001), and the government of the UK has announced proposals to issue compliant legislation (BBC News, 2003).

However, regardless of the age at which pension benefits can be claimed in full or laws against age discrimination as shown in Appendix A, Table 2, the average age of transition to labour force inactivity for older workers is lower than the full pensionable retirement ages in all of the study countries (see also Blöndal and Scarpetta, 1998). Particularly in European countries, the trend toward early retirement was aided by pension programmes which allowed older workers to retire early and to receive fairly generous benefits (Van Dalen and Henkens, 2002). Programmes established during the economic recessions of the 1980s sought to deal with rising unemployment among young people, while providing older workers a route out of the labour force and into retirement. Some countries, such as the UK and the Netherlands, employed policies which actively encouraged early retirement through state pension systems. Especially in the Netherlands, employment-related transfers such as unemployment insurance or disability insurance were allowed to be used as a bridge between early retirement and the age at which pension benefits could be collected (Van Dalen and Henkens, 2002; Walker and Maltby, 1997). As

well, during this recession many older workers were forced out of the labour force by being defined as “redundant”, and if unable to find alternative employment, some of these workers may have referred to themselves as retired in an effort to avoid the stigma of unemployment (Walker and Maltby, 1997; OECD, 2000).

In most of the study countries, unemployment has remained relatively high despite the economic recoveries and resumed economic growth in the 1990s (Auer and Fortuny, 2000). With the exception of Germany, unemployment rates are similar for older and younger working-age men (Appendix A, Table 2). In Germany, however, unemployment is higher for men aged 55-64. This is true for women in Germany as well but in the other study countries women aged 55-64 fare slightly better than their younger counterparts regarding rates of unemployment. Of course, official unemployment measures likely underestimate the extent of unemployment among women and older workers because these groups may define themselves as either working at home (i.e. housewife) or retired. Lower unemployment rates among older people may result from older workers, especially men, leaving the labour force after becoming discouraged (CARNET, 1995; Auer and Fortuny, 2000; Henkens, Spengers, and Tazelaar, 1996). Indeed, evidence suggests that displaced older workers take longer to find work, and when they do, they are likely to have repeat spells of unemployment (Kinsella and Gist, 1995).

## *II. Political Economy and the Welfare State*

The ageing of the population may have

different meaning for different states, depending on their system of social provisions and particularly on their pension systems. Esping-Andersen (1999), for example, distinguishes among western welfare states on the basis of the degree to which they reduce the need for reliance on wage work or on the family. All three of Esping-Andersen's welfare state regimes are represented among the study countries. Canada, Australia, and the United States are "liberal" welfare states, in which most assistance is means-tested, and the welfare state serves to reinforce the inequalities of the market. Germany falls into the continental European model, in which benefits tend to be provided at a higher rate, but welfare systems tend to maintain inequality based on status differentials, and to preserve the traditional family (Esping-Andersen and Bison, 2002). The Netherlands tends toward the social-democratic regime of the Scandinavian countries, in which benefits are much more universal, tending to foster class alliance. Indeed, the pension system in the Netherlands is the most generous and offers the highest income replacement rates among the study countries, while the liberal welfare states offer the lowest replacement rates (OECD, 2001: 51). More recent analyses suggest that the United Kingdom shows some characteristics of both a liberal welfare state, as well as a universalist social democratic state (Hicks and Kenworthy, 2003).

In general, European conservative states such as Germany and social democratic states such as the Netherlands have more comprehensive social provision and higher levels of social transfers to older people than do the liberal welfare states. We can see from Appendix A, Table 2 that the poverty rates among those 65

and older in the 1990s were considerably higher in the U.S., Australia, and the U.K. The exception among the liberal states is Canada, which had a poverty rate of only 5.3 percent among those aged 65 and older in 2001. However, in each of the study countries, the economic well-being of older people has improved considerably in recent decades relative to the rest of the population. The only exception to this trend is the social-democratic Netherlands, where the relative poverty rates of older people have always been consistently low (Yamada, 2002: 11).

The general improvements in the relative income of the older population have been largely due to the success of public provision, such as the maturation of the Canada and Quebec Pension Plans in Canada (Myles, 2000) and public pensions in Europe (Walker and Maltby, 1997). However, despite these improvements, older people are still at significant risk of poverty in most countries. This is most true in the U.S., and Australia where 20.7 and 29.4 percent of people over aged 65 had less than half of the median disposable income in the 1990s, followed by the U.K. with 13.7 percent. Seven percent of Germans aged 65 and older were poor in 1994, while relative poverty rates for this age group were lowest for Canada and the Netherlands (Appendix A, Table 2). The Netherlands stands out for both its high levels of provision as well as the high degree of coverage by quasi-compulsory occupational pension plans (OECD, 2001: 113). Although useful for comparisons between countries, the half-of-median income measure is only one of many poverty measures and studies using the Statistics Canada Low Income Cut-off have concluded, for example, that more than 17% of Canadians aged

65 and older live in poverty (National Council on Welfare, 2002).

Despite the success of public programmes in reducing poverty among the older population (Myles, 2000), these programmes have recently been under threat in most of the study countries. Other elements of the welfare state have seen dramatic changes, including drastic cuts to U.S. social welfare programmes and restructuring of the unemployment insurance system, in order to promote rapid reemployment (Corson and Spiegelman, 2001: 5) and cuts to Canadian social assistance and unemployment insurance programmes (Evans, 1992), while pensions have remained relatively unscathed. However, since the 1990s political elements in each of these countries have identified population ageing as an impending crisis, demanding dramatic changes to the systems of social provision to older people.

### *III. The “crisis” of Population Ageing*

Despite the differences in the demographic and policy contexts among the study countries discussed above, there are striking similarities in the country discourses about population ageing. The most pervasive, and at times panicky, theme that can be found in the discourse on ageing in Europe, North America, and Australia, is that an ageing population threatens continued economic growth. The perception of these threats is generally influenced by two key issues. One is the belief that increased public spending is required to support an older population, including pensions and medical care, the costs of which must be borne by a relatively small number of working people. The second issue is the belief that a shrinking labour force will lead to increased labour costs and

reductions in industrial productivity. While many agree that these are important issues, some have argued that they constitute an impending “crisis” that threatens economic prosperity, rather than a tractable problem for public policy. Bodies such as the Organization for Economic Cooperation and Development (OECD, 1998), the Centre for Strategic and International Studies (CSIS) in the U.S. (England, 2002), the C.D. Howe Institute in Canada (Guillemette, 2003), and the British-North American Research Association in the UK (Robson, 2001) have framed population ageing as an impending crisis that will debilitate economic prosperity.

#### *A. Health Care, Pensions, and the “Cost” of Population Ageing*

Concerns about the financial “burden” of societies in which the proportion of older people is growing relative to the working-age population are linked to the associated projections of increased costs for health care and pensions relative to the available tax base. Discussions of this sort in popular books, government and non-government reports, and in academic work often refer to demographic dependency ratios when they predict a looming crisis (c.f. Weaver, 1992; Wallace, 1999; OECD, 1998). The growing proportion of older people has led to questions about the sustainability of public pension systems, and ultimately to changes in national pension policies. With the exception of Australia, all of the study countries now have some type of “pay-as-you-go” systems in which the current working generation’s contributions pay for the benefits claimed by currently retired generations (OECD, 2000; Social Security Agency, 2003). This type of pension scheme is thought to be

particularly at risk to insolvency (Weaver, 1992), despite the fact that surpluses were generated when the working-age population was growing, and are still being generated in the U.S., the U.K. and Canada (Social Security Agency 2003; Human Resources Development Canada, 2002, Liu, 1999). The Netherlands and Canada have increased the advance funding of their pension plans, to ensure continued solvency (OECD, 2001: 112). With the exception of the United States, all of the study countries also have universal public health insurance or health care systems funded through general taxation, although the U.S. Medicare system provides health care services to citizens who are aged 65 and older. In each of these countries, fears of rising health care costs have led to considerable public debate and, in Canada, the U.K., and Australia, there has been encroachment of private insurance and health care provision into previously public systems. Potentially unfunded liabilities of public pensions and health care systems have raised fears of increased public debt or higher contributions and payroll taxes that, in turn, will result in slower economic growth (England, 2002).

Such concerns about the affordability of pensions and health care have fuelled generational equity debates in most of the study countries. So-called “generational accounting” approaches in the U.S., Canada, Germany, and Australia (Kotlikoff, 1993; Corak, 1998; Auerbach, Kotlikoff, and Leibfritz, 1999) compare transfers between age cohorts and show that cohorts now old have been net gainers of formal transfers, while those cohorts now young can expect to pay out more in taxes and contributions than they will receive in

benefits (for an in-depth discussion of the generational equity debate, see Marshall, 1997; Bengtson and Achenbaum (Eds.), 1993). This approach tends to pit the currently young and currently old against each other in a politics of age. Indeed, generational equity was identified as a social issue by Samuel Preston in 1982 in his now classic article, “Children and the Elderly: Divergent Paths for America’s Dependents”, in which he argued that in the 1960s and 1970s the social and economic well-being of children in the United States deteriorated relative to the elderly, foreshadowing two decades of intergenerational equity debates and the potential for growing social fractures between generations (Beujot and Richards, 1996; Van Dalen and Henkens, 2002).

Examples of intergenerational conflict appear in the popular press in North America, the U.K, and Australia, although such conflicts are arguably most heated in the United States (Marshall, Cook, and Marshall, 1993). These accounts generally portray older people, especially recent retirees, as well-off and healthy, and yet gaining from the economic support of younger workers. Terms such as the “greedy geezers” in the U.S. or “woopies” (well-off older persons) in Britain evoke images of fairly luxurious lives of leisure being led by retirees. Issues of generational equity have received so much attention in the United States that groups such as the now defunct Americans for Generation Equity (AGE) formed with the aim of redressing perceived intergenerational inequity (Rix, 1999). The European Commission was concerned enough with intergenerational relations that it named 1993 its “Year of Older Persons and

Intergenerational Solidarity”, suggesting that the politics of age had become an issue in Europe as well (Walker and Naegele, 1999). Furthermore, in 1997 Statistics Canada and Human Resources Development Canada sponsored a conference on Intergenerational equity, suggesting its growing importance in the policy debate in that country (Human Resources Development Canada, 1997).

An important criticism of arguments about intergenerational equality is that they tend to consider intergenerational exchanges in a rather narrow way (McDaniel, 2002). For example, they often consider only formal transfers, while ignoring informal intergenerational transfers, as well as the many other types of linkages between generations. Whereas there is a great deal of concern expressed over the fact that there will be fewer children in the future to care for ageing parents, over the life course the balance of private transfers tends to heavily favour children rather than parents (Stone, Rosenthal, and Connidis, 1998). Despite the concerns expressed that an ageing population will place additional demands on the support of children as well as the state, these may be overblown. At least in Canada, the proportion of older people who do not have any children for support continues to be small, and most older Canadians continue to live independently, rather than with their offspring (Connidis, 2001: 35). Carrière (2001) has found that previous projections of the cost of hospitalisation of the elderly have been high. Moreover, the focus on differences between age groups, rather than on differences based on gender, race, or class, ignores these more fundamental bases of inequality (Connidis, 2001).

### *B. Economic Growth and Productivity*

As well as the expected increases in the costs of health care and pensions and the reduced tax base available to pay these costs, a second concern is the potential reduction in industrial productivity that may result from reduced labour force growth. Several effects are argued to be at play here. First, with the exit of the baby boom generation from the workforce, and fewer entrants due to reduced fertility, fears have been expressed that increased costs of labour and a consequent reduced productivity of capital will lead to slower GNP growth (England, 2002). A smaller labour force means that the price of labour is higher, but also that there will be less labour per unit of fixed capital, which will render that fixed capital (the machinery of industry) less productive. Macroeconomic models produced by the IMF (Masson and Tyron, 1990), the OECD (Turner et al., 1998), and the European Commission (McMorrow and Roeger, 1999) have been used to demonstrate these effects.

Second, models have demonstrated the effects of a perceived propensity of older people to dissave, thereby reducing the funds available for capital financing (Stowe, 2002). Older people are assumed to consume their savings, rather than adding to them, and all else equal, this would be expected to increase interest rates and make capital investment more costly, reducing economic growth.

Lastly, it is argued that older workers are less productive than are younger workers, and that this leads to lower total economic productivity (Guillemette, 2003). Older workers are often considered to be less able to undertake physical work and are often stereotyped

as less able to adapt to new technologies. However, it is not necessarily the case that an older worker is a less productive one. Decreasing physical ability among some older workers may be more than compensated for by their experience. As well, studies such as Guillemette's (2003) assume certain forms of work organization, and changes to the work process may reduce any differences between older and younger workers (CARNET, 1995), and this particular study did not include potential gains to productivity that may result from the increased experience of older workers. Although there may be important changes in some aspects of performance with age, such as visual acuity, many of these changes can be addressed by workplace and task design, and productivity need not be reduced (Charness and Bosman, 1994; 1995; Green, 2002).

#### *IV. Population Ageing: Crisis or Challenge?*

Overall, there is considerable controversy over whether the ageing of the population and the labour force in Western countries constitutes a coming crisis, or a challenge which can be met by careful policy development. Those who view population ageing as a challenge are particularly critical of the use of the dependency ratios that are often used in support of crisis arguments. According to these arguments dependency ratios inaccurately portray older people as dependent, while ignoring the various contributions that older people make in the formal economy as well as in the lives of individuals and families. They also ignore the degree to which similar demographic pressures have in fact existed previously (Gee, 2001; Marshall

and Mueller, 2002). For instance, in Canada the total dependency ratio will not surpass levels seen in the 1950s, when youth dependency was high. Although rising dependency ratios in future decades will be due to increases in old age dependency, this will be offset to some degree by declines in youth dependency (Gee, 2001; McDaniel, 2002). Appendix A, Table 1 shows that the projected dependency ratios for the study countries in 2025 will be similar to or lower than the total dependency ratios of these countries in 1971. While increases in the older population may present a challenge, we have successfully managed such demographic pressures in the past.

Thus far, increases in social security costs in Western Europe and Canada have not been primarily due to population ageing, but rather to lower contributions resulting from high rates of unemployment (Marshall, 1993; Walker and Naegele, 1999: 199). Likewise, population ageing cannot be blamed for increases already seen in health care costs, and may not be the most important factor driving health care costs in the future (Marshall, 1993; Walker and Naegele, 1999: 199; Hoehn, 2000: 8; Carrière, 2001; Gee, 2001). In general, the question is the degree to which demography is seen as driving social and economic changes, or whether it is only one of a number of factors to be considered. For example, concerns over declining economic growth resulting from slower labour force growth tend to ignore the other factors of production. Technological changes in many industries have made labour a less important input, relative to fixed capital. It is also not necessarily the case that an older workforce need be a less productive one, particularly in a so-

called “knowledge” economy which is no longer reliant on people’s physical labour power. However, the possibilities of transforming work and workplaces in order to make them more suitable to older workers do not seem to be a serious option yet in these countries. As well, while some may be concerned about slower labour force growth, these countries currently still have relatively high levels of unemployment, and it is not clear that their labour markets are able to absorb older workers in considerable numbers (Auer and Fortuny, 2000).

#### *V. The Employment Situation of Older Workers*

Despite the high-level pronouncements of the importance of encouraging older workers to remain in the labour force, it is not at all clear that this message has translated into improved working conditions or work prospects for older workers themselves. Older workers still face discrimination within the workplace and also in finding employment in the first place (Deets et al., 2002: 4; Encel, 2002: 4; CARNET, 1995; Walker and Maltby, 1997: 78-9; Henkens, Sprengers and Tazelaar, 1996; McMullin and Marshall, 2001; Platman and Tinker, 1998; Taylor and Walker, 1994; Taylor et al., 2000). During the 1980s and early 1990s, older workers were particularly targeted for redundancy in these countries, partly because of the higher labour cost associated with older and more senior workers. Indeed, policies encouraging early retirement may have played an important role in developing perceptions of older workers as unemployable (Walker and Maltby, 1997). For unemployed older workers, finding employment may be difficult because of perceptions that they will be

less productive, will be unable to learn new technological skills, or will have a higher absentee rate because of health problems (CARNET, 1995; Marshall, 1996; Taylor and Walker, 1994). It may also be that discrimination against older workers is more prevalent in particular sectors, particularly information and high-technology (McMullin and Cooke, 2003).

Within the workplace, discrimination against older workers may take the form of a reluctance to offer retraining. Kuwan and Thebis have found that participation of older workers in training programmes is much lower for German workers above age 50 (Kuwan and Thebis, 2001 in Behrens and Frerichs, 2003: 107). This may be due to reduced take-up of available training by older workers, but also to a lack of formal educational prerequisites or the belief that training is wasted on older workers. It also may be that in some sectors, and particularly in the “new economy”, including information technology industries, companies may be especially reluctant to hire, retain, or retrain older workers whose skills are seen as quickly outdated in a rapidly changing environment (McMullin and Cooke, 2003). If this is the case, the growing importance of these sectors in many national economies suggests that age discrimination could even be increasing.

From the perspective of the life course, it has been argued that working lives are becoming more contingent. In what has been seen as the deinstitutionalization of the tripartite life course there have developed an increasing number of “in-between” statuses between full-time working life and retirement (Heinz, 2000; Taylor, 2002: 5). These statuses may include part-time, contract, or

temporary work (Singh and Verma, 2001) or the use of other social programmes as bridges to full retirement benefits (Van Dalen and Henkens, 2002). The growth of non-standard work is particularly strong in the liberal welfare states, especially for workers at the beginning of work careers and those near the end. As Heinz (2000) suggests, less predictable work careers and variable durations of employment episodes can also make family transitions more difficult to plan and predict (Heinz, 2000: 11).

The use of other social programmes as a bridge to retirement would seem to be stronger in social-democratic welfare states such as the Netherlands, with universal systems of social provision, as well as conservative welfare state regimes such as Germany, which seek to regulate employment-related transitions. In the Netherlands both the national unemployment insurance and disability programmes were until recently particularly useful as a bridge to retirement (Van Dalen and Henkens, 2002). In contrast to the Netherlands and Germany, in the liberal welfare states of Australia, Canada, the U.S. and the U.K., part-time employment seems to be more common among workers, and as a bridge to retirement (OECD, 2000; Encel, 2002; Walker and Maltby, 1997). Self-employment may be another means of bridging full-time work and retirement for some (Rix, 2000: 383). While for some older workers part-time or temporary work may be a means by which a gradual transition from work can be achieved, for some it may be involuntary and due to an inability to find permanent full-time work, in part because of various forms of age discrimination in the labour market. In general, moving from full-time work to

part-time or temporary work before retirement will be a shift “downward” in terms of status and earnings, which is something that not all older workers can easily afford (Rix, 1999: 2000).

## *VI. Policy Responses to Population Ageing*

There has been a variety of policy approaches taken in the study countries to deal with the challenge of population ageing in relation to paid work, but in general they have been aimed at changing retirement policies in order to encourage older workers to remain in the labour force, legislation which abolishes age discrimination, and labour market policies including training and incentive programmes and the education of employers (Taylor, 2002). Thus far, the greater weight has been placed on retirement-related policies and in particular on changes to national pension systems. On the other hand, policies that would make work more attractive to older workers, or make older workers more attractive to employers have been fairly limited in scope. With the possible exception of Australia, one major limitation of the policy responses taken in the study countries thus far has been a lack of a coordinated policy that addresses the ageing of the labour force in the context of employment and social policy more generally (Rix, 1999; Taylor, 2002; Van Dalen and Henkens, 2002).

### *A. Retirement policies*

Retirement policy is the area of policy that is most developed in many of the study countries (Taylor, 2002). Recent changes to retirement policies have included increasing the age at which full public pensions can be collected. As

noted earlier, in some countries, such as the U.K., this has meant increasing the full pensionable age of women to age 65, the same as that of men. Germany has increased this age of retirement to 65, while the United States will gradually raise the retirement age to 67 over the next two decades (OECD, 2000: 11). In Australia, incentives have been created to defer draws on pensions until age 70. (Taylor, 2002: 21). The Netherlands has recently begun reforms to its pension plan that will change it from a pay-as-you-go plan to a funded one that will be actuarially neutral in terms of the transfers between generations (Van Dalen and Henkens, 2002).

These countries have also adjusted the relative importance of the four main sources of incomes for older people; public means-tested pensions, employment-related pensions, private pension funds, and employment (OECD, 2000). The mix of income sources for older people varies among countries but, in general, there has been an increased reliance on private pensions for those who have them, compared to public benefits (Auer and Fortuny, 2000; OECD, 2001).

Governments have also tried to actively reverse the trend toward early retirement, (Walker and Maltby, 1997; OECD, 2000). The U.K. and the Netherlands have scrapped their early retirement plans, and Germany, the U.K. and the Netherlands have tightened policies regarding unemployment and disability benefits, to prevent their being used as bridges to retirement (OECD, 2000: 22; Van Imhoff and Henkens, 1998). In Canada, recent changes in many provinces have made it mandatory for those above age 60 to claim early pension benefits before claiming social

assistance, which would reduce the use of social assistance by unemployed older workers (National Council of Welfare, 1997).

Another policy strategy is to strengthen alternatives to total retirement. Rather than complete retirement, “phased” retirement or the possibility of working part-time for a period has been suggested as an important measure (Chen and Scott, 2003). Germany has taken specific steps to promote gradual retirement through part-time work agreements and wage supplements, and the Netherlands has enacted a bill allowing older people to work fewer hours, in the hope of keeping more of them in the labour force (OECD, 2000: 23; Taylor et al., 2000). However, Britain, Canada, the U.S., and Australia have not yet developed active policies promoting phased retirement. In the U.S. there are legal and structural impediments to the implementation of active policies promoting phased retirement, including the existence of privately negotiated defined benefit pension plans, the structure of health coverage, and regulatory uncertainties about the making of special arrangements for older workers (Penner, Perun and Steuerle, 2002). The lack of success thus far with implementing phased retirement schemes may also be partly due to the difficulties in reorganizing work roles for part-time work (Taylor, 2002: 22).

### *B. Elimination of age discrimination*

Thus far, efforts at eliminating age discrimination have been somewhat uneven, despite legislation and official proclamations. In the U.S. and Australia federal law prohibits discrimination on the basis of age and in the Netherlands firms face penalties for laying off older workers (Taylor, 2002). In Canada,

however de facto mandatory retirement still exists in some jurisdictions (Gillin and Klassen, 2000), and in the U.S., the federal legislation does not apply to small firms, although there is often more comprehensive state legislation (Deets et al., 2002: 60). As mentioned above, European Union member countries have recently been directed to pass legislation against age discrimination by the year 2006, and the U.K. is moving toward meeting this requirement.

### *C. Active Employment and Training Programmes*

Active labour market programmes have tended to lag behind pension reform as policy responses to workforce ageing (Taylor, 2002). These programmes can include career counselling and job search assistance and training plans. Active training policies specifically aimed at older workers and encouraging what has been called “active ageing” (OECD, 1998) have been adopted in the U.K., the Netherlands, Germany, and Australia (OECD, 2000: 30; Taylor, 2002; Department of Employment and Workplace Relations, 2002). There have thus far only been some pilot projects in Canada (OECD, 2000: 30) and programmes in the U.S. have not yet been well developed, although small programmes have existed for some time. Some programmes include tax incentives for firms to re-train older workers or direct funding for this training. One area of policy that has been identified as potentially increasing employment of older workers is the provision of counselling or support services that help older workers manage the risks through career counselling (Taylor, 2002). The U.K., for example offers counselling and training as well as cash support for workers over 50 who have been out of

work or on benefits for more than 6 months, as part of its “New Deal 50+” programme (OECD, 2000).

### *D. Employer-Centred Policies*

Other active labour market policies have focussed on the employer, including providing incentives to firms to hire unemployed older workers. Of the study countries, only Germany, Australia, and the Netherlands have schemes by which firms receive subsidies for employing older workers who have been unemployed for a period, although the Dutch policy is not age-specific (Taylor, 2002: 34-5). Other employer-centred measures may include the provision of training for employers to enable them to implement human resource policies that are friendly to older workers. However, these programmes are as yet undeveloped in the study countries (Taylor, 2002: 33).

### *E. Issues Surrounding Labour Force Ageing Policies*

Several shortcomings of the policy approaches thus far taken in response to the challenge of an ageing workforce have been identified. One of the more general problems has been that in the study countries, with the possible exception of Australia, policies have not been integrated or strategic (Taylor, 2002). The U.S. may stand out as an example of a lack of integrated policy (Rix, 1999), but policies in the other study countries have also tended to consider retirement policies separately from other employment policies, and each of these separately from other social policies. For example, Van Imhoff and Henkens (1998) describe how in scrapping its early retirement policy the Netherlands has failed to consider how

disability, unemployment insurance, or private savings may become more important as alternative pathways for exit from the workplace. Further, retirement policies for older workers and employment policies for younger workers should be seen as interacting, as higher employment among older workers may have effects on the employment chances of younger workers.

At another level these policies do not address the continuing incentives for older workers to leave the labour force, or for employers to avoid hiring them. It is unclear that changes to pensionable ages have had much effect on the de facto age of retirement (Walker and Maltby, 1997; OECD, 2000), and early retirement remains attractive to many workers (Van Imhoff and Henkens, 1998). Although changes to the retirement structure, such as the dismantling of early retirement schemes, may dismantle the “pull factors” of early retirement, they do not address non-financial incentives to retire. Unpleasant or stressful work environments and work that is inflexible and difficult to combine with other interests or changing physical needs will continue to be less attractive than retirement to many workers and attempts to encourage later exits often do not coincide with reforms of working conditions (Van Dalen and Henkens, 2002: 228). As well, despite changes to pension systems, it is still the case that in many countries there is a high opportunity cost of working beyond a certain minimum age (60 in most countries) as the additional contributions made after this time do not increase pensions, and those who continue to work may not be able to claim full benefits, or may have benefits taxed back (Auer and Fortuny, 2000).

The existing policies also tend not to

address the continuing disincentives for firms to employ older workers. The relatively high cost of older workers remains and it is therefore likely that employers will find other ways of eliminating older workers, even if age discrimination is formally prohibited. Thus, one important challenge for policy is to make work meaningful and attractive to older workers, as well as to prevent older workers from being forced out of the labour market against their wills. For both older workers and employers the incentive structure must be right if older workers are to participate in the labour market (Taylor, 2002: viii).

In developing policies which aim both to ensure adequate provision for older people and also to encourage “active” ageing and increased labour force participation, the degree of targeting or universality of these programs must be considered. Age-tested benefits such as special education or training schemes for older workers may have the advantage of directly addressing needs of older workers, and perhaps of being more efficient uses of resources in that respect, but also may reinforce the importance of age in employment. While there is relatively little evidence of a serious degree of intergenerational conflict, it is possible that the targeting of older people for benefits or programs could make age a more salient political division than it now is (Walker and Naegle, 1999: 200). Not only is age targeting somewhat contrary to the idea of removing discrimination on the basis of age, but age-tested programmes often attempt to address issues that can be subsumed under more general social programmes or employment policies (Taylor, 2002).

In light of the policy initiatives currently

underway to encourage later retirement, we must also recognise that older workers are a diverse group, and that gender, class, socioeconomic status, race, and ethnicity continue to differentiate older persons from one another. While at present, older people are more alike in terms of income than are younger people, the more important employment income becomes in the total retirement income packages of older people, the more structural inequalities in the labour market will lead to inequality in later life. Inequalities during working life are reproduced in later life if pension programmes are based on market earnings or are heavily reliant on private pensions. This is particularly true for women, who earn less in the labour market over their working lives than do men.

Indeed, although economic structures are important, in making policies regarding population ageing countries must attend to other institutions, particularly families, and the dramatic changes that have occurred in them since the late 1960s. In all of the study countries divorce laws have been liberalised, resulting in more divorce and remarriage and declining marriage rates. Older people will therefore be more likely to have been divorced at some point, and will also have fewer children than previous generations. The continuing difference in life expectancy between women and men means that these older populations tend to include more women than men, and that older women may be more likely to live alone (Walker and Maltby, 1997: 11). While women's participation in the paid labour force increased dramatically since the 1960s, especially among married women, they continue to be responsible for a greater share of unpaid caring and domestic

work, and are more likely to have interrupted labour force attachment as a result. As well, although there is considerable variation between countries, women are over represented in "flexible" and low-wage employment in these countries, and women's wages continue to be lower than those of men. Some countries, such as Germany and Canada, have attempted to address some of the inequalities women face by counting time spent out of the workforce to care for children towards pension benefits (Walker and Maltby, 1997: 46). Nonetheless, compared to men, women's pension benefits remain lower.

The current policies regarding pensions, education and training, and family supports often assume orderly and predictable progression through life stages (Marshall and Mueller, 2002). In light of the de-institutionalization of the tripartite employment life course as well as family life courses (Heinz, 2000), these age-specific policies can leave people at risk to low income or a lack of support. Further, training and employment programmes specifically aimed at older workers do not, in themselves, constitute policies of life long learning or active ageing if they are not accompanied by policies which promote flexibility and choice throughout working life as well (Marshall and Mueller, 2002).

Flexibility in retirement requires choice. In Canada and the UK, business interests have argued that reducing pension benefits is necessary to reduce work disincentives, and that less regulation of workplaces would make firms more receptive to hiring older workers (Robson, 2001: 56). Not all older people are able to participate equally in work; some because of poorer health, others

because of their responsibilities for the care of others. Still others have not been given the training and retraining necessary to engage in meaningful employment. Hence, the ageing of the labour force must be considered within the context of an economy in which traditional, labour-intensive primary and secondary industries have become less important relative to the tertiary or service sector and the so-called “knowledge economy”. If older workers do not have the skills necessary to remain employed in “new economies”, increasing statutory retirement ages will be ineffective. Indeed, inflexible increases in statutory retirement ages in the absence of increased employment opportunities may create greater risks of poverty for older persons (Naegele and Frerichs, 2002: 2; Myles, 2000). Efforts to keep older workers in the labour force must avoid making them a vulnerable labour force, easily shed in economic downturns, and must maintain acceptable pathways to early retirement for those for whom work is not a reasonable option (Naegele and Frerichs, 2002: 5).

The heightened importance of private pensions in most of the study countries has been thought to enable older people to have more control over the timing and the terms of their retirement (OECD, 2000). We must be cautious of this interpretation, however, because if capital investments form an increasing proportion of some older people’s incomes, their incomes are increasingly at risk due to market fluctuations. As private pensions become more important to some older peoples’ incomes, the income heterogeneity among older people may also increase (Yamada, 2002; Walker and Maltby, 1997). Further, if private pensions and

employment are made more important, it is possible that public pensions for older people will be seen less as an earned right, and more as a charitable benefit (Walker and Maltby, 1997). This may be particularly the case for means-tested benefits, as opposed to universal pensions received as a right of citizenship. Given the increased difficulty of individuals planning their family and work careers over the life course and the shifting of risk to the individual, many older people may have less, rather than more control over the ways in which they leave stable career employment (Heinz, 2000).

### Conclusion

The study countries all face similar challenges related to an ageing workforce, although their age structures vary somewhat. The ageing of the labour force has come earlier to European countries, and the effects have been somewhat exacerbated by early retirement programmes such as that in the Netherlands, which sought to reduce unemployment among younger workers. In North America, the U.K. and Australia the ageing of the labour force has been delayed by the large baby boom generation and the relatively minimal welfare state policies in these countries mean that the costs of supporting an ageing population may be less difficult for public finances, although not for older people themselves. Nonetheless, rhetoric that portrays the ageing of the labour force as a “crisis”, rather than a challenge seems more pronounced in these countries than in Germany or the Netherlands.

In most of these countries, the policies that have been implemented in response to labour force ageing thus far have been

rather limited. Pension reform has been the main thrust of the response in most countries, but it is unclear how much reducing the age at which full pensions are received or changing the funding of pensions will fulfil the aim of keeping older workers in the labour market. Discrimination continues despite legislation against it and retirement will likely continue to be more attractive than work for many older people, while employers will likely continue to find ways to avoid employing older workers.

In developing adequate social policy all of the factors that affect an ageing workforce should be considered in a systematic way, including not only policies relating to employment, pensions and education, but also health care, family policies, and social protection throughout the life course (Naegle and Frerichs, 2002: 5). This will certainly present a challenge for these countries, particularly given a highly charged political climate, in which debt reduction has often been presented as the only legitimate aim of social policy. However, it must be recognized that population ageing has resulted from positive changes in health and longevity, and that we have faced similar demographic pressures before. Hopefully, this recognition will prevent policies from being made in response to rhetoric about an impending ageing crisis, but rather as part of an integrated approach to labour market and social policy.

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*Appendix A, Table 1: Demographic Statistics and Estimates for Study Countries, Selected years.*

	AUS	CAN	GER	NLD	UK	US <sup>5</sup>
Percent of total population aged 60 or older						
1971	12	8	20	15	19	14
2002	17	17	24	19	21	16
2050	28	30	38	33	34	27
Percent of 60+ population aged 80 years or older						
1971	11	8	10	12	12	13
2002	18	18	16	18	20	21
2050	27	29	35	31	32	28
Potential Support Ratio <sup>1</sup>						
1971	7	8	5	7	5	6
2002	5	5	4	5	4	5
2050	3	2	2	2	2	3
Total Dependency Ratio <sup>2</sup>						
1971	61.0	60.4	58.4	59.5	58.9	62.2
2000	48.8	46.5	46.9	46.9	53.2	51.5
2025	57.0	58.0	58.3	56.8	58.9	58.7
Youth Dependency Ratio <sup>3</sup>						
1971	47.3	71.0	36.7	43.1	37.7	46.2
2000	30.5	28.0	22.8	26.9	29.1	32.9
2025	27.7	25.3	19.3	22.5	24.1	29.4
Old Age Dependency Ratio <sup>4</sup>						
1971	13.7	12.9	21.7	16.3	21.1	16.0
2000	18.2	18.5	24.1	30.1	24.1	18.6
2025	29.2	32.6	39.0	34.3	34.8	29.3

**Notes:**

<sup>1</sup> The ratio of the population aged 15 to 64 to the population 65 and older

<sup>2</sup> The number of persons under 15, plus the number 65 or older per 100 persons aged 15 to 64.

<sup>3</sup> The number of persons aged 0 to 14 years per 100 persons aged 15 to 64 years.

<sup>4</sup> The number of persons aged 65 or older per 100 persons aged 15 to 64 years.

<sup>5</sup> Figures for United States (1971) are from 1970 census data.

**Sources:**

Auer and Fortuny, 2000; Blöndal and Scarpetta, 1998;

Luxembourg Income Study Key Figures, <http://www.lisproject.org/keyfigures/povertytable.htm>;

OECD, 2003; Statistics Canada, 1973; United Nations, 1973, 1980, 2002, 2002a.; Author's Calculations.

Appendix A. Table 2: Economic and Labour Force Statistics for Study Countries, Various years.

	Australia		Canada		Germany <sup>1</sup>		Netherlands		United Kingdom <sup>2</sup>		United States <sup>3</sup>	
	M	F	M	F	M	F	M	F	M	F	M	F
Labour Force Participation 25-54												
1972	97.0	45.5	--	--	96.0	49.6	--	--	95.6	56.9	--	--
1982	93.7	54.0	74.1	78.6	94.6	58.3	76.9	67.0	95.4	66.8	81.2	66.3
2002	90.1	71.8	81.0	85.9	93.0	78.2	85.7	84.2	91.2	76.7	84.0	75.9
Labour Force Participation 55-64												
1972	84.2	24.7	--	--	76.4	26.4	--	--	88.0	39.9	--	--
1982	64.9	18.3	41.1	51.8	65.5	27.5	43.3	32.9	70.0	36.1	52.4	41.8
2002	61.1	38.8	50.1	53.7	52.3	33.9	43.0	42.7	65.0	45.7	55.2	55.2
Labour Force Participation 65+												
1972	22.3	3.8	--	--	15.0	5.8	--	--	18.4	6.0	--	--
1982	9.2	3.5	5.3	7.9	6.1	3.0	4.1	2.0	8.7	3.1	5.3	7.9
2002	9.3	3	5.8	6.7	4.4	1.9	0.8	3.6	7.9	3.7	5.5	9.8
Unemployment Rates 2002												
25-54	5.5	5.0	5.3	6.2	7.3	7.7	7.5	1.7	4.1	3.6	3.9	2.8
55-64	5.6	3.3	4.7	5.8	10.3	12.5	11.2	1.5	4.4	1.8	3.3	2.7
65+	1.2	--	0.8	3.1	0.8	1.3	1.0	--	3.7	1.6	2.9	3.9
Full Pensionable age 2002 <sup>4</sup>	65	62.5 <sup>5</sup>	--	--	65	65	--	65	65	60 <sup>6</sup>	--	65 <sup>7</sup>
Average age of retirement 1995	61.8	57.2	--	--	60.5	58.4	--	58.8	55.3	59.7	--	61.6
Total population poverty rate 1990s <sup>8</sup>	14.3		11.9		7.5		7.5	8.1	12.9		12.9	16.9
Elderly poverty rate 1990s <sup>9</sup>	29.4		5.3		7.0		7.0	6.4	20.5		20.5	20.7

Notes:

<sup>1</sup> 1972 Figures for FRG Only

<sup>2</sup> For UK, IIP rates are for 1972, 1984, and 2002

<sup>3</sup> Figures for United States (1971) are from 1970 census data.

<sup>4</sup> Statutory age at which full public pension benefits can be claimed.

<sup>5</sup> Gradually increasing to 65 by 2013.

<sup>6</sup> Gradually increasing to 65 between 2010 and 2020.

<sup>7</sup> Gradually increasing to 67 between 2000 and 2027.

<sup>8</sup> Poverty rate is the proportion of the population with disposable incomes half of median national incomes.

Poverty rate data are for year 1994 for all countries except Canada and US (1997) and UK (1999).

<sup>9</sup> Poverty rate for those 65 or older.

Sources:

Auer and Fortuny, 2000; Blöndal and Scarpetta, 1998; Social Security Administration 1999; 2002; 2003

Luxembourg Income Study Key Figures, <http://www.lisproject.org/keyfigures/povertytable.htm>;

OECD, 1990; 2003.