

**Juan F. Jimeno**  
**DG Economics, Statistics and Research**  
**Research Division**

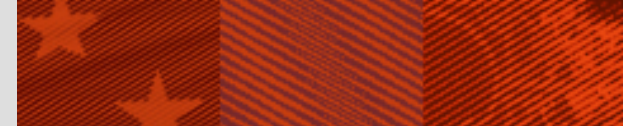
# Labour demand for older workers

**Ageing and Employment Policies**

**ELSA, OECD**

**Brussels, 17 October 2005**

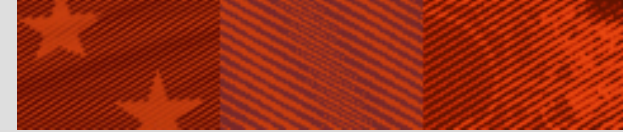
# Warning



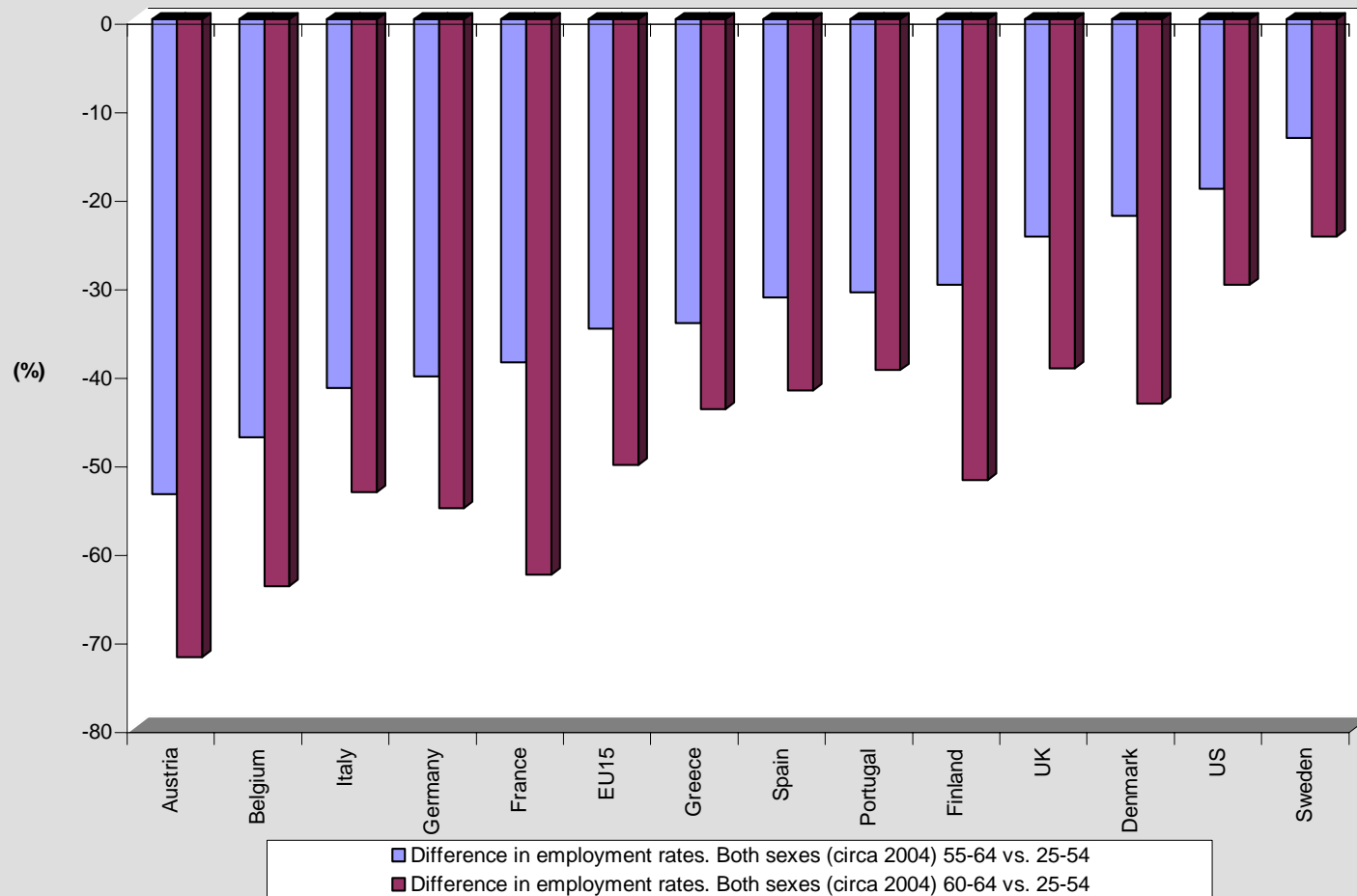
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- **Facts**
  - *Employment rates, educational level of older workers*
  - *Sectoral/occupational composition of older workers employment*
  
- **Determinants of older workers employment**
  - ✓ *Flows from employment to non-employment*
  - ✓ *Flows from non-employment to employment*
  
- **Policy responses**
  - *Labour market reforms*
    - *Make Employment Protection Legislation more neutral*
    - *Reduce soft-landing schemes towards retirement*
    - *Get wages closer to productivity (reduce seniority-based pay systems)*
    - *Avoid measures inspired by the “lump of labour fallacy”*
    - *Reduce reservation wages of older workers*
  
  - *Investment in skills*
  - *Pension reforms*
  
- **Concluding remarks**

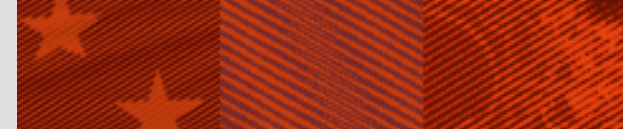
# Employment rates



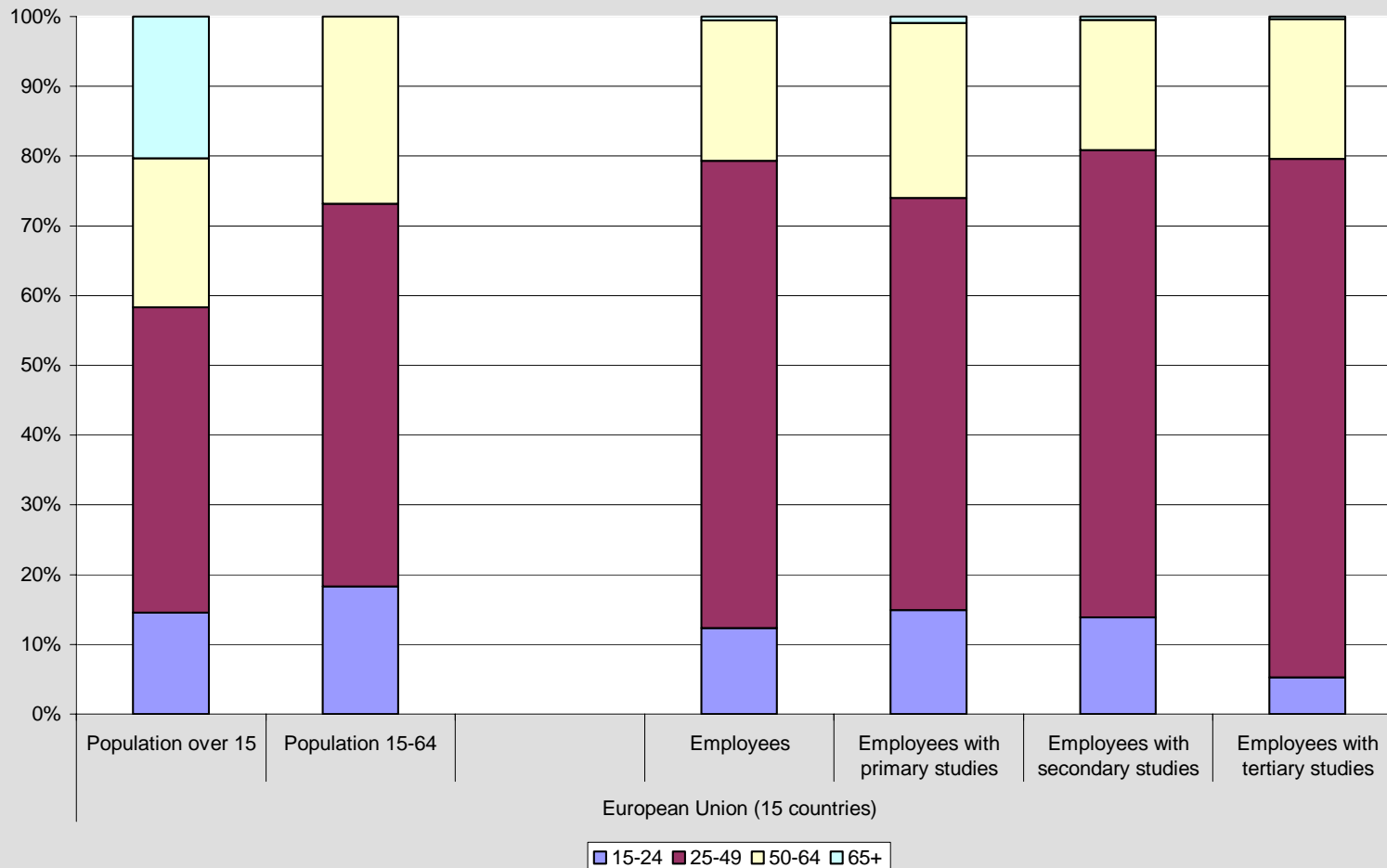
Older workers have lower employment rates in all countries, but there is much variation across countries in the extent to which older workers are employed relative to prime-age workers.



# Educational level

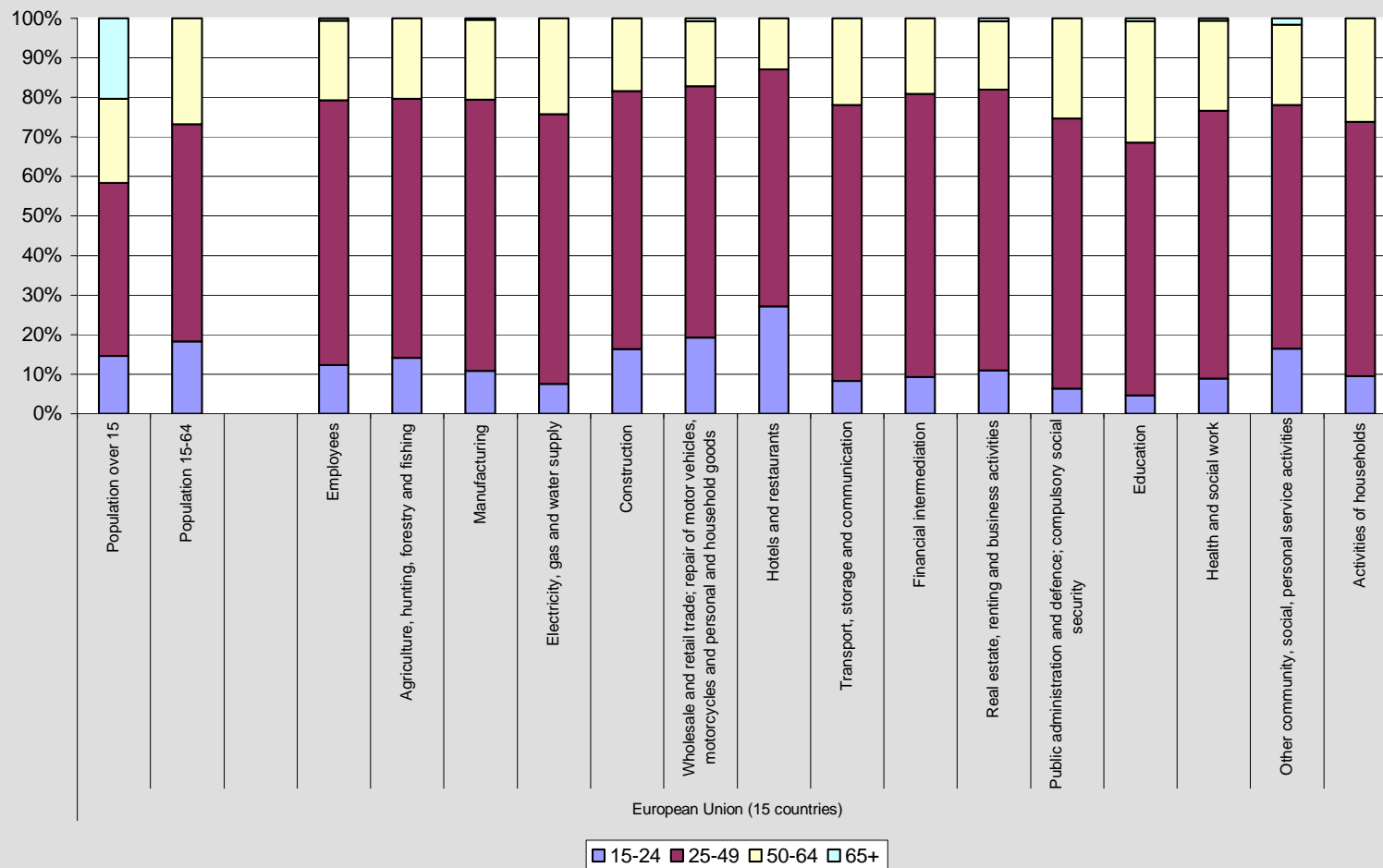


**Older workers have lower educational attainment. This is especially the case in Southern European countries, where the educational boom is more recent**



# Sectoral composition

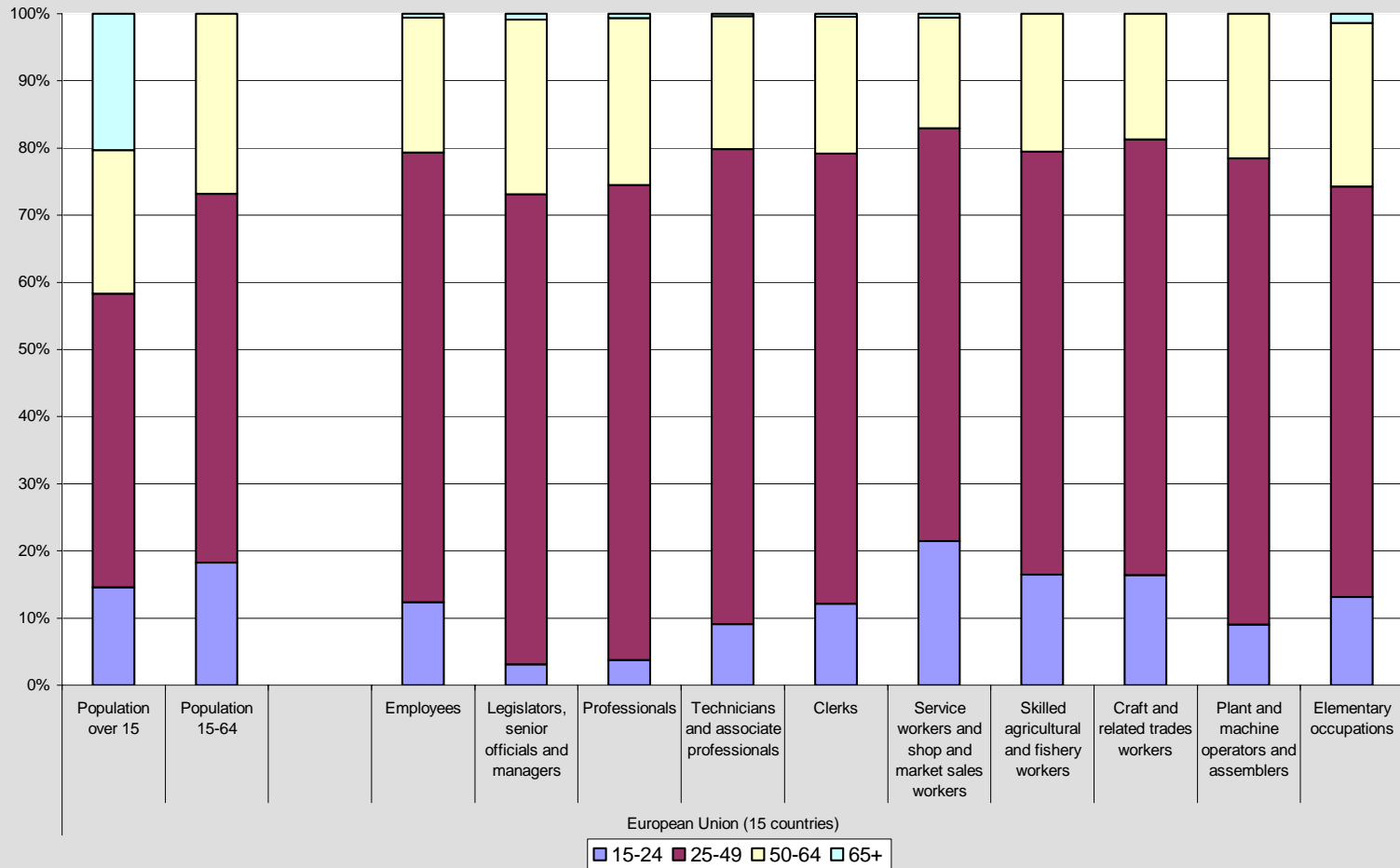
Older workers are over-represented in **Utilities, Transportation, Public Administration, Health and social work, Activities of households;** under-represented in **Construction, Trade, Hotels and restaurants, Real estate, renting business activities**



# Occupational composition



**Older workers are over-represented within *Managers, Professionals, Elementary Occupations*; under-represented within *Service workers***





## Flows from employment to non-employment: Driving factors

### 1. *Labour costs: Wages increase with age*

#### ✓ **Seniority-based pay systems**

- Cohort size effects
- Bargaining power increases with age

#### Policy responses:

- **Reform wage determination**
- **Get wages closer to productivity**



## Flows from employment to non-employment: Driving factors

### ***2. Productivity: Does it decline with age?***

- Physiological fact –Age bias
- Negative externalities ?
- Worsening of employment conditions

### **Policy responses:**

- **Improve employment conditions**
- **Lifelong learning**
- **More flexible work arrangements for older workers**



## Flows from employment to non-employment: Driving factors

### **3. Employment Protection Legislation**

- Different provisions by age
  - ✓ Alternatives available for older workers but not for younger workers (Soft-landing schemes towards retirement)

#### Policy responses:

- EPL: Make firing costs more neutral
- Firing costs should not depend on seniority
- Protect workers, not jobs
- Use unemployment benefits, rather than severance payments, as a compensation for losing jobs
- Introduce some “experience-rating” in unemployment benefits, like in the US



## Flows from employment to non-employment: Driving factors

### 4. “*Social acceptance*”

- ✓ Less “stigma effects”
- ✓ Lump of labour fallacy: “Restricting the supply of older workers increases the employment opportunities of younger workers”
  - Logically unsound
  - None empirical support whatsoever
- Age discrimination: Stereotypes?
  - Evidence of positive effects of anti-discrimination laws in the US

### Policy responses:

- Banish any idea inspired by the “lump of labour fallacy”
- Forbid age discrimination (specially, collective bargaining agreements ruling on hiring and firing age-related practices)



## Flows from non-employment to employment: Driving factors

### 1. *Skills and the arrival of job offers*

- ***Many dimensions of “skills”:***
  - Education, “General” human capital
  - Experience, “Specific” human capital
  - New organization of work: Versatility, multi-tasking, team work, adaptability...
  - Labour demand is demand for composition of skills embodied in workers
- ***Older workers have a different composition of skills...***
  - Less general human capital
  - More specific human capital (Experience, EPL creates incentives for investment in specific skills)
  - Technological changes bring about changes in the demand of skills (skill-biased technological change)
- ***...and less incentives to invest in training***
  - Less time to extract returns from the investment



## Flows from non-employment to employment: Driving factors

### ***2. Non-employed older workers have high reservation wages***

- ✓ Less mobile (across sectors, occupations, regions...)
- ✓ Earn non-wage income (benefits)
  - ✓ Soft-landing schemes towards retirement
  - ✓ “Generosity” of pension systems
- ✓ In some cases, return to work imply loosing benefits

### **Policy responses:**

- **Get creative at designing programs to make compatible retirement and (part-time) employment**
- **Do not use pension systems to substitute for unemployment protection at later working ages**
- **Use pensions for their purpose not to facilitate labour force adjustment**



## Flows from non-employment to employment: Driving factors

### ***3. Imperfect substitution between old and younger workers***

- ✓ **Changes in the sectoral composition of employment towards activities in which younger workers have a competitive advantage**
- ✓ **Changes in the occupational composition of employment towards activities in which younger workers have a competitive advantage**
- ✓ **But also, shortage of experienced workers in some industries**

### **Policy responses:**

- **Be aware**
- **Get retirees involved in the training of younger workers**



## Flows from non-employment to employment: Driving factors

### ***4. Age discrimination: Stereotypes?***

- **Evidence of positive effects of anti-discrimination laws in the US**



- **Higher employment rates of older workers are absolutely necessary for...**
  - *Maintaining economic growth*
  - *Achieving high overall employment rates*
  - *Sustaining the “Welfare State”*
- **Low employment rates of older workers is the combination of labour demand and labour supply factors...**
  - *EPL, wage costs, and soft-landing schemes raise the flow of older workers from employment to non-employment*
  - *Soft-landing schemes and “generous” pension systems restrict the labour supply of older workers, shutting off the flows of older workers from non-employment to employment*