

# BULLETIN

## Population Ageing and Labour Force Potential

### An Unbalanced Debate

Population ageing is seen by many commentators as presenting a problem yet the nature of the problem is not always clear. The solutions proposed often seem to introduce considerations which reflect the vested interests of particular groups who are following other agendas: employers, trade unions, providers of educational programmes, the organisations responsible for training and labour market schemes, pension funds, insurance companies, and government agencies responsible for social security.

Some of the remedies proposed fail to take account of the need for change in other areas than the one being considered. Particularly striking is the disparity between the enormous amount of attention given to fiscal policy and financial market reforms for dealing with pensions and social security and that given to the scope for redrawing the labour market framework within which the economic activity of older people takes place.

This *Bulletin* deals with the labour market side of the debate. It concentrates particularly on the central importance of understanding the relationship between productivity and ageing in its various guises.<sup>1</sup>

<sup>1</sup> This *Bulletin* draws on both previous IER research and the results of a recent collaborative study conducted for the European Commission, led by Robert Lindley of the Institute: 'Population Ageing and the Labour Market in Europe, cited as 'PALME'.

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### The Success of Population Ageing

Population ageing arises, in general, out of two of the most positive achievements of Western European societies: the decline in mortality rates (life expectancy having risen by 10 years in the last half century) and the increase in control that women can exercise over their fertility (the average total period fertility rate having fallen from about 2.5 during the baby boom of the early 1960s to about 1.5 in the mid-1990s).

That this should lead to a 'problem' is all the more disconcerting when we consider that both factors also imply a greater capability to work among older people generally and women of child-bearing age.

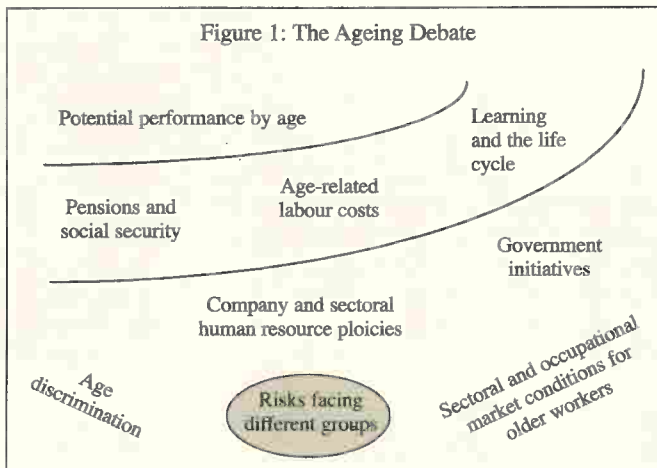
Moreover, allowing for the much promoted 'learning' and 'knowledge' society scenarios, there would seem to be every prospect of being able to raise both labour supply and productivity precisely *because* of the ageing of the population. More skilled, knowledgeable and experienced people will be available for work at a time when the demand for them will be rising.

Alongside this, the high levels of youth unemployment in the European Union (averaging about 20 per cent of the youth labour force or 10 per cent of the population aged 15-24 years in the mid-1990s) would be tempered by the decline in the size of the youth cohort and the longer time they have to prepare within the initial education and training system for working life ahead.

Altogether, these factors would seem to add up to a somewhat positive rather than problematical view of the *consequences* of population ageing as well as its *causes*.

### Population Ageing from a Labour Market Perspective

There are, however, many ingredients in the analysis of population ageing and its consequences and in the related policy debate. The key aspects from the labour market perspective are summarised in Figure 1. At the core of the



debate, there is considerable confusion about how the *potential* performance of people varies with age. There is uncertainty about how far learning can be extended over the life cycle and under what conditions it will flourish to the benefit of economic growth and social cohesion. The effectiveness of many training, employment and work experience schemes is poorly understood.

Age-related labour costs are seen to be a factor inducing early retirement but the remedy is by no means obvious. The financial sustainability of state policies on pensions and social security has come into question compounded by an uncomfortable mixture of motives and analysis over the merits of different forms of public and private sector provision. Company and sectoral human resource policies have been criticised for short-sightedness, yet the business case for ignoring the short-term cost-benefit calculus in favour of long-term considerations is not self-evident in practice. This is all the more so in those sectors and occupations, such as steel and shipbuilding, where market conditions have led to the need for dramatic adjustments in employment levels. Here and in countless other less extreme cases, employers and trade unions must make invidious choices in the course of large-scale redundancy.

A further ingredient is the presence of age-discrimination. But this is far from being the clear-cut exercise of prejudice against older people. It is wrapped up in an economics of the employment relationship that seems to be unremittingly against the interests of older people. Perceptions of age discrimination are also clothed in a sense of the world moving on and there being no time to tend to the casualties of economic adjustment if they happen to be slightly lower in the ranking of the 'deserving disadvantaged'. Public sympathy has tended to be with the young unemployed who have not yet had proper jobs to lose in the first place.

Finally, implicit in the ageing debate are different views of the risks facing the various socio-economic groups and the degrees to which these should be shared across individuals and households.

### Productivity and Ageing

At the core of the ageing debate, as summarised in Figure 1 from the labour market perspective but also seen more generally, are sets of presumptions about the relationship

between ageing and productivity. Most of these imply that population ageing presents a problem for *maintaining* the growth of economy-wide productivity at the very time when it needs to be *increasing* in order to deal with the 'burden of dependency'. The research evidence, however, offers some fairly robust conclusions about how potential productivity varies with age and these shed rather different light on the nature of the ageing 'problem'.

#### ... at the individual level

Starting at the level of the individual, the key conclusions of the available research are:

- Physiological performance: strength, reaction speeds, sight, balance, etc. decrease with age after rising to peaks among 20-35 year olds but the variation within each age group is large, the overlap between them is very high, and the variation increases with age.
- Intelligence and cognitive ability: IQ test results do not alter much up to age 65. Memory and speeds of processing information decrease to a degree with age.
- Social skills and awareness: these tend to increase with age and experience in a variety of contexts.
- Motivation and capacity for learning: these depend not so much on age but on prior experience of learning which both encourages people to continue learning and raises their effectiveness in learning.

So whereas the nature of change characterised in the rhetoric of the information society might suggest that the game is up for stereotypical older workers, it seems that there is everything to play for because the stereotypes are wrong.

#### ... at the organisational level: myth and reality

Occupational performance in relation to age will depend not only on the potential performance of people of different ages but on the varying degrees to which the jobs concerned call for the qualities in question. One major review of the research findings produced by industrial gerontologists and psychologists concluded that:

'there were no significant differences in the job performance of older and younger workers...in almost every case variations within age group far exceed the average difference between age groups.'<sup>2</sup>

This conclusion is not reached without some caveats; scientists, for example, do appear to show significant performance variation by age. More generally, comparisons between older and younger workers exclude those who have been made redundant or retired early. It cannot be assumed that the latter would have performed as well as the employed older workers had they not left their jobs. However, the balance of evidence is unaffected significantly by this factor.<sup>3</sup>

<sup>2</sup> Warr, P.(1994, p.10). 'Age and Job Performance'. *Work and Ageing: A European Perspective*. Eds. J. Snell and R. Cremer. London: Taylor and Francis.

<sup>3</sup> Moreover, whilst economists might especially find this conclusion puzzling, their theoretical interpretations produce confusing insights also. See Lindley, R.M. (1999, p.16). 'Labour Market Strategies to Reinforce the Success of Population Ageing.' Coventry: Institute for Employment Research, University of Warwick.

In addition, there are certain occupational characteristics and contexts that may place older or younger workers at a relative disadvantage. For example, on the one hand, there is evidence that heavy manual work, the need for rapid learning that makes previous knowledge obsolescent, and working under considerable time pressure causes more problems as age increases. On the other hand, jobs requiring substantial knowledge-based judgement exercised under limited pressure of time tend to favour more experienced workers.

However, the *pattern* of sectoral and occupational change could be quite favourable to older workers. The PALME project has conducted a number of long-term multi-sectoral simulations. These suggest that the concentration of employment growth in services is likely to intensify. The emphasis on quality of service then plays to the better social skills and experience of older workers in a number of areas, notably, general retailing, financial services to households, business services and consulting, and caring activities. This effect will be reinforced by the presence of increasing numbers of older customers who will tend to respond better to being served by a member of their peer group.

The more specific occupational projections within different sectors indicate a shift in occupational structures towards more skilled knowledge-based professional and para-professional work and towards 'management' and quite skilled personal service occupations. These occupations place older workers at an advantage providing certain structural constraints on the training front are tackled (see below).

Unfortunately, the *pace* of change is less favourable to older workers in that most commentators stress the growing importance of rapid learning situations and acute time pressure. Even this aspect of change needs to be approached cautiously though. Few of the relevant studies allow for cohort effects, i.e. differences between cohorts in their experiences of learning and work at the same ages. Even if 30 year-olds perform better than 60 year-olds at a point in time, this may be because the latter did not receive adequate preparation for adapting to changing work contexts and learning requirements when they were 30 (and later), not the fact that they are now 60.

### Barriers to Retaining Older Workers

From the above, it would seem that the key barriers to the retention and development of older members of the labour force are their previously truncated learning profiles, the lack of current training opportunities, and the lack of *appropriate* training which builds effectively on what they know and how they learn best.

At the same time, the presence of strongly age-related labour costs reinforces the effects of those factors. Recruiting older workers of rather unknown competence for job structures that are evolving more rapidly than hitherto means that it may be a more risky and expensive process than opting for a much younger person whose education and training is more recent and transparent. If the company is funding the training, the shorter pay-back period will also militate

against the older candidate, whether being a potential older recruit or an existing older employee. However, the higher turnover of younger staff needs to be taken into account as does the fact that the faster the change in job content, the shorter the pay-back period will, in any case become.

Nonetheless, even if the recruitment and training processes can be assumed to go well, the wage structures may subsequently reward job tenure and/or age rather than productivity and this offers possible cost savings by concentrating on younger employees. Health costs and pension liabilities also pose further potential problems for the employment of older workers, whether through absence from illness or exit through disability. In these circumstances, the use of early retirement rather than tackling the need to re-adjust the age-reward structure offers a short-term option which can be all too attractive to employers and, indeed, trade unions.

### Realising Potential

#### ... by creating a wider consensus

The first key to realising the potential of older people in the labour market is to ensure that the different actors in the system share an understanding of:

- the evidence on the potential performance of this group,
- the implications of population ageing and structural change for the existing and other potential older members of the labour force in future,
- the different ways in which their actual scope for contributing to the economy can be undermined, thus severely limiting the benefit they and society can derive in terms of employment, income and social integration.

#### ... by avoiding 'detachment' in the first place

The second key is to use that consensus to keep older workers attached to the labour force *and* to their employers because once detached it is difficult to reverse the process however ingeniously designed are schemes to re-integrate such workers.

The evidence across many types of training and work experience scheme is that they fail to tackle the real problem behind long durations of unemployment. Instead, they artificially truncate the duration distribution, in effect, moving the long-term unemployed temporarily from the back of the queue for jobs and then adding them to the front of the queue only to build up towards a long duration again. This means that every effort needs to be made to avoid unemployment, if it does happen, from developing into long-term unemployment and then acting as a route out of the labour force altogether. At the heart of any strategy to deal with adult long-term unemployment must be the use of an explicit or implicit subsidy to an employer in the mainstream of the market place or the development of social enterprises of one kind or another.<sup>4</sup>

<sup>4</sup> See Lindley, R.M., R.E. Shackleton and C. Simm (1999, forthcoming). *Intermediate Labour Markets*. London: DfEE Research Report.

### ... through 're-positioning' at an earlier stage

Given the difficulty of dealing with older people once they are unemployed, the imperative is to keep them attached as far as possible to a mainstream employer by re-positioning them at an earlier stage in their employment, i.e. focusing on prevention rather than cure. This may involve job rotation (internally or externally with related organisations) to provide the worker with a broader set of roles which he or she could play in the organisation, transfer to a less demanding role where that is the real problem, or playing the re-deployment card at the later stage more concertedly, if this is unavoidable.

### ... supported by continuing training and development

In order to facilitate re-positioning at an earlier stage, employers must have sufficient capacity for training and development or, especially if they are small and medium-sized enterprises, sufficient access to an external market which is able to provide a suitable service. In order to facilitate re-deployment somewhat later in the day,

employers have to extend their provision of these opportunities for learning over a much longer period of working life, if not actually throughout the period to normal retirement. But accompanying the development of organisational adaptability in this way, it is still necessary to address the labour costs issue as it affects personnel decisions. Finally, sources of age discrimination embodied in the design of the policy regime itself and /or the practice of decision-makers in the markets for labour and learning need to be tackled.

### Promoting efficiency and equity: an opportunity and imperative

So, during the next two decades, there is scope for pursuing a strategy for dealing with the consequences of population ageing which is firmly rooted in the real economy and aims to promote efficiency and equity at the same time. But there are no grounds for complacency. If this opportunity is not grasped, the extent of population ageing in subsequent decades will make the challenge all the greater.

## Project Update: major research projects currently underway at IER

The New Deal for Young People/New Deal for the Long-term Unemployed: the impact on employers and employment – part of the national programme of evaluation of the New Deal, the project seeks to quantify the impact of the New Deal programmes on employers' recruitment practices and employment. Funded by the Employment Service and the Department for Education and Employment, the project is being undertaken in partnership with The National Centre for Social Research. Surveys will be conducted in the Autumn of 1999. Reporting in Spring 2000.

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Living and working in Hackney: a longitudinal survey of people living in the London Borough of Hackney – this survey 'tracks' the labour market experience of a group of Hackney residents originally interviewed in 1997. The study will cover a five year period and the second sweep of the survey was carried out at the end of 1998. Further surveys will be carried out on an annual basis. Funded by Hackney Council, annual interim reports are made with a final report in 2002.

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Academic research careers in Scotland (ARCS) – a major study of contract research staff in Scottish universities. Funded by the Scottish Higher Education Funding Council. A census of contract research staff was conducted in 1998 and respondents will be re-interviewed in 2000. Career changes over the intervening two year period are being monitored. A number of institutional and individual case studies are also being conducted. Reporting in Spring 2001.

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