

Labour flexibility and older worker marginalisation: The need for a new strategy

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*"A man's years should not be counted,
until he has nothing else to count."*
R. W. Emerson

I. Introduction

In Western Europe mass unemployment has hit some groups particularly hard. Much attention has been devoted to teenagers whose efforts to enter the employed labour force have been frustrated by the limited availability of new jobs. Far less attention has been paid to workers in their fifties and sixties who have been those most affected by the job-shedding that has gone on since the mid-1970s. One difficulty is that their plight is concealed by the statistics typically used as indicators of labour market performance. This article considers the extent of labour underutilisation among older workers, reviews the factors that have influenced their absolute and relative vulnerability, and argues that changes in patterns of labour use and the chronic labour surplus require new forms of income support if older workers are not to be marginalised and, in many cases, pushed into "premature poverty".

II. The employment of older workers in Western Europe

The measured unemployment rate is not the best indicator of older workers' labour market position. Many older workers withdraw from the labour market if unemployed, either in discouragement or into "early retirement", and, as argued later, these tendencies have been accentuated with the lowering of the normal retirement age and as a result of policy shifts.

Those shifts have been dramatic. In the 1950s and 1960s the emphasis in the tight labour markets of industrialised countries, including the United States and Western Europe, was on keeping older workers in the labour

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force. Efforts were concentrated on raising their productivity and on providing them with better opportunities and working conditions. Job redesign, retraining, placement techniques, all were boosted.¹ In the United States the 1967 Age Discrimination in Employment Act was passed to prevent age-related discrimination in the recruitment, treatment and dismissal of workers, and it is surely no coincidence that from 1969 onwards men aged 55 to 64 no longer had a higher unemployment rate than those aged 25 to 54, and from 1973 onwards had a distinctly lower one.

Since the rise of mass unemployment in Western Europe official policies towards older workers have radically changed, and in many countries concerted efforts have been made to reduce the labour supply of those over the age of about 55. Thus, in the Federal Republic of Germany men aged 60 to 65 have been encouraged to retire early, so that by 1980 only a third of that age group were employed. In 1984, as unemployment continued to rise, the Government passed early retirement legislation providing subsidies to companies in which workers take early retirement at 58 and are replaced by unemployed persons or young workers. Until 1983 the French Government operated a scheme by which workers over 55 were paid a lump-sum if they retired early, provided they were replaced by someone from particular groups, notably unemployed youth and single parents. In Italy the steel industry instituted a scheme in 1984 to encourage workers to retire at 50, and in 1985 the Government introduced legislation to allow pensioned partial retirement for workers in hard-hit industries two years before the legal retirement age, provided they reduced their working time by 50 per cent and the firm agreed to increase employment correspondingly. In Britain the Job Release Scheme was introduced in 1977 with the objective of lowering registered unemployment by enabling workers to leave the labour force one year before they reached the National Insurance retirement age; if the worker was employed, the employer had to replace him by someone from the unemployment register, partly to promote the employment of young workers.

This radical policy shift has meant older workers are being increasingly marginalised, without that necessarily showing in a worsening of their relative unemployment rate. According to the 1983 EEC Labour Force Sample Survey, the active unemployment rate (defining the unemployed as just those seeking and available for work in the reference week) was highest for teenagers, declining to a low point for the 45-49 age group, then rising slightly for those aged 50-54. In all ten EEC countries of the time, the age groups 50-54, 55-59 and 60-64 had unemployment rates well below the overall average. In most of them, older women's unemployment rates were higher than the male equivalents, except in the United Kingdom where the reverse difference was so great among those aged 55-59 that the EEC weighted average was higher for men in that age group. For those aged 60 to 64, except in France, the male rate was the higher, a reflection of the earlier statutory retirement age of women and the fact that open unemployment was a rare alternative to economic activity for women.

Table 1. Long-term jobseeking in the EEC: Percentage of age group of jobseekers having sought work for 12 or more months, 1983

Country	Age group			
	14-19	20-24	25-54	55+
Belgium	32.5	57.1	74.3	76.0
Denmark	15.2	24.8	37.6	48.1
France	28.7	36.5	45.0	76.4
Germany, (Fed. Rep.)	26.7	31.8	43.1	48.6
Greece	27.9	36.3	37.3	(69.0)
Ireland	22.0	32.7	41.2	51.9
Italy	47.0	63.1	58.0	41.1
Netherlands	33.0	43.7	54.6	61.0
United Kingdom	34.3	47.3	49.4	56.8
EEC (10)	35.3	46.9	49.4	59.0

Note: Figure in brackets indicates fewer than 5,000 jobseekers. There were too few observations in Luxembourg to justify computation.

Source: EEC: *Labour force sample survey, 1983*.

Although older workers appear to have relatively low open unemployment rates, this largely reflects statistical practices and the tendency for older workers to withdraw in discouragement from the labour force into passive unemployment. As table 1 shows, the incidence of long-term unemployment in the majority of EEC countries was highest among older workers.² Most notably, in Belgium and France, partly reflecting the social security system, over three-quarters of all those aged over 55 had been seeking work for over a year. In reality, most of the unemployed in their fifties have no prospect of obtaining a job again in circumstances of chronically high overall unemployment. Moreover, because of the nature of their jobs, many older workers experience recurrent job loss, which easily leads to long-term unemployment.³

Another reason why the statistics on older worker unemployment are misleading is that, often because of long-duration unemployment, many older workers drop out of the labour force *irreversibly*. One British study, using data from 1977, found that where the registered unemployment rate was under 4 per cent, about 46 per cent of the over-45 age group were retired; where it was over 10 per cent, no less than 56 per cent were retired.⁴ Once "retired", workers are unlikely to return to the labour force, for reasons discussed later. Moreover, over prolonged periods of high overall unemployment the potential labour supply from older workers may drop, so that in any recovery of aggregate demand their share of total employment may also drop, a ratchet effect that can be compounded by changes in what is expected from and by older workers.

Table 2. Activity rates (%) by age and sex: Weighted average for EEC, 1983

Age	Both sexes	Male	Female
14-24	49.7	53.7	45.7
25-49	77.1	96.1	58.2
50-64	51.4	71.7	32.8
65+	4.7	7.8	2.6

Source: EEC: *Labour force sample survey, 1983*.

Perhaps the clearest evidence of older worker marginalisation can be found in the labour force participation rates by age group. The populations of industrialised countries have been steadily ageing, while the labour force participation rates of older groups have declined.⁵ For instance, in the United Kingdom, by the early 1980s the over-65s accounted for almost 15 per cent of the population, a proportion that had trebled over the past 100 years. But whereas in 1881 three out of four men aged 65 and over were in some form of employment, by 1981 the ratio was down to one in ten.⁶ By then the participation rates of slightly younger groups had gone into rapid decline as well. Between 1975 and 1982 the activity rate of men aged 60 to 64 fell from around 85 to under 70 per cent.⁷ The trends were similar in other EEC countries, so that by 1983 only about half of those aged 50 to 64 were in the labour force (table 2).

There is no doubt that the activity rates of older groups have continued to decline, actively encouraged by governments and employers. But does the trend partially reflect, perhaps, voluntary moves towards earlier retirement or does it simply reflect a process by which older workers are being marginalised? The bare data tell us little on that. Yet, why should voluntary early retirement have increased so rapidly in a period of economic stagnation and no correspondingly rapid increase in incomes? Is it not likely that the decline primarily reflects discouragement, often due to long-term unemployment that results in workers exhausting their unemployment benefit entitlement or abandoning hope of ever finding another job? We return to these issues in section IV.

By 1983, in most European countries the majority of older workers in employment had only part-time jobs. Among men, particularly high proportions of the employed aged 60 and over were working part time in France, the Netherlands and the United Kingdom, and evidently most male part-time workers were older workers, a fact consistent with their relatively low average incomes. Among women, in most EEC countries the great majority of those aged 50 and over who had any job at all were in part-time jobs, the highest proportions being in Denmark, the Netherlands and the United Kingdom.

Table 3. Short-time working by age and sex, EEC, 1983 (% working less than their usual hours)

Country	Age group			
	14-19	20-24	25-54	55+
<i>Male</i>				
Belgium	6.7	7.8	7.6	10.8
Denmark	12.3	12.4	12.0	13.2
France	9.9	9.5	11.1	11.7
Germany (Fed. Rep.)	6.5	6.2	6.7	8.6
Greece	14.5	14.5	14.8	13.4
Ireland	6.1	6.6	7.9	7.8
Italy	7.1	6.7	7.3	9.3
Luxembourg	7.4	6.4	8.2	7.2
Netherlands	12.4	14.2	14.9	13.7
United Kingdom	30.6	37.4	36.9	32.7
<i>Female</i>				
Belgium	8.9	8.0	8.3	8.9
Denmark	20.6	19.5	18.4	14.4
France	10.2	12.8	11.9	9.8
Germany (Fed. Rep.)	5.9	6.8	6.8	7.2
Greece	14.4	13.7	16.6	13.1
Ireland	5.6	7.3	10.2	7.2
Italy	7.0	7.4	9.8	10.9
Luxembourg	7.3	7.5	8.7	6.2
Netherlands	13.3	18.2	13.8	12.7
United Kingdom	26.1	33.2	30.7	25.2

Source: EEC: *Labour force sample survey, 1983*.

Probably because so many older workers have either been made redundant and have withdrawn from the labour force or are in part-time jobs, *proportionately* fewer older workers were in what has been called "marginal employment" – defined as working part time but seeking full-time jobs, doing a temporary job when needing or wanting a permanent one, or looking for another job because of the fear or certainty of the current one ending. Nevertheless, many older workers were also in one or more of those situations. So, while there was no great age differential (table 3), this is another means whereby older age groups are marginalised.

In sum, there is clear evidence that full-time, secure employment is the lot of a dwindling minority of older workers – in the United Kingdom, for instance, by the early 1980s less than half of all men aged 60 to 64 were in full-time jobs, a sharp decline since the 1970s.⁸ In the Netherlands the figure was less than a third, while only about two-thirds of men aged 50 to 59 were in full-time jobs. Older workers seem to have become a floating labour

reserve, an auxiliary source of labour supply, a tendency illustrated by the fact that there are relatively large cyclical movements in their level of employment, around a long-term decline.⁹ The picture is one of a progressive marginalisation of older workers. This has taken various forms, but the most important has been induced withdrawal from the labour force, which has contributed to the lack of attention to their plight.

III. The causes of marginalisation: Insecurity from flexibility?

Untangling the relative significance of factors influencing the position of older workers calls for thorough research. But there are strong grounds for arguing that growing "flexibility" in patterns of labour use has greatly contributed to the deteriorating situation. This section will concentrate on that issue, the following one considering the links between flexible labour costs and older worker employment, with section V reviewing the relationship between the social security system, pensions and labour supply.

Older workers have been severely hit by the prolonged labour market depression, which has led to a weakening of conventional rules and practices that gave older workers some protection against displacement and income erosion. In the course of industrial restructuring, or the "deindustrialisation" accelerated by the mass unemployment of recent years, skilled manual workers have suffered acutely. Some studies have even found that, relative to older workers in less skilled jobs, the unemployment of older skilled workers has risen sharply.¹⁰ Skilled jobs in manufacturing have been particularly hard-hit by the labour market depression in Western Europe, and they have also declined in North America. It may be that in mild recessions younger groups are more prone to rising unemployment, since the initial impact is the virtual cessation of new hiring. But once recessions take the form of widespread layoffs and redundancies, and once labour hoarding ceases to be attractive to employers as expectations of reviving demand decline, then older workers are first in the firing line.

Of course, the labour market depression in Western Europe has coincided with an acceleration in the long-term relative and absolute decline of manufacturing employment; there has also been a further decline in the share of the labour force in agriculture. In both sectors the workforce has been relatively old. In particular, the prevalence of self-employment and family work in agriculture has allowed people to continue working until a fairly old age. Throughout Western Europe older workers have formed a relatively high proportion of the agricultural labour force and have predominated in self-employment in both agriculture and other sectors (table 4).

Extensive industrial restructuring has hit older workers particularly hard, not just because many workers in declining industries have been old but because once unemployed they have had extreme difficulty in getting jobs elsewhere. A major question is whether restructuring has led to a longer-

Table 4. Older workers (aged 50+) by sex, sector and work status, EEC, 1983 (as % of all workers in category)

Country	Male				Female			
	Agricultural		Non-agricultural		Agricultural		Non-agricultural	
	Employees	Non-employees	Employees	Non-employees	Employees	Non-employees	Employees	Non-employees
Belgium	22.6	41.8	19.3	32.0	0.0	35.3	8.9	28.1
Denmark	15.5	49.0	19.4	40.2	9.0	43.0	17.6	31.4
France	28.0	50.0	16.9	33.3	25.9	50.3	15.8	33.5
Germany (Fed. Rep.)	20.1	49.8	20.6	35.8	23.0	45.5	16.5	34.1
Greece	32.6	49.5	20.5	30.5	22.2	43.3	12.1	22.3
Ireland	20.5	47.9	17.0	28.1	11.1	47.3	10.8	36.0
Italy	39.5	52.7	20.6	29.3	23.0	45.6	11.1	25.1
Luxembourg	0.0	42.5	15.5	33.8	0.0	43.5	8.6	28.9
Netherlands	17.3	39.8	17.5	28.8	6.8	32.5	10.0	22.3
United Kingdom	21.7	39.8	24.6	28.9	29.0	43.8	22.5	27.9

Note: "Employees" are salary- and wage-earners; "non-employees" include self-employed and unpaid family workers (in the United Kingdom there were no family workers recorded).

Source: EEC: *Labour force sample survey, 1983*.

term worsening of the position of older workers, so that future cohorts will suffer as well, or just a worse position for the current generation. Various trends provide grounds for long-term pessimism.

A feature of restructuring is the growth of the service sector and of service-function jobs. This reflects the evolving technical division of labour associated with greater flexibility in labour use patterns. We have alluded elsewhere to the growing fragmentation of the labour force.¹¹ Here we will merely highlight the changes that bear most directly on the position of older workers. There has been a decline in manual jobs involving craft skills learned through apprenticeships, on-the-job training and experience, traditionally the preserve of older male workers. Such jobs, almost definitionally, implied a slow evolution of the technical division of labour. Yet the collapse of craft skills seems to be a feature of growing labour flexibility. That does not necessarily mean there has been widespread "deskilling", but there seems to have been a process by which a small core of professionally or technically qualified workers have gained in income, status and security, while many jobs have become both more "narrow" in the range of tasks involved and more "static" in that work experience in them does not lead to an upgrading of competence, status, productivity or security. Correspondingly, there have been more "ports of entry" to employment.

In effect, large-scale horizontally integrated job structures have been giving way to more loosely linked systems in which promotion based on

seniority, experience and length of service is more limited and where a higher premium is placed on flexibility and adaptability. With more ports of entry into employment, and more narrow, static jobs, the potential for the substitution of relatively low-cost or exploitable workers for others is greater than in the traditional "craft" mode of production. The growing interchangeability of workers has facilitated technological innovation and employers' ability to adjust more flexibly to changes in the level or structure of demand for their products. It has also led to less labour hoarding in times of recession, since replacement labour is more readily obtained.

Another feature of the increasingly flexible labour process is the shift from the exclusive use of regular full-time paid employment towards what could be called the Japanese pattern, in which there is a core of secure, well-paid workers coexisting with a growing periphery who are employed intermittently, part time or only indirectly. Greater use of casual workers, part-timers, contract labour and nominally self-employed workers might have been expected to improve the job prospects of older workers since many older workers have traditionally either worked part-time or worked on an own-account or casual basis, combining work with partial retirement. The reality is rather different, since the shift to such flexible forms of labour has taken place in the context of a massive labour surplus. Consequently, older workers have had to compete for even those jobs for which they are best suited and which some other groups would not want if regular full-time paid jobs were available.

So the movement away from lifetime, secure employment, the growth of narrow, static jobs for which workers are interchangeable, and the growth of casual indirect forms of employment have all encouraged the substitution of other groups for older workers, or rather have increased the substitutability of different groups and the impact of relative costs and the external labour market. In particular, there seems every likelihood that, with the diminishing segregation of jobs by age and sex, there has been a substitution of women for men in their fifties and sixties and a substitution of youth for older workers. In any case, the secular decline in older male participation rates in industrialised countries has certainly coincided with a steady increase in the labour force participation rates of middle-aged and older women.¹² Moreover, in countries such as the United Kingdom more older women stay in the labour force after pensionable age than do men. Much more work needs to be done on the extent of substitution of women for older, predominantly male workers.¹³ But clearly women have been moving into part-time and casual jobs, particularly in services, essentially those traditionally occupied by older male workers. Nobody should draw the conclusion that a way to help older workers would be to hinder women's access to such jobs. That would be absurd. What it does mean is that if older workers are being displaced their disadvantaged position needs to be given more attention.

There also seems to have been a substitution of young for older workers, a tendency boosted by the widespread efforts to lower youth unemployment.

Huge numbers of teenagers have entered the labour market in recent years, and a mixture of subsidies, training programmes, official exhortations and a lowering of youth wages have combined to encourage the employment of more young workers. Yet the elasticity of substitution between different age groups is probably becoming stronger because of growing labour flexibility. This means that the elderly will have been hit by cuts in youth wages and the withdrawal of young people from protection by minimum wage machinery, as in the case of wages councils in the United Kingdom.

Even if young workers are less qualified, in times of rising unemployment older jobseekers are unlikely to displace employed younger workers. Indeed, it is a misrepresentation of the labour segmentation process to argue that the effect of rising unemployment is a "general downgrading of labour" whereby it is the less qualified who become the unemployed.¹⁴ The fallacy lies in the fact that while age (inversely) and schooling are both screening devices in recruitment, schooling is less of a screening device than age for firing.

It might have been expected that greater labour flexibility would benefit older workers in that there has been an increase in part-time work, self-employment, casual labour and small businesses. But although a large proportion of older workers work part time they do not take a particularly large share of part-time jobs. According to the 1983 EEC Labour Force Sample Survey, workers aged 50-64 comprised 23.1 per cent of all part-time and 20.3 per cent of full-time workers in the EEC; in Belgium and Greece they actually made up less of the part-time workforce than the full-time. Workers aged 65 and over made up 5.2 per cent of all part-time and only 1 per cent of full-time workers. And although 35.8 per cent of employed men aged 65 and over were in part-time jobs, the corresponding figure for those aged 50-64 was only 2.8 per cent (for country data see table 5). So older men were scarcely taking a large share of part-time jobs; for the great majority the alternatives still seemed to be full-time jobs or unemployment, if they were in the active labour force at all. It was women and, to a lesser extent, young people who took the lion's share of part-time jobs.

As for participation in small businesses the evidence is scanty. Some studies suggest the young predominate there. In the United States those aged under 25 form a higher share of the workforce in small firms than in very large firms.¹⁵ However, in Japan the young worker share is slightly higher (19 per cent) in large firms than in small (15 per cent) whereas the proportion of workers aged 55 and over is highest in small enterprises, decreasing steadily as size of firm increases.¹⁶

With the shift to flexible labour systems, the relationship between productivity, age and probability of employment may be strengthened. It is usually accepted, as a generalisation, that labour productivity declines with age. This tends to result in "statistical discrimination" against older workers in both recruitment and retention decisions. Within sectors, the productivity decline may have been worsening. As an ILO report put it,

Table 5. Percentage of employed in part-time jobs by age and sex, 1983

Age and sex	Belgium	Denmark	France	Germany (Fed. Rep.)	Greece	Ireland	Italy	Luxembourg	Netherlands	United Kingdom
<i>Male</i>										
16-19	9.2	25.7	7.3	1.3	8.0	8.3	4.3	(8.9)	25.2	13.2
20-24	2.2	12.0	3.3	1.3	5.1	3.4	2.9	1.8	6.5	2.0
25-34	1.5	4.0	1.6	1.5	2.5	1.9	1.3	0.4	6.2	1.0
35-49	1.4	1.6	1.3	0.6	2.3	1.2	1.0	0.3	4.5	1.0
50-59	1.7	4.0	4.8	1.0	2.7	2.2	2.4	0.7	6.6	1.7
60-64	4.3	7.7	8.4	5.1	5.2	3.1	7.3	(7.7)	13.8	5.7
65+	19.3	23.7	37.9	39.6	16.3	6.3	25.2	(18.2)	48.3	59.1
16+	1.9	3.9	2.5	1.6	3.6	2.6	2.3	1.2	6.8	3.3
<i>Female</i>										
16-19	16.9	48.9	20.1	2.7	10.5	9.5	8.2	(5.8)	28.6	24.3
20-24	14.4	18.4	12.9	8.0	9.2	4.6	7.4	(6.3)	20.0	10.7
25-34	18.1	37.2	17.4	29.4	11.6	11.7	7.6	17.1	54.1	39.3
35-39	22.9	48.0	20.8	40.5	10.5	27.1	8.1	(28.3)	70.2	56.8
40-49	23.0	52.7	22.5	41.9	10.6	28.6	10.1	(29.7)	69.3	51.3
50-59	22.7	57.1	24.5	36.3	12.3	25.6	12.5	30.2	67.7	49.9
60-64	26.6	60.1	30.9	37.9	19.4	22.3	17.4	(12.5)	67.0	65.9
65+	35.1	53.1	39.4	56.1	30.1	30.4	29.4	(33.3)	63.9	76.8
16+	19.7	44.4	20.0	30.0	12.1	15.3	9.4	23.0	50.3	42.1
Total 16+	8.0	23.3	9.6	12.6	6.4	6.3	4.6	7.3	21.1	19.0
% part-time female	84.1	85.8	84.7	92.0	61.8	67.1	65.3	87.6	78.6	89.6

Note: Figures in brackets indicate very small numbers, under 1,000.

Source: EEC: *Labour force sample survey, 1983*.

as far as productivity is concerned, the age at which workers usually first encounter difficulties varies according to the job – around the age of 40 to 50 in the iron and steel and motor vehicle industries, 30 to 40 in construction, and 20 to 30 in the assembly of electronic parts. *This age limit is getting lower and lower.*¹⁷

In a situation of labour surplus and more “open”, flexible labour systems, such considerations encourage a strong age-related substitution trend. Anecdotal evidence abounds. An extreme case was that of a Japanese company which in early 1985 offered all its production workers at its subsidiary factory in Wales compensation if they took early “retirement” at the age of 35. Since alternative responses to statistical discrimination, such as job redesign to allow older workers to maintain productivity, imply higher costs for enterprises, they are likely to be ruled out in times of high unemployment. That poses a major social dilemma.

IV. Labour flexibility, costs and older worker disemployment

Over many generations, in the course of industrial growth and particularly in periods of near full employment, employment protection and worker rights have been strengthened. These have created what many pejoratively call labour rigidities. Inter alia, they strengthened the employment position of older workers. But during the current labour market depression additional costs associated with older workers have undermined those safeguards.

There are five specific types of cost that, in the context of labour surplus and growing flexibility, are tending to split the older labour force into a protected minority and a disadvantaged periphery. The first are *productivity costs*, arising from the tendency, however weak, for older workers to be less productive. Although one should avoid jumping to conclusions, there are reasons for believing that these costs have become somewhat greater, especially in the wake of more rapid technological change and advances in the technical division of labour that are placing a premium on adaptable partial skills, task flexibility and an ability to sustain high levels of efficiency in narrow yet demanding jobs.

The second are *overhead costs*. Whether or not productivity declines with age, labour payments tend to rise. Except in low-productivity (unskilled) jobs, wages often rise with length of service; older workers also accumulate fringe benefits and rights that have actual or implicit costs. Furthermore, although the evidence on their proneness to absenteeism and sickness is unclear, there is a perception that these too impose greater actual or potential costs than for younger workers.¹⁸

The third type are *protection costs*. These arise from work arrangements designed to shield older workers from hazardous or arduous work or to lighten the burden on them. There may be an understanding that older workers should not have to do shift work; sometimes their hours of work are cut, with compensation. In some countries older workers are entitled to

reduce their hours gradually, as in Sweden; under some collective agreements older workers have shorter workweeks and are compensated by the enterprise. In France collective agreements in industries such as textiles have given shift workers aged 55 and over the right to transfer to day work; in the Netherlands agreements have enabled older workers to avoid shift work. In some countries older workers are commonly entitled to longer paid holidays; for example, there are paid holiday schemes that increase with length of service in Canada and the Federal Republic of Germany. All these involve costs. Another arises from regulations to control the working environment and provide safeguards at work. In any decent society these are essential; they help older workers to *retain* employment, since bad conditions "impose greater stress on persons whose faculties of recuperation have been diminished by age".¹⁹ So, although such regulations involve costs to the employer, if they were dropped or not applied – through explicit or implicit deregulation – older workers' productivity would decline, so encouraging their displacement or undermining their ability to stay in the job. A final protection cost is the provision of lay-off or redundancy payments. Those favouring deregulated labour markets argue that redundancy payments, as operated in the United Kingdom for example, discourage the hiring of workers, and thus lead to capital-labour substitution or non-expansion of output. The strength of this effect is unclear, but there is evidence that redundancy payments have legitimised and encouraged age-based redundancy practices. Not only have they made it more attractive for older workers to take "voluntary" redundancy in times of retrenchment,²⁰ they have also made it easier for employers to lay off or dismiss older workers, and for unions to accept such practices.

The fourth type are *adaptability costs*, which are not the same as productivity costs. Older workers may be as productive as others in certain tasks, but it is widely believed that they are less flexible in their ability to adapt to change. If true, an enterprise's responsiveness to demand shifts and product and process innovations will be more costly if it has a relatively old workforce. These costs will be increased by the apparently widespread shift from manufacturing and service jobs based on craft skills towards those putting a premium on the adaptability and interchangeability of the workforce.

The fifth are *motivational costs*, which are crucial in times of labour surplus and employment stagnation, when job-changing through the labour market is not an easy route to upgrade skills, status or income. Motivational costs arise if a high ratio of older workers limits promotion opportunities; this can adversely affect morale and thereby general productivity. Many firms try to maintain a balanced age structure, so that if employment is static, or declining, they would want older workers to leave, for morale and efficiency reasons. According to one ILO report, "This is probably one of the reasons why in many countries works rules or management practice establish a compulsory retirement age."²¹

If the strains imposed by these five age-linked costs have been increasing as a result of pressures to cut costs and shed labour, so too have the opportunities to reduce them, because of the ample availability of alternative workers, the weakening of unionism and the growth of flexible labour systems. In such circumstances collective agreements, regulations or even unwritten conventions designed to safeguard the incomes and job security of any group, especially any relatively costly group, will hit that group's employment prospects. This is the nub of the crisis facing older workers. Furthermore, with regard to some regulations, they are almost in the position of being "damned if they are applied, damned if they aren't". For instance, if protective regulations make the working environment more tolerable or the work pace less intense, older workers may be able to retain jobs; without them they may not be able to do so. But if such regulations raise their employment costs, older workers are likely to be replaced by younger workers. More generally, with growing labour flexibility the specific costs of older workers have surely contributed to their marginalisation.

V. Social security, pensions and economic activity

It is conventional wisdom that the secular decline in labour force participation of older men, in particular, is primarily due to growing pension coverage.²² In many countries pensions have replaced an increasing proportion of pre-retirement earnings; the normal pensionable age has been falling, and earnings tests have been relaxed. As one United States review of research concluded, "a large proportion of the dramatic decrease in labour force participation of older workers between 1969 and 1979 can be explained by the large increase in social security benefits over that period".²³ A statistical analysis of data from nine industrialised countries found that retirement rates among those aged 65 and older were, not surprisingly, positively related to post-retirement income (savings and pensions) expressed as a ratio to previous net earnings in real terms.²⁴

The difficulty is that association does not prove causation. It may well be that pensions and social security transfers have risen in response to the need to assist older workers pushed out of the labour force.²⁵ Similarly, a rising ratio of post-retirement income to pre-retirement earnings could merely reflect a decline in the earnings of older workers, which is consistent with employment marginalisation among those in their fifties.

There has been an international trend towards lower pensionable ages for retirement. But this at least partly reflects efforts to reduce labour supply. Indeed there are reasons to doubt whether the extension of private and public pensions and the lowering of the retirement age have greatly facilitated *voluntary* early retirement. First, the lower retirement age has encouraged some employers to get rid of older workers; in the United States, this led to a strengthening in 1978 of the ADEA, the Act prohibiting the use of age as a criterion for employment decisions of any kind for those aged

between 40 and 60, by extending protection against involuntary retirement up to age 70. Second, several multivariate analyses suggest that the extension of private pension and social security coverage has reduced private savings;²⁶ that implies that the extension of such schemes may not make earlier retirement more likely, since early retirement is also a function of personal savings. Third, only long-term median- and perhaps higher-income employees can usually achieve relatively high replacement rates from pensions.²⁷ Fourth, the fall in the pensionable age has coincided with lower pensions for those retiring earlier *and* extra benefits for those postponing retirement. In sum, lower pensionable ages may not create a strong desire for voluntary early retirement though they may induce early retirement among marginalised older workers who lack any realistic alternatives. Indeed, early retirement is commonly a euphemism for discouragement from labour force participation. For most workers it still represents premature poverty, relative to their lifetime earnings.

VI. Older workers: Options in a crisis

If older workers are faced with extensive marginalisation, what are the options?

It might be argued that general reflation would boost overall employment, with older workers benefiting along with other groups. There are various macro-economic drawbacks to that course in most industrialised countries. Besides the fear of re-igniting inflation, the elasticity of employment with respect to economic growth may be much less than it used to be; reflation may be largely negated by an increase in import penetration, leading to balance-of-payments constraints to further growth; and the prospect of economic growth may lead to more labour-displacing technological investment than is appropriate for rapid employment growth. Apart from such considerations, older workers would probably be among the last to benefit from general employment growth; their relative position could actually worsen. If economic growth did speed up technological innovation, it is also conceivable that older workers would be displaced more rapidly. In sum, reflation does not offer great hope for older workers in present circumstances.

Alternatively, governments could boost the employment of specific groups, among whom older workers could be given priority. The drawbacks are that it would be very costly and could be seen as a stop-gap measure that would almost certainly involve a high ratio of "unreal" to productive jobs. An example of that is the Community Programme in the United Kingdom, which is designed to provide jobs for the long-term unemployed. Retraining schemes with temporary subsidised employment for older workers are unlikely to be attractive either for participants or for governments that are concerned to make manpower policies cost-efficient and productive, in that there would be much higher social rates of return from concentrating on younger workers.

Job-sharing schemes are also likely to have little effect, if only because the main beneficiaries have been and will be younger, women workers. Nor would subsidies to encourage the establishment of small businesses do much for older workers, most of whom would regard the activity as a bridge between formal employment and retirement or would be less innovative and "flexible" than younger workers. In short, if manpower schemes were to be directed at older workers, the social objectives would have to be much more prominent than the economic objectives, and for that reason alone they would have less appeal to governments.

A third strategy would be to alter the age-sex distribution of jobs through anti-discrimination legislation, subsidies, or regulations to encourage job redesign so as to make it more economical to employ older workers. Such measures would be expensive to administer and would be adopted only reluctantly in times of labour surplus and competitive pressure to cut labour costs. In any case, the scope for them is probably quite limited. Legislation and collective agreements protecting the income and jobs of older workers could only be really effective in periods of full employment. In present circumstances, their costliness would deter the hiring of older workers and lead to their displacement by others. It is that unpalatable concomitant of labour flexibility which necessitates a wholesale rethinking of policies towards older workers.

A fourth strategy is the one that has been most assiduously pursued by governments of Western industrialised nations since the mid-1970s, namely reducing the labour supply of older workers, whether by early retirement schemes or partial retirement. This policy is approaching its limit, and has been criticised as having helped marginalise older workers by encouraging a social climate that pressures them into withdrawing from the labour force involuntarily. Early retirement is associated with premature poverty, has strengthened discrimination against older workers, and runs counter to the principle that workers should be able to make voluntary decisions on when to work and for how long.²⁸ There is also a suggestion that premature retirement has adverse health consequences.

However, the most widespread objection to measures to reduce the labour supply of those in their fifties and sixties is the social security cost of doing so. It is treble costly, in terms of forgone social security contributions by older workers and employers, of the state subsidy to social security and of state participation in pension schemes.²⁹ The problem is that, with ageing populations, the dependency burden is growing; in Western Europe the ratio of the working-age to the total population is expected to continue declining until about the year 2015. What this means is that, even without any change in retirement ages, a fiscal crisis is looming. If there is a growing old-age population, longer life expectations *and* earlier retirement, the social security contributions will decline rapidly while the need for transfers will continue to rise. In such circumstances, the financial burden of state pensions could be reduced by: (i) encouraging more savings; (ii) reducing pensions;

(iii) encouraging more private, portable pensions; (iv) encouraging more older people to work; or (v) finding cheaper and less discriminatory ways of reducing labour supply. None of these appears particularly promising, and some are clearly undesirable. It thus seems worth while pursuing a quite different approach.

A fifth possible strategy would effectively dispense with the notion of a retirement age and actually enhance labour flexibility while also enhancing worker security. Pensions are remarkably inflexible social instruments, and are arbitrarily applied to a generalised age when people's abilities, needs and preferences vary enormously. Also, as an ILO report pointed out, "A fixed retirement age, paradoxically, can in itself be a cause of more rapid ageing by the suddenness of the change it involves in a person's way of life."³⁰ Moreover, there is no justification in equity or efficiency for having different ages of retirement for men and women, such as 65 for men and 60 for women, to qualify for a state pension. Fixed retirement ages also do not easily permit flexible work patterns. Thus, in the United Kingdom, the National Insurance pension is reduced if a "pensioner" earns beyond a certain amount – the "earnings rule"; or if a man is over 60 and unemployed, he loses unemployment benefit if he has an occupational pension of over £35 a week. For many older people wanting or needing to work, these regulations imply a "poverty trap" and a deterrent to the acquisition of an occupational pension. Their rigidity is an impediment to "freely chosen employment". As one study concluded, "The minimum pensionable age has become the norm for retirement while a preference for flexibility of working arrangements is expressed by older workers, to whom part-time working is very attractive."³¹ The nub of the problem is that the notion of retirement artificially dichotomises people into "active" or "retired". Partial retirement schemes, through job-sharing or compensated part-time working, may not get round this problem, because they still involve differential treatment of workers on the basis of an arbitrary age figure, and encourage attitudes that amount to, or sanction, discrimination against older workers.

It is for these reasons that a social income scheme (SIS) – or a social dividend or basic income scheme – has appeal. Without going into details, which has been done elsewhere, the essence of this would be the provision of a guaranteed basic income, paid to each individual, regardless of work status, age, marital status or sex, with a lower amount for children. It would replace all existing transfer schemes, such as unemployment benefits and state pensions.³² It would have the cardinal virtue of dispensing with the increasingly nebulous concept of retirement age. Arguably, it would be the single most effective way of achieving one of the main objectives of the ILO's Older Workers Recommendation, 1980 (No. 162), that the State should "take measures for the prevention of discrimination in employment and occupation with regard to older workers".

If a social dividend were paid, any income earned over that amount would be taxable. This would encourage older workers to remain in the

labour force by avoiding "poverty trap" and "unemployment trap" situations whereby many would earn less by working, or very little more, than by remaining unemployed or "retired". In the Europe of the 1980s, the main source of income-earning activity for most older workers is part-time work, jobs in low-paid service occupations and as self-employed workers earning low and irregular incomes. Such jobs could provide older workers with a decent life-style, but at present they offer only precarious or inadequate livelihoods. A social income guarantee would provide all workers with a basic income security that would encourage and enable them to take or keep such jobs. Moreover, older workers could more readily accept a cut in wages if their productivity did decline, because that would not cause their total income to drop below a decency level or expose them to a poverty trap situation. This is especially relevant if the nature of technological and job-structure change implies that workers must become more wage-responsive lest they be displaced by lower cost labour.

A social income scheme that facilitated flexibility, in terms of working time, wages or type of job, would be preferable to legislation or collective agreements designed to allow older workers gradually to reduce their hours of work. As argued earlier, such measures introduce labour rigidities and raise labour costs, whereas a social income scheme would reduce rigidities on the labour supply side by giving workers greater income security.

At present, many enterprises "use income security provisions as a means to minimise resistance to technical change".³³ In other words, to obtain the co-operation of workers fearful of income and job insecurity, employers pay them an extra amount, which implies that it is more costly to introduce innovations. This tends to impede desirable change and induces employers to dispense with older workers as a means of avoiding a large part of such costs. A social income scheme would provide workers with income security, and so reduce the need for employers to make such extra payments.

Another advantage of a social income scheme over means-tested and status-related transfers is that it would allow the labour market to function without placing older workers in the vulnerable bargaining position of having to take low-paid jobs or withdrawing from the labour market to rely either on unemployment benefits or an early and therefore inadequate pension. Most older workers are in, or only have access to, low-paid jobs. Minimum wage machinery offers them some protection against exploitation, but not much, being both costly to administer and liable to lead to their displacement by other groups. Minimum wages encourage "sweating", which is less tolerable by older workers. Conversely, an SIS would strengthen the bargaining position of older workers, by enabling them to hold out against really low wages while allowing them to accept low-paying but perhaps otherwise rewarding jobs.

We saw earlier that many older workers are in own-account employment, and a general policy of boosting self-employment could lead to a reabsorption of older workers provided they were not discouraged by the relatively low incomes in most of that work and by the resulting poverty/

unemployment/retirement traps – i.e. if they did not find themselves in the position of earning no more if they were working than if they were relying on state transfers. An SIS would enable more older workers to do such own-account work, and encourage others already doing it in the “black economy” to do so openly, and thus probably in a less exploited way.

As a response to long-term unemployment, a guaranteed basic income paid regardless of age and work status is also preferable to a lowering of the retirement age because all such measures to reduce labour supply are implicitly discriminatory. As an ILO report, in considering early retirement schemes, warned in 1962, “While such practices may have certain advantages in many individual cases, great care must be taken to ensure that they are not used to force older workers out of the employment market or made an excuse for not actively seeking appropriate employment for them.”³⁴ Such arrangements affect the behaviour and expectations of employers, unions and workers themselves, so encouraging discrimination. Indeed, all early retirement schemes that involve selective criteria are essentially arbitrary and thus unfair.³⁵ A social income scheme would allow much greater flexibility according to individual circumstances and put much less emphasis on age *per se*, so making age-related discrimination less likely. For that reason, among others, it deserves more active consideration.

Notes

¹ See, for example, OECD: *Promoting the placement of older workers*, Older Workers Series No. 4 (Paris, 1967); G. Marbach: *Job redesign for older workers*, Older Workers Series No. 5 (Paris, OECD, 1968).

² Measuring the duration of unemployment is notoriously complicated, and international comparisons are flawed by statistical and administrative differences. The data in table 1 at least reflect a consistent methodology. One factor likely to reduce the long-term unemployment ratio among older workers by more than among younger groups is that even a short spell outside the labour force, perhaps through discouragement or illhealth, means that the duration count will start from the date of re-entry. For example, under the Danish unemployment insurance system anyone unemployed who is ill for over three weeks is transferred from unemployment benefit to sickness benefit.

³ While data on multiple-spell unemployment are hard to interpret, one Swedish tracer survey found that workers aged 55 and over had a much higher incidence of multiple spells (51 per cent) than those aged 25 to 54 (29 per cent). This perhaps indicates the chronic job instability among older workers once they lose a regular form of long-term employment. See L. Heikensten: *A study of individual unemployment experiences in Sweden*, Report prepared for the OECD (1984; mimeographed).

⁴ S. R. Parker: *Older workers and retirement* (London, Office of Population, Censuses and Surveys, 1980).

⁵ See, for example, P. Fisher: “Labor force participation of the aged and the social security system in nine countries”, in *Industrial Gerontology* (Washington, DC), Winter 1975, pp. 1-13.

⁶ P. Johnson: *The economics of old age in Britain: A long-run view, 1881-1981*, Centre for Economic Policy Research Discussion Paper No. 47 (London, 1985).

⁷ A. Walker, I. Noble and J. Westergaard: "From secure employment to labour market insecurity: The impact of redundancy on older workers in the steel industry", in B. Roberts, R. Finegan and D. Gallie (eds.): *New approaches to economic life* (Manchester, University Press, 1985), p. 320.

⁸ P. Makeham: *Economic aspects of the employment of older workers*, Department of Employment Research Paper No. 14 (London, HMSO, 1980), p. 51.

⁹ H. Joshi: *Secondary workers in the cycle: Married women and older workers in employment fluctuations, Great Britain 1961-74*, Government Economic Service Working Paper No. 8 (London, Department of Health and Social Security, 1978), p. 8.

¹⁰ See, for example, P. R. Hughes and G. Hutchinson: *The changing picture of male unemployment in Great Britain, 1972-1981*, Department of Economics Paper No. 111 (London, Queen Mary College, University of London, 1984), p. 19.

¹¹ G. Standing: "Meshing labour flexibility with security: An answer to British unemployment?", in *International Labour Review*, Jan.-Feb. 1986, pp. 87-106.

¹² A recent ILO analysis found that the participation rate of women aged 45 to 54 in "more developed regions" had risen from 43 per cent in 1950 to 63 per cent in 1980 and was projected to rise to 66 per cent in 2000. See ILO: *Economically active population: Estimates and projections, 1950-2025*, Vol. V: World summary (Geneva, 3rd ed., 1986). One should treat such projections with caution, but the long-term upward trend is beyond doubt.

¹³ One study suggested women were substitutes for youths and older men, the latter two groups being more like complements. See G. Hutchinson, N. A. Barr and A. Drobny: "The employment of young males in a segmented labour market: The case of Great Britain", in *Applied Economics* (London), Apr. 1984.

¹⁴ This is often claimed. See, for example, C. Craig, J. Rubery, R. Tarling and F. Wilkinson: "Economic, social and political factors in the operation of the labour market", in Roberts et al., op. cit., p. 115.

¹⁵ OECD: *Employment outlook 1985* (Paris, 1985), p. 78.

¹⁶ *ibid.*

¹⁷ ILO: *Older workers: Work and retirement*, Report VI (1), International Labour Conference, 65th Session, Geneva, 1979, p. 14. Emphasis added.

¹⁸ Data sometimes point to *less* absenteeism and *fewer* injuries among older workers. The difficulty is that such figures could merely reflect selectivity in the placement and retention of older workers.

¹⁹ ILO: *Older workers* . . . , op. cit., p. 59.

²⁰ Voluntary redundancy might also have appeal to those who believe their turn will come in any case because so many employees are losing their jobs.

²¹ ILO: *Older workers* . . . , op. cit., p. 27.

²² See, for example, OECD: *Employment outlook 1985*, op. cit., p. 37; A. Zabalza, C. Pissarides and M. Barton: *Social security and the choice between full-time work, part-time work and retirement*, Centre for Labour Economics Discussion Paper No. 55 (London School of Economics, 1979).

²³ D. A. Wise: *Pensions and the labor market*, National Bureau of Economic Research Summary Report (Cambridge, Massachusetts, NBER, 1984), p. 16.

²⁴ Fisher, op. cit., p. 8.

²⁵ In Australia there has been a debate over the relative impact on the participation of older workers in the labour force of a recession-induced discouraged-worker effect, early retirement in response to better and more widespread pensions, and the income effect of real wage increases in the 1950s and 1960s. See, for example, Bureau of Labour Market Research: *Who's in the labour force? A study of labour force participation* (Canberra, 1985).

²⁶ See, for example, A. H. Munnell: "Private pensions and savings: New evidence", in *Journal of Political Economy* (Chicago), Oct. 1976, pp. 1013-1032.

²⁷ R. Clark, J. Kreps and J. Spengler: "Economics of aging: A survey", in *Journal of Economic Literature* (Nashville, Tennessee), Sep. 1978, p. 926. This finding applied to the United States.

²⁸ As the Director-General of the Confederation of German Employers' Associations recently concluded, "We consider the lowering of the retirement age only as a temporary measure, and it may be interesting to note that the workers are much less inclined to retire before the age of 60 than might have been expected." E.-G. Erdmann: "Labour market constraints", in International Organisation of Employers: *Adapting the labour market* (Geneva, 1985), p. 14. It should be added that "temporary" measures of that kind are hard to reverse.

²⁹ ILO: *Older workers* . . . , op. cit., p. 52.

³⁰ *ibid.*, p. 38.

³¹ Makeham, op. cit., p. 40.

³² The possible exception would be housing benefits. For a brief outline of such a scheme, some funding implications, references to the literature on it and a review of criticisms and advantages, see Standing, op. cit.

³³ B. Casey and G. Bruche: *Work or retirement?* (Aldershot, Gower, 1983), p. 24.

³⁴ ILO: *Older people: Work and retirement*, Report of the Director-General, Part I, International Labour Conference, 46th Session, Geneva, 1962, p. 26.

³⁵ In many OECD countries early retirement can be taken if special conditions apply – *long-term unemployment* (e.g. Austria, Federal Republic of Germany, Italy, Portugal, Sweden), *length of employment service* (Austria, Belgium, France, Federal Republic of Germany, Greece, Italy, Luxembourg, Turkey), *unfitness* (Denmark, France, Federal Republic of Germany, Norway, Sweden, Turkey), for workers who have been employed on *arduous or unhealthy work* (Austria, Belgium, France, Federal Republic of Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Turkey), and for *personal convenience* (Belgium, France, Greece, Spain, Sweden, United States). Defining all such conditions is somewhat subjective and thus arbitrary.