

Future scenarios for the development of the European labour force

BY ANNA RUZIK-SIERDZINSKA

Introduction

The future size and quality of the European labour force are important production factors for future economic growth in the region. The performance of many systems such as social security and health depends on the population of future potential tax payers.

Older workers are an important and increasing share of the employment in Europe. Due to lower fertility and longer life expectancy, today, a larger than ever share of the population is over 50. Eurostat projections show that the share of people between the ages of 50 and 74 in the population aged 20-74 will increase in the EU27 countries from the current 40 per cent to 47 per cent in 2050.

However, countries differ in terms of elderly activity. Existing studies show that this is related to various factors, including labour market institutions. As demographic ageing is expected to continue in the future, it is important to know more about these factors in order to recommend policies that could be efficient for the development of future labour markets and the economy as a whole.

The aim of the described part of the project¹ was to assess the impact of ageing on the labour market, especially on the structure of the labour force and labour productivity. We looked at this from various angles. First, we examined it via the determinants of the transition from work to retirement (see: Riedel and Hofer, 2013) with a broader analysis of non-labour market activities at older ages (Styczyńska et al., 2013). Then, we tried to answer the question about how individual productivity changes

with age in different countries and if lifelong learning can contribute to higher labour productivity in the future (Ruzik-Sierdzińska et al., 2013). Finally, we looked at the demand for labour in the perspective of ageing societies, i.e. at employers' policies, attitudes and behaviours towards older workers and retirement (van Dalen et al., 2013).

In two papers, we analysed differences in various characteristics between four groups (clusters) of EU countries. Groups were defined on the basis of employment rates at 50 (high or low) and average employment length in a life cycle (long-short). Table 1 shows the clustering of countries.

Table 1. Employment-related clusters of countries

		Employment rate at 50	
		High	Low
Avg. length of employment	Long	Norway, Sweden, Finland, Netherlands, Denmark, Germany, Latvia, Estonia, Iceland, United Kingdom	Ireland, Cyprus, Portugal, Spain, Greece, Lithuania, Romania
	Short	Austria, France, Czech Republic, Slovakia, Bulgaria	Belgium, Luxemburg, Italy, Hungary, Slovenia, Poland

Source: Styczyńska et al (2013)

Evidence and analysis

Why are older people in some countries active longer on the labour market than in others? The reasons are on the supply and demand sides of this market.

Looking at the supply side, there are:

- the retirement preferences of workers, some of which are the results of individual health status, and

¹ I.e. work package 17 of the NEUJOBS project.

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- the (dis)incentives to work provided by labour market institutions and social security systems.
- Demand side analyses focus on:
- how the productivity of a worker changes with age, and
- employers' decisions about whether or not to hire older workers and how to manage an ageing workforce.

First, let us have a look at the supply side. Employers and employees make decisions in a complex environment so certain simplifications and assumptions had to be made when testing hypotheses and models. These allowed for a closer look at several phenomena and showed possible areas for further studies.

We found that the interaction between planned retirement age and personal and work-related variables varies across Europe (Riedel and Hofer, 2013). Apart from health or disability, which are significant for retirement in all countries, other factors have different effects in different countries. If we cluster countries according to employment rates at 50 (high or low) and average employment length in a life cycle (long- or short), it turns out that they are also different with respect to institutions and policies. Benefit systems, taxes, labour market legislation, education, the availability of training and active labour market programmes all seem to affect the economic activity of older workers (Styczyńska et al., 2013).

Working in the "green jobs" sectors decreases the likelihood of wanting to stay employed longer in countries that have high employment rates at older ages but short average professional careers. This could be explained by the fact that "green jobs" are usually physically demanding. Moving from physically demanding to intellectually demanding work environments could lead to people remaining active in the labour market for longer in the future. This will not always require a change in the structure of the economy but rather an introduction of some improvements in existing sectors. For example, we found that workers in agriculture plan to retire earlier than workers in services in the new EU states, but later than workers in services in the EU15.

The socio-ecological transition is changing the traditional patterns of employment. Part-time work and fixed term contracts are becoming more common, labour market flexibility increases (Fischer-Kowalsky et al., 2012). This could also affect the labour market activity of the elderly differently among different countries. Nordic countries, with their highly developed social protection systems,

provide more stability for workers. Labour market rigidity, which is higher in other groups of countries, could make the labour market situation of the elderly less favourable (see: Styczyńska et al. 2013).

What is the relation between different types of activities at older ages? On average, older adults in Europe are rather active in non-labour market activities outside the household, despite the decline in societal cohesion and the increasing fragmentation of society. However, in countries where the employment rate at older ages is high, older people's level of engagement in social life is also higher. What is more, higher economic activity is found in countries where people claim to be happiest. On the other hand, in countries with low employment rates, people's political activity is relatively lower, their engagement in housework is high and their happiness levels are the lowest. So there seems to be a substitution between work at home and in the labour market but not between other types of activities.

Looking at the demand side of the labour market, we found that age-earning profiles have some characteristics that can be explained by the structure of the workforce (age, education) and employment (sectors and occupations). The dynamics of earnings after age 50 differ less among educational and occupational groups than for earlier employees (see: Ruzik-Sierdzińska et al., 2013). If we assume that wages are a good approximation of productivity, different structures of economies mean that the ageing effect on productivity will not be homogenous across countries.

Avoiding older workers' skills obsolescence through training may lead to higher future economic growth. The estimation of the impact of participation in LLL (training) on earnings of employees aged 50+ showed a possible increase in wages, even as high as 6.5 per cent. Estimated increases are higher in continental and southern countries than in northern countries and, as was found in prior studies, there is a negative correlation between incidence and returns to training for older workers. The impact of LLL on longer work found in the existing literature is ambiguous.

In another study (see van Dalen et al, 2013), we found that firms organize their personnel policies in relation to older workers according to 3 strategies:

- a focus on exit through retirement,
- accommodation, i.e. actions and measures to compensate for the possible decline in physical and cognitive capacities with ageing,

- development, i.e. measures to increase the productive capacity of older workers.

Employers have a bias towards using exit strategies, possibly especially during recession times, with large differences among countries. Only 20% of employers in 6 analysed countries (Denmark, Germany, Italy, the Netherlands, Poland and Sweden) use at least one of the measures of each of the three age-based strategies. So the majority of European employers do not engage in human resource strategies which promote active ageing in the labour market. But the higher the proportion of older workers in organizations, the more likely that organizations employ strategies of exit, development or accommodation. The same has been found in organizations using more seniority-based compensation, as they have a higher level of involvement of labour unions and require more training. Public sector organizations are more age conscious in their HR strategies than private sector firms. It was not possible to check changes in time on the cross-sectional database but some previous studies show that employers' behaviour and attitudes are gradually improving.

Policy implications and recommendations

As activity and productivity at older ages depends on a set of factors and their interactions, policy implications and recommendations will be different for different groups of countries.

One of the factors that is important in all countries is health status and disability. So public support should be used to address the social and physical health issues of older persons and promote prevention and healthy lifestyles at younger ages.

Preliminary results of the study using SHARELIFE (a retrospective part of panel Survey of Health, Ageing and Retirement in Europe²) show that some employees work for about 20 years and others for about 40 years, some change jobs less often, some more.. If this result is confirmed by other studies in various countries, effective policies should be focused on moving people from one group to another and identifying the effective instrument for this move.

Longer work lives mean more profitable investments in adult training and learning for firms and workers. Even if this does not prolong working life much, it could delay or prevent ageing-related declines in productivity.

Additionally, a lot can be done to improve employers' attitudes and HR policies by promoting the concept of 'active ageing'. As organizations that have a high percentage of older workers today are more likely to have various strategies of age management, maybe tomorrow they will 'naturally' introduce such strategies. However, employers usually tend to opt for exit strategies, e.g. using the possibility of early retirement. That is especially easy when labour market institutions and social security systems do not prevent such behaviour.

The business cycle matters for employment policies. In times of an economic decline, publicly co-financed investments for training older workers could be more important than forcing employers not to use exit strategies. Observations of past behaviour of firms suggest that promoting longer working lives can be a natural strategy for organisations when the workforce is older and less numerous.

The case studies described show that in countries with high employment rates among people 50+, complex but successful policy measures have been applied. Some examples include: introduction of incentives to postpone retirement by easing the wage loss associated with job changes (between sectors with no seniority-based compensation system), or support to lifelong learning. So having comprehensive and appropriate policies in place to cope with ageing is necessary for the future ageing of the workforce.

Demographic ageing and the labour market performance of older workers are not the only things that differ among countries. The current structure of the workforce also varies and this will have an impact on the future situation.

What if analysis

A number of issues covered by described studies show that different scenarios for the development of the future labour force are possible. In this section, some of the possible scenarios will be described.

A lot has been written about the importance of institutions and many European countries have already implemented changes in this field. So there are fewer and fewer disincentives to work until old age provided by the social security systems and labour market institutions.

Let us focus on two other aspects that may differ among countries in the future. First, we have the policies of employers that are age-management friendly (indicated as 'proper') or anti-active ageing ('wrong'). To some extent, these policies can be supported by public active labour

² www.share-project.org

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market policy programmes. The second aspect is a change in productivity: either an acceleration in growth, enhancing longer activity, or a deceleration in growth. Productivity growth will depend on the development of lifelong learning as well as the health status of older workers. Four possible scenarios are discussed below.

Table 2. Possible scenarios of the labour force development dependent on two factors

	Proper age management	Wrong age management
Productivity increase	S1	S2
Productivity decrease	S3	S4

Such a definition allows for some speculations about the future of the European labour market. It is reasonable to assume that in the shorter term, until 2025, age management could have a larger impact. By 2050, changes in productivity could be more important.

Scenario S1 is the one that combines maximum labour force with high productivity. Scenario S4 indicates that a decrease in productivity combined with employer policies enhancing early retirement would result in the smallest labour force.

Scenarios S2 and S3 depend on the future structure of the economy, i.e. the sectors in which labour demand will be created. In a knowledge-based economy with a productivity increase, the wrong (or lack of) age management (S2) would not be so distortive for economic growth but it would cause lower labour force participation rates at older ages. In flexible labour markets with a safety net that does not cause an inactivity trap, wrong age management is also less distortive. A productivity decrease with proper age management (S3) can lead to less competitive economies even with high labour force participation rates.

It is difficult to say which scenario is most probable. As our results show, European countries differ so various elements of active ageing policy measures (like an increase in LLL participation or promotion of age management) should be presented against other country specific institutions and preferences for leisure at older ages.

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