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Preventing Early Exit from Labour Market Indicators

Bert de Vroom

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Bert de Vroom
University of Twente
The Netherlands

1 Background

In most industrial societies we not only can observe a massive demographic ageing, but at the same time as well a structural process of an ageing work force (15-64 age group). It is expected that in particular the share of the age group over 50 in the coming decades will increase with a further decrease of the younger age groups at the same time. The ageing work force will certainly increase the need to employ an ever larger proportion of workers aged 50 and over in the coming decades.

At the same time we can observe another – paradoxical - trend. Most (European) industrialized countries have undergone a substantial decrease in the labour force participation of the 55-64 male age group in the past 30 years (see appendix). In 1995 in many countries only a minority of men in this age group is active on the labour market. In France, the Netherlands, Finland and Belgium the employment activity rates are at that time below 40 per cent, which is less than half the 1971 percentage (about 80%). But also in Germany, Spain and Italy, the employment activity rate of the 55-64 year male workers has decreased at that time to a level of only 50 per cent or even less.

The picture for women in this age group is different. In all European countries – with the exception of Finland and France – we can observe increasing labour force participation. This increase – however – can hardly compensate the decreased male participation figures. First of all the proportion in particular in the ‘high early exit countries’ (France, Germany, Netherlands) are still very low. Secondly, the increase is basically due to part-time work.

In other words, we are confronted with a paradoxical development. On the one side there is an increasing need to employ workers of 50 and over, due to the effect of the workforce ageing. On the other side the participation of male workers of this age group indicate a substantial decrease in the past decades, while the increase of older female workers do not (yet) compensate for the declining labour force participation of the age group of 50 and over.

Apart from the effect of economic circumstances we can observe a strong relation between labour market and social policies on the one hand and the particular participation patterns on the labour market on the other side. For the purpose of this analysis I will make a distinction between two (interrelated) policies: Activation and Compensation.

‘Activation’ or ‘(re-) integration’ policies should facilitate, stimulate or push individuals to participate in the labour market. ‘Compensation’ programmes compensate for particular (labour-market related) risks, such as unemployment, sickness- and disability, leave, old age, poverty, etc.

To understand the effect of both types of policies on ‘early exit’ or labour market participation we not only have to look to the different policies as such but also to the different types of relations that might exist between labour market and compensation policies.

Theoretically as well empirically we can distinguish different types and combinations of activation/integration and compensation policies. We might find high- or low-developed activation and/or compensation programmes. And we might find strong connections between the two policies or both policies might be completely disconnected, such as the ‘Scandinavian’ ways and the ‘liberal’

ways¹. The first reflects a good balance between on the one hand compensation policies when risks occurred and on the other hand labour market policies aiming at reintegration of ageing workers in the labour market through a wide range of preventive measures in order to rehabilitate work capacity and maintain employability. The later reduces compensation at what is strictly necessary to send back ageing workers in the world of work as it is, even in low pay, low standards jobs.

Elsewhere we have developed a typology of four possible outcomes of activation and compensation policies.² Depending on the question (a) whether we can observe *high or low developed* compensation and/or activation policies and (b) *connected or disconnected* activation and compensation policies we might find different outcomes in terms of early or late exit or in terms of work and welfare. (See Appendix; Figure 1).

Notwithstanding the variations between countries we still can observe an overall increasing 'early exit culture' until recently in almost all EU member states. This emerged 'early exit culture' is based on a (new) system of rules and regulations that reorganise the life course and set new thresholds and timing for passing from one phase to another. The expansion of the 'early exit culture' has changed all actors' expectations and anticipations about the end of the work life, and has in that sense reinforced early exit in the daily practice. Depending on the dominant age of early exit companies are treating ageing employees as redundant and definitively unemployable. Labour unions have gradually come to see exit before the official retirement age as a right (or even a duty during a period of high unemployment) for ageing wage earners. And wage earners themselves have adjusted to this new age norm as well. They now think that 55 (in France) or 60 (the Netherlands) is the normal age for definitively leaving the labour market. Ageing workers are planning the end of their work life accordingly.

The massive early exit trend has reinforced age stereotypes, as is indicated in different publications. Top management, foremen and supervisors, as well as persons on the line, share the opinion that older workers are unemployable and inefficient, have a lack of motivation, are unable to adapt to change; and cannot be retrained. As a result older workers are experiencing age discrimination in the workplace. Persons in their 40s are also experiencing career problems at the end of the work life. Firms increasingly see them as a group with no future. Some companies are reluctant to train them, because the return on investment seems too limited. They also hesitate about promoting them, since these persons are already on the way out. And of course, there is no question of recruiting from this age group since the threshold for recruitment has been set well before 40. As of 40, certain positions have no career prospects; and the persons in them have, as a consequence, lost all motivation. As of 45, wage earners may be described as 'already waiting for retirement. This age group has become a 'risk group' that suffers from discrimination, a group to be marginalised.

Given this strong 'early exit culture' in many (European) welfare states we might assume that it would be quite difficult to reverse the early exit trend. Such a reversal would require a strong involvement of public authorities and social partners, accompanied by relevant, coherent measures to change the welfare paradigm and to implement new labour market and human resource policies at company level that could stimulate the (re-) integration of ageing workers.

At the moment we can observe some interesting developments, in particular in welfare states that combine a longstanding culture of high early exit and a complex institutional structure to channel and facilitate the process of early exit, such as Finland, The Netherlands and France. If we take a closer look to the development of the male labor force participation from 1971 until now than we can observe an interesting shift since 1995 (see tables in Appendix). For Finland and the Netherlands we can observe quite an impressive change, respectively an increase of 33.8% and 26.6%. The French case is a high exit country as well, but it is at the same time an illustration of the difficulties to reverse the early exit trend. The activity rate for the 55-64 male group is almost stabilised on the 1995 level (38.4%). Only very recently (2001) we can observe a slight increase.

¹ J.C. Barbier, Peut-on parler "d'activation" de la protection sociale en Europe ? *Revue Française de Sociologie*, N° 2 2002, p307-332.

² Naschold, Frieder & Bert de Vroom (Eds.), *Regulating Employment and Welfare. Company and national Policies of Labour Force Participation at the End of Worklife in Industrial Countries*, Walter de Gruyter, Berlin/New York 1994

To prevent early exit means as well the abolition of age barriers and the improvement of working conditions on firm-level. The following box gives an overview of the most relevant focuses for action and instruments for age-related policies on both national and firm level³.

Box 1 – Focuses for Action and Instruments for Age-related Policies

<p>National Policies</p> <ul style="list-style-type: none"> • Combating Age-Discrimination • Development of a new integrated life course policy <p>Individual Policies on firm-level</p> <ol style="list-style-type: none"> 1 Job Recruitment 2 Training, Development and Promotion 3 Flexible Working Practice 4 Ergonomics, Job Design and Prevention 5 Changing Attitudes within Organisations 6 Changes in Exit Policy <p>Integrated Policies on firm-level</p> <ol style="list-style-type: none"> 7 Compensation and activation 8 Life course policy

From different recent publications we can draw some provisional conclusions what might be an effective and legitimate policy to change a strong institutionalised early exit into ‘late exit’. So far five interrelated policies seem to be relevant:

- (1) The replacement of policy systems based on a disconnection of ‘activation’ and ‘compensation’, by a system where compensation and activation are connected. This means the dismantling of early exit pathways only based on compensation for early exit (such as unemployment, disability and many early retirement schemes in many welfare states), and replacement by compensation schemes that at the same time stimulate and facilitate participation in the labour market at the end of the working life. Examples are the introduction of gradual and flexible (part-time) retirement schemes (Finland), combined with a shift from social rights and collective arrangements to incentives and individual choices (The Netherlands).
- (2) Combating age discrimination in employment, on both national and company level.
- (3) Combating age-barriers in employment combined with the improvement of working conditions
- (4) Integrated policies. Public authorities, firms and social partners need to interact to develop a combination of activation and compensation programmes
- (5) An integrated life course policy.

The shift from early to late exit is not an isolated phenomenon, but is part of an ongoing and remarkable change in the traditional organisation of the working life over the whole life course that have increasingly led to a more flexible working life-course, in which work, learning, caring, free time, etc are organised next to each other instead of following the classical chronological sequence. In stead of a ‘concentration’ of early exit at the end of the working life, exit options might as well be spread over the whole working life course. Such an approach presumes a new integrated life course policy in which different ‘isolated’ and single options (such as leave possibilities), flexible employment arrangements, and compensation schemes (such as part of the pension schemes) should be integrated in a balanced life course policy. We can observe some interesting policy initiatives in

³ See for an extended overview: Alan Walker & Phil Taylor, *Combating Age Barriers in Employment: A European Portfolio of Good Practice*, European Foundation for the Improvement of Living and Working Conditions, Dublin 1998;

different EU-member states to build up an integrated life course policy in which the shift from early to late exit is part of the whole approach.⁴

2 Indicators

This section presents a list of possible indicators in the field of ‘preventing early exit from the labour market’. As indicated in the introduction the ‘prevention of early exit’ is related to different but related areas. For some of these areas it will be quite difficult to develop ‘general, consistent, comparable and available’ indicators (such as in the case of integrated life course policies, comprehensive quality of work life, or re-integration). In that case ‘good practices’ (good, qualitative descriptions of possible solutions) might be more relevant. The following list brings together a number of indicators that seem relevant to observe some of the basic developments. Some of these indicators are as well suggested in some of the documents that have been distributed so far⁵.

1 - Employment to population ratio for older workers

Construction: Employed population aged 55-59, 60-64, 65 + as a proportion of the population in these age groups. Gender breakdown is necessary because men dominate early exit patterns.

Data Source: Eurostat Labour Force Survey; OECD Labour market statistics

Comment BDV: These data are in particular relevant to observe shifts in exit patterns since all relevant early exit paths are excluded (unemployment, disability, early- or pre-retirement). Since ‘early exit’ is shifting from the 55 and over to the 60, and (marginally) to 65 and over, it is necessary – to observe changes – to have data for 5-year age groups: 55-59; 60-64; 65+. Data on age group 55-64 give only a crude picture and give no clear insight whether we can observe changes in early exit patterns. An even better indicator would be cohort data (by year of birth). However, comparable international data are hardly available

2- Participation rates of older workers

Construction: Number of older workers (55-64) in the labour force as a percentage of the population in this age group. Gender breakdown is necessary.

Data Source: ILO Labour Statistics; or Eurostat Labour Force Survey; OECD Labour market statistics

Comment: This indicator gives a more general picture and might play a role “for projecting the future supply of Labour”(FC&B). But again, data on 5-year age groups might give a better picture (see comments indicator 1).

3 - Proportion of older workers in the total labour force

Construction: Number of older workers (55-64) in the labour force as a percentage of the total labour force. Gender breakdown is necessary.

Data Source: Labour Statistics (for 55-64); for 5-year age groups: Eurostat Labour Force Survey; OECD Labour market statistics

Comment: This indicator reflects the share of older workers in the total labour force.). But again, data on 5-year age groups might give a better picture (see comments indicator 1).

4 - Unemployment rates and the incidence of long term unemployment among older people

Construction: Unemployment rate: proportion of the 55-59, 60-64 labour force that does not have a

⁴ See for an overview of these trends: G. Naegele et al, *A new organization of time over working life*, European Dublin, Foundation for the Improvement of Living and Working Conditions: 2003.

⁵ Mariangels Fortuny Corredo and Christina Behrendt, *Policy Brief on Employment and Social Protection Indicators*.

job but is available and actively looking for work. Long-term unemployment rate: unemployed for one year or longer as a percentage of the labour force. Gender breakdown is necessary.

Data Source: ILO Labour Statistics (for 55-64); for 5-year age groups: Eurostat Labour Force Survey; OECD Labour market statistics.

Comment: Unemployment is an often-applied early exit pathway for older workers, and is in fact long-term unemployment. As FC&B correctly indicate in some countries the unemployment schemes are explicitly used as early-exit pathways (sometimes as basis for collective dismissals by age) combined with relaxed job search requirements or even no requirement at all. As a result the unemployment figures of unemployment rates of older workers may thus be biased, in particular for cross-national comparisons. There is however a clear tendency in many 'high early exit' countries to 'dismantle' unemployment as a explicit early exit pathway. So in future the bias might be reduced.

5 – Disability rates among older people

Construction: Number of participants in disability schemes as percentage of the respective age-group (55-59, 60-64). Gender breakdown is necessary.

Data Source: On national level data sources might be available. So far, there are hardly direct available and cross-national data. One of the problems is the fundamental difference of national disability schemes. There is however a number of cross-national studies that give some helpful indications of the use of disability schemes as early exit pathways for older workers, and the shifts over time⁶.

Comments: A disability indicator for older workers is an important one, for two reasons. It might indicate the use of these schemes as an early exit pathway for older workers.⁷ One possibility to reduce early exit of older workers is to reduce the disability schemes as an early exit pathway for older workers without a direct relation with health. However, this policy is changing in many countries since a couple of years. If so, than the number of participants in the disability scheme might give a more precise indication of the health status of workers. In that case the number of participants of the older age groups might give an indication whether an activation or re-integration policy is combined with the improvement of working conditions. If - in the case of a 'pure' application of disability schemes – the number of participants in the older age groups are rising, than this might an indication of 'bad activation practice'.

6 – Participation of older workers in pre-retirement schemes

Pre-retirement is the third main early-exit pathway. The problem is that different countries use different pre-retirement schemes (gradual retirement, early retirement, part-time pre-retirement, etc.), and that those schemes are changing. For that reason it will be quite difficult to find available, comparable, cross-national data. However, to observe changes in early exit patterns it is necessary to have information on the use of these pathways.

7 – Part-time work rates among older people

Construction: Part-time Work rate: proportion of the 55-59, 60-64, 65+ labour force that does have a part-time job. Gender breakdown is necessary.

Data Source: for 5-year age groups: Eurostat Labour Force Survey; OECD Labour market statistics.

Comments: Part-time work might be combined with part-time early-retirement. As such it might reduce full-time early (see the example of Finland). It might as well represent an example of the combination of 'activation & compensation', however this is not always the case. For that reason a combined indicator is necessary, but hardly available. A problem is the different definitions of part-time.

General comment with respect to indicators 1-7

As indicated in the introduction patterns of early or late exit are in the end 'produced' on company level (the work-place). To observe those patterns and possible changes we might need to break-down

⁶ Aarts et al 1996; MacFarlan & Oxley 1996; Prinz 1999

⁷ See o.a. Kohli et al 1991; Naschold & De Vroom 1994.

the data from indicators 1-5 by industry. To observe real patterns and changes we need to disaggregate industries at a 3- or even 4-digit level.⁸ The problem is, however, that there are hardly any comparable cross-national data on this level.

7 – Formal retirement age

Construction: the actual age at which persons definitely have to withdraw from the labour market (related to the old-age pension scheme).

Data Source: EUROSTAT, based on the EU Labour Force Survey, covering the entire population living in private households. The definitions used follow the guidelines of the International Labour Office.

Comment: From a comparative, cross-national perspective we can observe different formal retirement ages between countries, and between men and women within countries. Retirement ages may vary between 55 and 67 (or other ages). A low retirement age can be interpreted as an early exit (example: the French case). It is a political and normative question what formal retirement age should be applied. However, it seems reasonable to relate the retirement age to life expectancy, and not to go for one universal retirement age in all countries.

8 - Average effective retirement age⁹

Construction: Average age at which active persons (men and women) definitely withdraw from the labour market. Gender break-down possible.

Data Source: EUROSTAT, based on the EU Labour Force Survey, covering the entire population living in private households. The definitions used follow the guidelines of the International Labour Office.

Comment: The available data are based on a probability model considering the relative changes of activity rates from one year to another at a specific age. The activity rate reflects the labour force (employed and unemployed population) as a percentage of the total population for a given age.⁸

⁸ See o.a. Jacobs & Rein 1994.

⁹ See FG&B

Appendix 1 – tables

Table II - Change in employment activity rate for men 55 - 64 yr, 1971 – 2001

	Men											
	1971	1975	1985	1989	1993	1995	1997	1998	1999	2000	2001	Change in %
France	73,0	67,2	46,8	43,7	40,3	38,4	38,4	37,9	38,9	38,5	41,4	-43,3
Germany*	77,1	66,7	53,6	51,7	47,9	48,2	47,8	47,6	48,0	48,2	45,4	-41,1
Netherlands	79,3	69,9	44,2	44,5	41,2	39,9	43,3	46,0	48,8	49,9	50,5	-36,3
Finland	71,8	64,6	48,7	44,2	36,1	34,9	37,8	38,3	40,1	43,7	46,7	-35,0
Spain	82,7 °	76,7	59,1	56,7	51,6	48,0	50,5	52,1	52,4	55,2	57,9	-30,0
Italy	-	-	53,6	49,6	47,0	42,3	41,5	41,5	40,8	40,3	38,5	-28,2
United Kingdom	82,9	-	62,3	61,8	55,9	56,1	58,6	58,3	59,4	59,8	61,6	-25,7
Portugal	82,1	77,3	64,7	63,6	59,8	57,7	58,1	63,4	62,1	62,5	61,6	-25,0
Belgium	-	-	43,1	36,3	32,9	34,5	32,2	32,1	35,1	35,1	35,1	-18,6
Sweden	82,8	80,7	73,2	73,6	65,9	64,4	64,7	65,8	67,1	67,8	69,6	-15,9
Denmark	-	-	61,9	65,0	60,6	63,2	61,0	58,5	59,9	61,9	63,1	1,9
EU	-	-	-	-	-	46,8	47,0	47,2	47,3	47,6	47,8	-
Canada*	78,7	76,2	64,3	61,2	54,3	53,7	55,1	54,7	56,8	57,7	57,6	-26,8
United States	79,4	72,4	65,0	64,9	63,1	63,6	65,5	66,2	66,1	65,6	65,8	-10,8
Japan	85,3	83,3	78,8	79,2	82,1	80,8	80,9	79,8	79,5	78,4	77,5	-9,1

* Germany reunified since 1989

° 1972 ; °° 1990

Source: Eurostat Labour Force Survey; OECD Labour market statistics; own calculations

Table III - Change in employment activity rate for women 55 - 64 yr, 1971 – 2001

Women

	1971	1975	1985	1989	1993	1995	1997	1998	1999	2000	2001	Change in %
Netherlands	14,6	13,8	11,8	11,3	12,3	14,0	20,2	19,8	21,9	25,8	28,0	91,8
Belgium	-	-	10,3	9,7	11,6	12,7	12,4	13,4	14,8	15,4	15,6	51,5
Sweden	43,7	48,9	57,1	62,9	60,7	59,5	60,7	60,3	61,0	62,4	64,3	47,1
United Kingdom	-	-	32,7	36,1	37,6	39,3	38,8	38,5	39,8	41,4	43,2	32,1
Portugal	-	31,5	31,5	31,0	32,0	33,3	37,4	38,4	41,1	41,1	40,6	28,9
Denmark	-	-	39,8	38,8	42,5	36,1	41,2	41,5	47,8	46,2	49,8	25,1
Germany*	27,1	24,4	21,3	21,6	24,2	26,9	28,8	28,7	28,9	29,0	28,4	4,8
Italy	-	-	14,9	14,4	13,6	13,1	14,4	14,8	15,0	15,2	15,3	2,7
Spain	21,8 °	22,8	18,8	18,4	18,4	17,6	18,0	18,8	19,1	20,1	21,8	0,0
Finland	45,6	41,9	42,7	39,3	33,7	34,0	33,7	34,2	38,4	40,9	45,1	-1,1
France	37,3	35,2	28,5	28,8	27,9	28,9	28,9	28,3	29,6	30,3	31,8	-14,7
EU	-	-	-	-	-	25,2	26,1	26,0	27,0	27,7	28,6	-
United States	41,5	38,9	40,2	43,8	45,3	47,5	49,5	50,0	50,1	50,5	51,6	24,3
Canada*	30,3	29,3	30,6	31,7	32,4	33,4	34,3	36,1	37,3	39,3	39,4	20,4
Japan	44,6	43,1	44,4	45,3	47,8	47,5	48,4	48,5	48,2	47,9	47,3	6,1

* Germany reunified since 1989

° 1972 ; °° 1990

Source: Eurostat Labour Force Survey; OECD Labour market statistics; own calculations

Table IV - From early to late exit. Labour force participation of male workers 55-64 1995-2001

	Change in %
Finland	33.8
Netherlands	26.6
Spain	20.6
Denmark (2)	7.9
France	7.8
Portugal	6.8
United Kingd(1)	10.2
Belgium(2)	9.3
Sweden	8.1
Germany	-5.8
Italy	-9.0
EU 15	2.1
Canada	7.3
United States(1)	3.4
Japan	-4.1

(1) = 1993-2001

(2) = 1998-2001

Source: OECD labour market statistics; own calculations

Appendix 2 – typology of activation/compensation policies and the effect on early exit

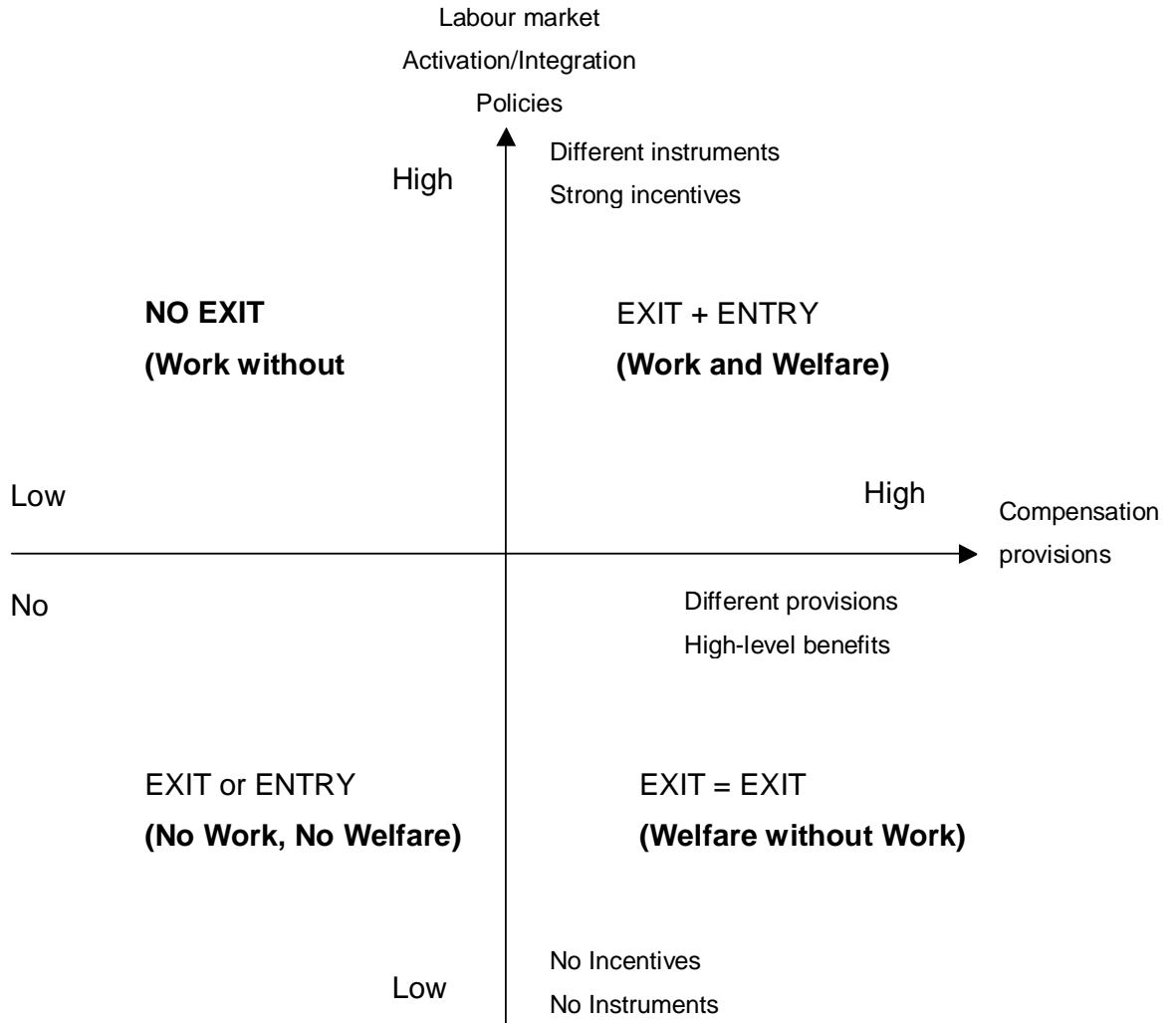


Figure 1 - The Two Logics of Welfare-State Regulation and Their Effect on Externalisation and Integration of Workers (Naschold & De Vroom 1994)

In a situation of hardly any (attractive) pathway and a relatively strong labour market integration policy the result will be '*no-exit*'. The United Kingdom is sometimes interpreted as an example of this type. The pattern seems primarily demand-side determined. The lack of welfare state pathways, economic growth and a stronger accent at the same time on labour market policies and mechanisms might explain the relatively lower level of early exit in this country. At the same time this change from welfare state programs to labour market mechanisms have been carried through at the expense of the wage level of individual workers and might result in a situation of 'work without welfare'.

If an extended pathway structure goes together with a strong labour market integration policy, we probably will find '*exit and entry*' (re-integration) at the same time. In those situations we might expect that entitlements for social security pathways are strictly bound to re-integration in the labour market. This is basically the concept of the 'Nordic countries' (Sweden, Norway, Denmark). Exit pathways are at the same time connected to a developed system of labour market integration policies. In these 'work-oriented-societies' work and welfare are directly related, even for older workers. The result is (was) a high level of labour market participation of all groups, including older workers.

Welfare and Work.

In case a developed pathway structure is not combined with a labour market integration policy we might expect a high level of early exit, or '*exit=exit*'. It is the pattern we find in the 'continental welfare states' with their passive compensatory nature of social insurance programs. France, Belgium, Germany and the Netherlands are extreme examples of this type. The programmatic structure of pathways does not allow combining work and welfare state provisions at the same time. It is a situation of 'welfare without work'

A fourth, and last type, is a situation of both lacking welfare state pathways and labour market integration policies. It is the 'extreme market model'. It depends on the economic situation as well as individual circumstances and choices whether we can observe '*exit or entry*'. Within the European Region Hungary is an example of this type. Hungary is characterized by a fragmented pathway structure with gaps between paid employment and public pension. These gaps have increased as a result of the 1998-change in the age of retirement. Between 1990 and 1998 the official retirement ages were 55 for women and 60 for men. In 1998 this age-limits have been changed in 62 for both men and women. Because the working conditions are bad and the life expectancy is low, older workers still prefer to leave the labour market below the age of 62. At this moment Hungary went through serious economic problems and structural industrial changes that at the same time have a 'push-effect' on the early exit of older workers. As a result from these different pressures and circumstances we can observe an ongoing process of early exit of older workers. The main pathway is unemployment. Given the benefit level of this scheme and the mentioned gaps in the system early exit in many occasions means entering the world of poverty. No Work, No Welfare

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