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PEER REVIEW OF THE FINNISH NATIONAL PROGRAMME ON AGEING WORKERS – AN AUSTRIAN VIEW

Ageing – a challenge for many EU Countries

The decline in fertility rates and the ageing of the workforce in many EU Member States pose a serious challenge to the countries concerned, especially in view of the rise in life expectancy. In spite of the latter, EU countries took to early retirement and/or disability pensions in the 1980s, and, in some instances, e.g., Austria, even in the 1990s, as a means of disguising unemployment.

Demographic change and economic events will result in the onset of labour scarcities in the second decade of the 21st century (Graph 1). As can be seen from the third column in graph 1, labour supply will start to decline for the EU15 in 2015, i.e. four years after the onset of the decline of the population in working age (column 2). Some countries, i.e., Italy (in 2004), Spain (in 2007), Austria, France and Germany (2001) will see the turning point in labour supply growth well before that time. This calls for a policy or urging the elderly to remain economically active until later in life than today. The dividing line between the retired population and the active work force is thus somewhat arbitrary and at least partially a policy instrument.

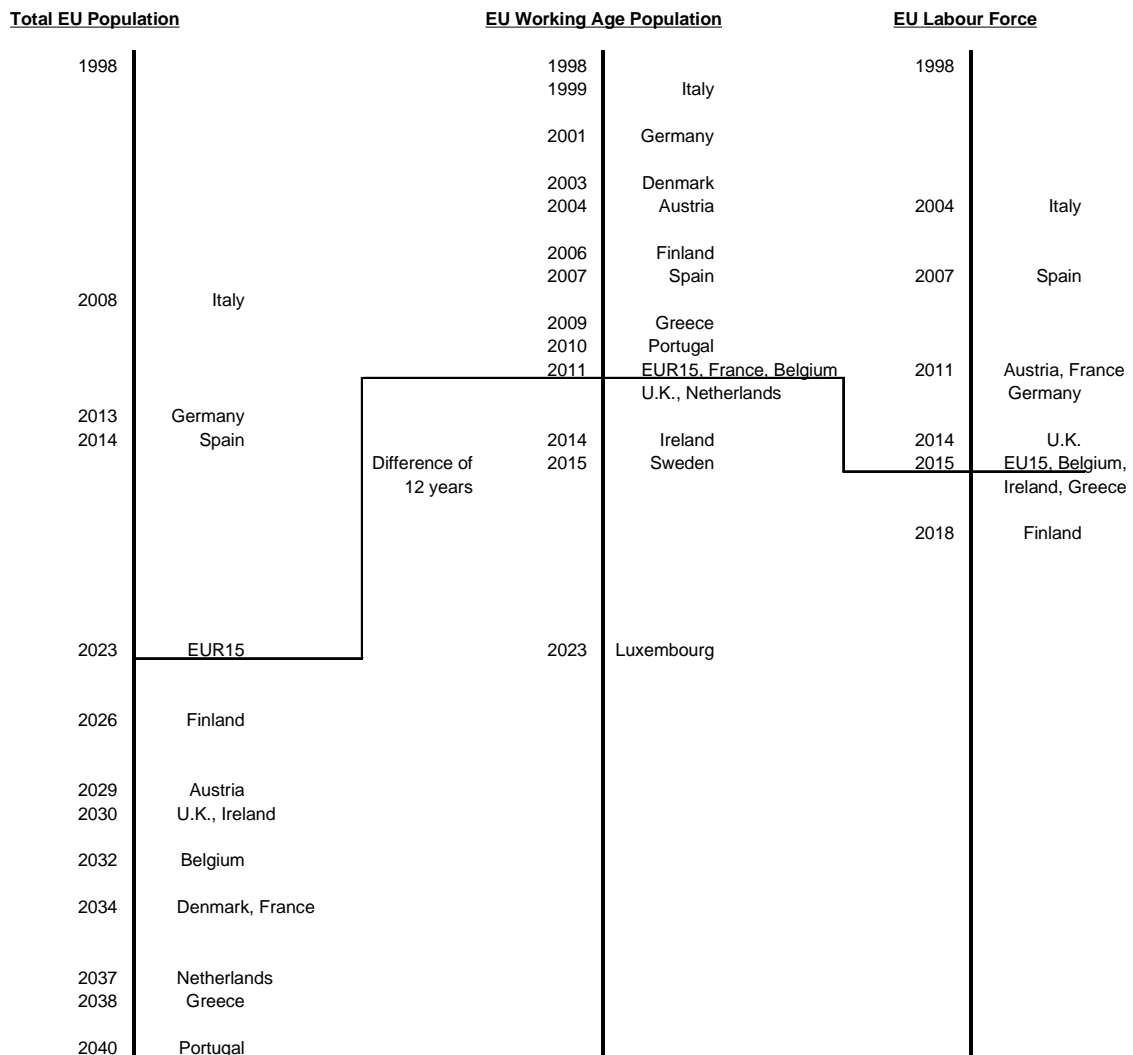
The prospects for drawing a larger proportion of the ageing population into the economically active population, depend not only on appropriate macro-economic policy to ensure adequate aggregate demand, but also on an efficient operation of the labour market. Ageing is thus not only a demographic process but also a socio-economic phenomenon, which poses challenges for the adaptation of institutions and policies.

How to avoid a loss of work-experienced human resources as well as generate an adequate labour supply to ensure an appropriate rate of economic growth and a rising standard of living? And how to minimise the burden of pensions on the working community? A deferment of the age of retirement from the workforce would obviously deal with both issues. But this is more easily said than done. It is well accepted that the extent to which mature age workers may be expected to continue in employment, either part-time or full-time, past their normal retirement age or even

after that, will depend on a variety of factors including their health, their financial position, the financial and other incentives to work, employer perceptions of their suitability for continued employment, the opportunities for re-skilling and the availability of jobs.

Graph 1: Turning points of total population, population of working age and labour supply in the EU member states

Turning Point of Total Population, Population of Working Age and Labor Supply in the EU
First Calendar Year of Decline or Stagnation



Source: EUROSTAT Projections, Baseline Scenario.

OECD figures show that labour force participation of mature age workers declines substantially compared to younger age groups. This is particularly so for those with lower educational qualifications. (OECD, 2002) But the issue goes beyond simply providing workers of all ages with improved facilities and incentives to acquire more relevant skills. The problem cannot be tackled successfully in a piecemeal fashion. It calls for a comprehensive and integrated approach as reflected in the Finnish National Programme for ageing workers.

The Finnish National Programme

The Finnish National Programme on Ageing Workers provides an interesting model for consideration by other countries, with particular modifications to allow for their different circumstances. Thus the opportunity for a second Peer Review to consider the operation of the Programme is most welcome. The strength of the Finnish Programme is that it is farsighted and strategically based - very comprehensive, national in scope, and backed by several supporting mechanisms - appropriate legislation, effective co-operation between relevant Ministries, pension provisions to provide incentives for later retirement, provision of workplace health promotion, widespread communication and access to information about the Programme to generate greater consciousness on the ageing workforce issues, continuing research, including case studies, to provide better guidance for policy, increased provision for education and training especially of older workers, and continuous monitoring and rigorous external evaluation. Targeted primarily on the 45 to 64 age group of employed and unemployed persons, its aim is focused on 'early exit from the labour market, low employment rate, unemployed people's poor outlook on finding new work, shortcomings in working capacity and competence, general prejudice and negative attitudes, even discrimination' of older persons in the workforce (The National Programme on Ageing Workers. Evaluation, 2002:32). To a greater or lesser extent, these characteristics may be expected to prevail in the labour markets of all other EU States.

The task of this Peer Review is to consider the outcome of the operation of the Programme over the last 5 years as reported by independent experts and to benefit from the Finish experience.

The results so far

It appears that despite the various supporting mechanism mentioned above, it is not clear that the Programme has made any impact on the discriminatory attitudes against older workers (ageism). However, the experts report an improvement in the employment rate of older workers rather faster than the younger age groups, since the pre-depression of 1989, while the average retirement rate has risen steadily, the rate of long term unemployment of older workers has fallen, and the share of aged workers in active labour market measures has increased.

These are encouraging signs that the Programme is working. But it is admitted that the effects of the Programme cannot be disentangled from other factors which will have operated in the same direction as elements of the Programme themselves. Thus the implementation of the Programme has been accompanied by a growing level of activity and a buoyant labour market which could be expected to result in a higher rate of retention and a higher employment rate of older workers even without the Programme. Thus the apparent success of the Programme may be much less than the figures reveal. Furthermore, the prospects of older workers finding work appear to continue to be far slimmer than those of younger workers.

Put against the Government's objective of raising the employment rate of the 45 to 64 age group close to 70 percent and the average age for exiting rate from the labour market 2 to 3 years closer to the official retirement age of 65, the results so far are well behind the mark. However, it would be wrong to regard these results as indicating failure of the Programme or that it is seriously deficient in certain respects or, indeed, that it is overly ambitious. The Programme has not been in operation long enough, effectively, barely a year since its implementation, for any pessimism to be warranted. Moreover, the last few years have called for substantial structural adjustments which have displaced the less skilled workers. It is unlikely that any necessary adjustments in the near future will be as severe in its impact on the less skilled.

Analysing the problem

As in most socio-economic issues, it is helpful to analyse the problem in terms of demand and supply factors. Both are influenced by conventions which the Programme is intent on changing in a way favourable to increasing the employment of older workers. So far it appears little if any change has taken place. Changing well established attitudes and conventions takes time and persistence. As the Experts Report points out (p. 2) 'To change peoples' attitudes on early retirement . . . when there is a background of decades of encouraging this, is a challenging task.'

The attitude of employers (the demand side), with its tendency to discriminate against older workers and to undervalue experience, is perhaps more critical than that of workers. Although employer attitude may be influenced by prejudice and lack of concern to provide suitable tasks and training for older workers, ultimately, the critical impetus will not come from the benevolence of employers towards older workers, but from the cost-effectiveness of employing such workers as against younger workers. Importantly, economic policy designed to maintain a steady and high level of employment could be expected to provide a better environment for the employment of older workers than mere exhortation although both are important. Furthermore, on the supply side, a buoyant labour market would also counter the tendency for older workers, particularly women, to be discouraged from staying in the workforce after protracted and unsuccessful search for jobs. In this connection, any significant retreat from a quasi-corporatist-welfare-oriented approach to economic policy towards neo-liberalism, with its attendant reliance on individualism

and solely on market-based solutions, may make progress towards achieving the objectives of the Programme more problematical.

A factor of significance for the employment of older workers is the proposed pension plan. On the demand side, concessions on employer contributions should act as an inducement to employ older workers; on the supply side, contributions from and pension entitlements to employees are designed to provide them with increased incentives, including a part-time pension scheme, to stay in the workforce longer (*The Many Faces of the National Programme on Ageing Workers*, 2002:53). This plan is to come fully into force in 2005 and it will be interesting to assess the effectiveness of the particular scale of pension contributions and entitlements of the plan. To provide further inducement for workers to defer retirement, consideration may perhaps also be given to a reduction in income tax rates, up to a certain level of income, for those staying in the work force.

A survey of experts (*The National Programme on Ageing Workers Evaluation*, Appendix 1) shows the relative importance of both demand and supply factors in connection with various questions posed. It appears that the attitude of employers is regarded as very important; and that on the supply side, the nature of the work offered to ageing workers (lighter workload, reduced pressure of time, work reorganisation) as well as financial incentives dominate the questions perceived to be important. This is not surprising. On the other hand, rather surprising, such matters as the quality of working life, pleasant work surroundings, relation to co-workers and, particularly, an improved system of training, are very low on the experts' list of importance in inducing greater workforce participation of older persons.

In respect of the last matter, the Evaluation Report notes the problem associated with the 'training gap' of the 'hard core' (the 55+ age group). The dilemma here is whether to persist in encouraging the training/retraining of the current 55+ workers despite the low prospects of their employment, or to by-pass training the present cohort in the expectation that succeeding 55+ cohorts, having better educational qualifications, will not suffer from the training gap to the same extent and respond more positively to training programmes. Only careful research can establish the appropriate course. It may be that there is a rapid rate of diminishing returns from the outlay on training the present 55+ group; and that it would be more cost effective to take a medium term view of the problem and put resources into ensuring a higher rate of retention in post compulsory education as well as giving greater emphasis to a lifelong learning approach of the existing younger members of the workforce. These would in time move into the ageing brackets better equipped to deal with the skill requirements of advancing technology. The changing nature of work, from manual to physically less demanding work opened up by technological developments, especially in the knowledge-based industries, provide increased scope for the employment of older workers who have at least obtained full secondary education. Such an approach should not compromise the focus of the present Programme and yet would be consistent with 'a broader approach to the age issue . . . more comprehensive look on the whole lifecycle.

. . . flexible arrangements in different points of the life cycle' approach raised by the Independent Experts Report (p. 17). The effect on social cohesion (*The National Programme on Ageing Workers. Evaluation, 2002:23*) in any policy will obviously have to be taken into account. It would be useful for further research to be undertaken into the reasons why *present* workers, meaningfully classified into age, occupation, location, gender, etc., exit the labour force. But if the present hard core group suffering a training gap has a tendency to seek early retirement anyway, despite incentives to remain in the workforce, as may well be the case, their 'exclusion' would be voluntary. In the circumstances, it is unlikely that social cohesion would be a problem.

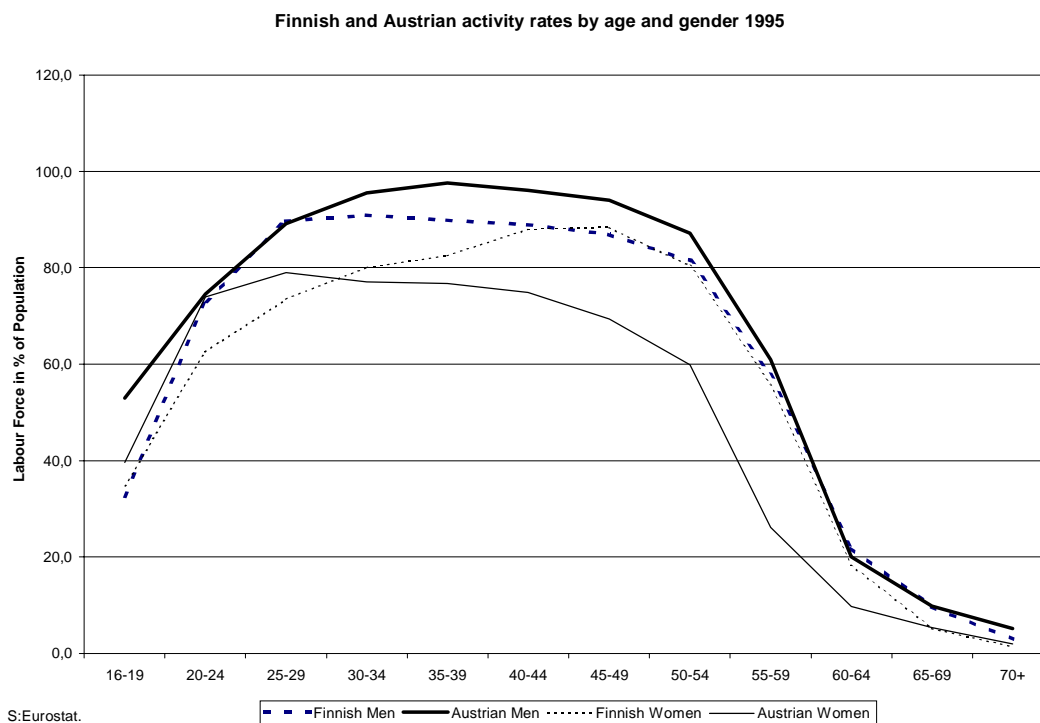
There remains the final intriguing issue posed by the Independent Experts: the integration of working life and the rest of life (p.18), which raises the question whether the measures inherent in the Programme reach the right target group. Should the focus be on the better educated who appear to prefer shorter working hours and part-time pensions, or those in a less favoured labour market situation? A tentative answer is that the measures should be directed at both groups.

The Austrian story

The ageing of the population of working age commenced in the 1990s and will continue well into the next century. The pattern of ageing differs between Austria and Finland – Austria has had much stronger fluctuations in cohort size, i.e., the baby-boom (mid 1950s to mid 1960s) and baby-bust (1970s) were much more pronounced. In the case of the labour force, the activity rates of Finnish and Austrian men differ somewhat – Austrian men tend to have higher activity rates in every major age group except in the case of older workers; labour market behaviour of women is, however, very different. 1995 is taken as the departure point for analysis, since it allows a better judgement of the effect of the Finnish policy, which was launched in 1998, compared to Austria.

Graph 2 shows that the integration of older men into the labour market was rather similar in the mid 1990s – and at the lower end in an EU context. The activity rates of women, however, demonstrate a very different life cycle behaviour of women in the two countries. While Austrian women tend to be integrated into the labour market to a larger extent than in Finland when they are young, Finnish women overtake Austrian women around the age of 30 and approach the labour market behaviour of Finnish men. From the mid-40s onwards there is hardly any difference in male and female labour force participation in Finland, whereas Austrian women have 24 percentage points lower activity rates than men in this age group (45 to 54 year olds). Educational, welfare and tax systems and policies as well as economic developments and cultural factors account for these differences in labour force participation by age and gender.

Graph 2: Finnish and Austrian activity rates by age and gender 1995

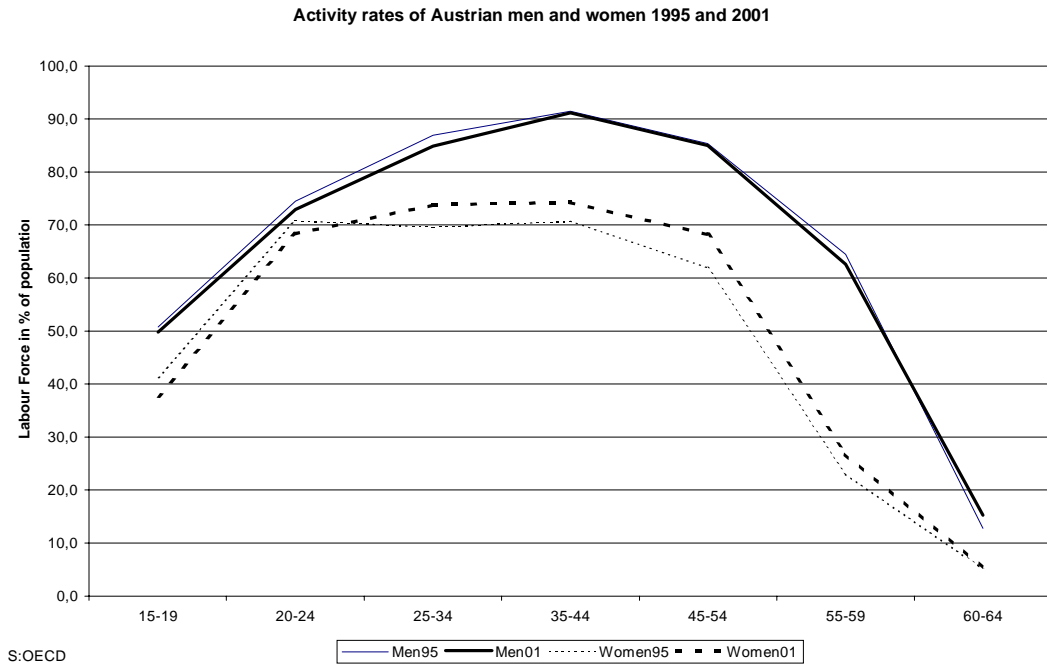


In the mid 1990s, different demographic, socio-economic as well as institutional factors resulted in a spread of the share of older workers in the labour force (50 to 65 year olds) in the EU from 14 to 26 percent. The lowest proportion of older workers in the work force was in core EU countries, Belgium, Netherlands, Luxembourg, France, and in newcomers to the EU at the eastern borders (Austria and Finland), with shares ranging from 14 to 17 percent. Next in line are the southern European countries Italy and Spain, and Ireland, with shares around 18 percent. Then, in the intermediate category, the U.K. and Denmark with about 20 percent. Finally, the high figures in the South, Portugal and Greece, which are a result of the relatively large share of small scale farming and non-agricultural self-employment in total employment; the highest shares in Central Europe has Germany with 23 percent, in the North Sweden with 26 percent.

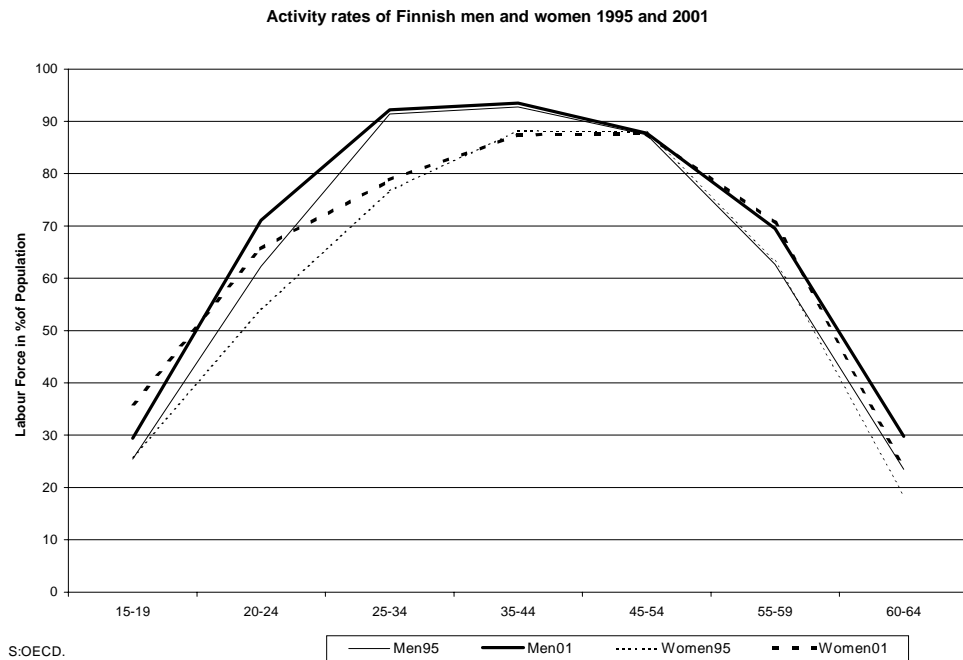
While the share of older workers in the labour force has increased somewhat in Austria and Finland – in the first instance, mainly as a result of demographic shifts, in the latter due to changes in the behaviour patterns – the share of older workers in the total labour force remains at the lower end of the EU countries (Austria 2001: men 18.9 percent , women: 14.9 percent, all 50+ in percent of total labour force: 17.1 percent).

The change in behaviour patterns of older workers between the mid 1990s and 2001 in the case of Finland and the lack of it in Austria is reflected in graphs 3 and 4.

Graph 3: Activity rates of Austrian men and women 1995 and 2001



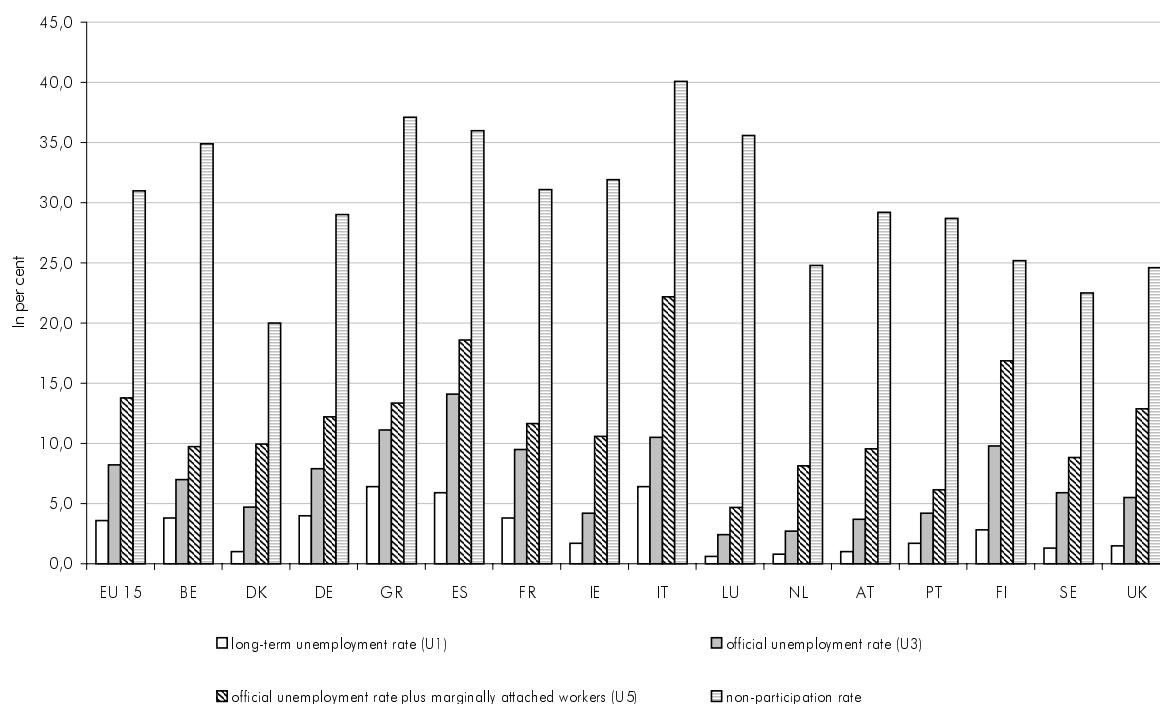
Graph 4: Activity rates of Finnish men and women 1995 and 2001



Did something go wrong in Austria?

One of the major reasons for the limited progress in the integration of older workers into the labour market is the lack of consensus of the socio-economic actors in Austria that this is the right policy at the particular point in time. The unemployment rate is still rather high in a historical context – even though not in comparison with other EU countries¹. In addition, the marginal labour force is relatively large, documented in a strong cyclical fluctuation of labour supply. This together with a major concern for youth employment (youth is exhibiting above average unemployment rates) and a fear that integration measures for older workers might be to the detriment of employment opportunities of youth, explain the half-hearted approach in tackling the problem of the substantially lower actual retirement age than the law foresees.

Graph 5: Long-term unemployment rate (U1), Unemployment rate (U3), Unemployment rate including marginally attached persons and discouraged workers (U5), and Non-participation rate (15-64): 2000



S: EUROSTAT, WIFO.

The long-term unemployment rate (U1) measures the number of workers, who have been without a job for one year or more as a proportion of the labour force (in which those working for one hour or more per week are considered to be employed); the unemployment rate traditionally used for international comparison (U3) takes the number of unemployed as a percentage of the labour

¹ Only the Netherlands and Luxembourg have lower unemployment rates than Austria.

force (as defined above); U5 is a less minimalist measure of unemployment; it also includes those persons in the denominator who are currently not actively searching for a job, either because they are discouraged or because they are engaging in some non-market work (e.g., care for family members); they declare in the household survey that they would like to work. The 4th indicator is the non-participation rate of the 15 to 64 year olds, where persons, who are not on the labour market, e.g., housewives, students, early retirees, disability pensioners and people in penitentiaries and other institutions, are taken as a proportion of the population of working age.

The socio-economic institutional system (tax system, wage policy), as well as social and labour market policy (early retirement schemes) have tended to promote early exit from the labour market in Austria. Strong family-related elements in the tax system as well as other institutional factors account for a relatively large difference in labour force participation of men and women in the main working age. All these factors taken together imply a policy stance which promotes a lower labour supply which in turn tends to keep unemployment low². Of course, the socio-economic composition of the population also plays a role.

In contrast, countries like the UK, exhibit a high degree of integration of the working age population into the labour market (one of the lowest non-participation rates in the EU — rank number 3); but a large proportion of the labour force is unemployed (U3: rank 7) or marginally attached (U5: rank 11). Institutional arrangements may also account for this type of labour market behaviour. Austria is number three as to U3, number 5 in the ranking of unemployment rates, when taking the marginally attached into account (U5). If, in addition, one takes the degree of non-integration of the population into the labour market into account, i.e. the non-participation rate, Austria falls back to rank number 8 within the EU.

All that said, it is clear that the institutional setting of a country has an impact on the type and degree of integration of the population of working age into the labour market and into employment.

Early retirement and disability pensions as the preferred way to stem the tide of rising unemployment

Currently (2001) some 280,000 persons are in 'early' retirement, i.e., are in retirement before the legal retirement age (60 in the case of women and 65 in the case of men). This constitutes some 20 percent of the 50 to 64 year old population. About half are early retirees who have worked the number of years necessary to be eligible for a pension. This number rose strongly after the pension reform of 1993 (particularly in the case of 55 to 59 year old women), which took a certain number of years of care for one's own children (maximum 4 years per child) into account in the

² Austria thus has a preference for labour supply policies rather than demand policies (macro-economic policies) to keep unemployment down.

granting of an independent pension (Eigenpension). The other half of the premature withdrawals from the labour market are disability pensioners³. There has not only been a continuous decline in the early exit rate of the elderly since the first major reform step in 1993 but also a considerable shift away from disability pensions to early retirement pensions in the course of the 1990s.

Graph 6: Early exit from the labour market due to early retirement and disability in percent of population 50 to 64



In 2000, the average retirement age of women was 56.8 years (compared to 60.4 years in 1970) and 58.4 years for men (compared to 61.9 in 1970). In contrast, the average age of mortality rose between 1970 and 2000 from 75.7 to 80.2 years in the case of women and from 73.3 to 75.2 in the case of men. The average pension is in the case of women 52 percent, for men 59 percent, of the median income of the employed workforce. Total outlays for pensions amounts to 10.9 percent of GDP.

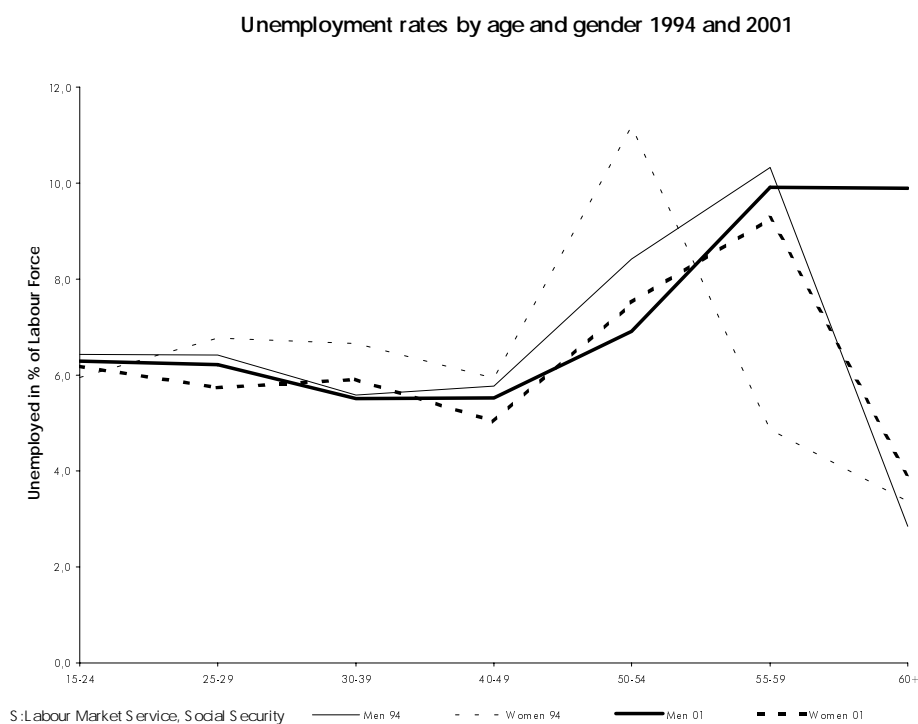
In order to reduce the high level of inactivity of the elderly, a pension reform was enacted in the year 2000. The major steps of reform related to early retirement due to disability – elderly with a reduced capacity to work (handicap) may now be denied the right to early retirement, also

³ This is a very broad, contrived definition of disability; basically, every elderly person who could prove a reduced capacity to work could apply for early withdrawal from the labour market and receive a pension until the reform of 2000.

unemployed older workers. The age of early retirement has been raised by 1.5 years. The reform steps have already raised the average retirement age in the year 2001 by 0.2 years in the case of men and by 0.5 years in the case of women. It is going to be a slow process until the activity rate of older workers approaches the levels of the 1970s.

The effect of the denial of early retirement to elderly unemployed persons in 2001 is clearly visible in the development of the unemployment rate of older workers in that year. The unemployment rate of 55 to 59 year old men remained at the same level as the rate of the over 60 year olds (9.9 percent) Graph 7. This is in stark contrast to 1994, when the unemployment rate of the 55 to 59 year old men was similarly high but dropped thereafter because of the possibility to go into early retirement. This change in recent policy, i.e., the denial of the right to early retirement to persons obtaining the age of 60 in 2001, resulted both, an increased duration of unemployment and an increased incidence of unemployment of persons 60 and over. Graph 8.

Graph 7: Unemployment rates by age and gender 1994 and 2001

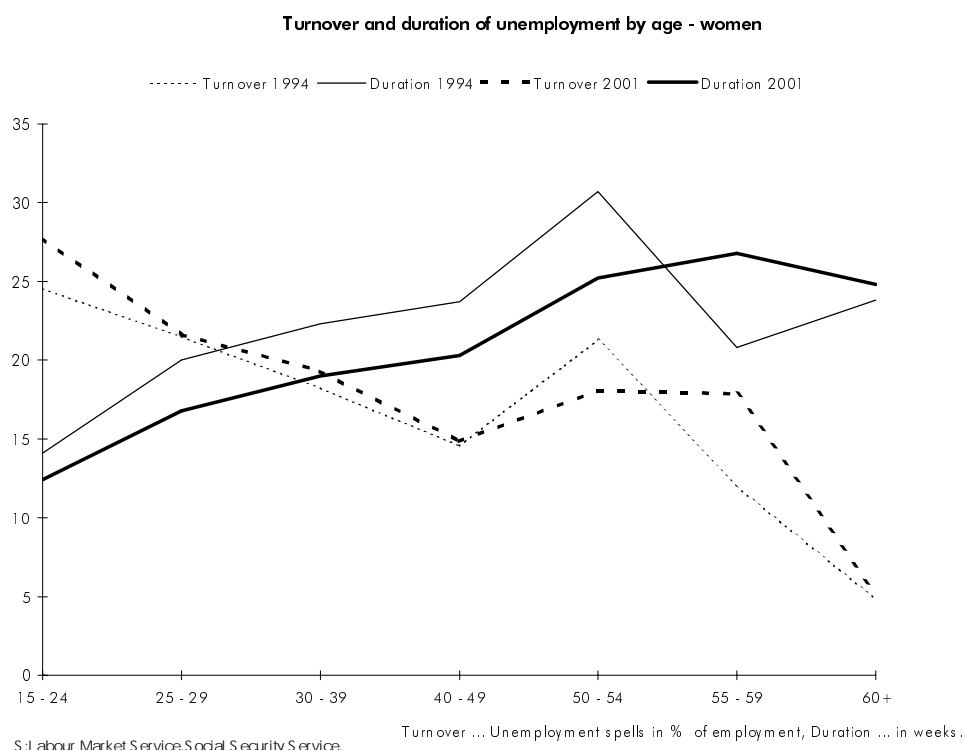


Graph 8: Turnover and duration of unemployment by age – men



In contrast, the unemployment rate of elderly women was significantly lower in 2001 compared to 1994, not least because retirement from the work force to take care of children was taken into account in the calculation of the obligatory years of work/insurance. This resulted in a decline in the duration of unemployment of elderly women (graph 9). By the same token, i.e., facilitation of early retirement through taking childrearing into account, the incidence of unemployment of elderly women declined.

Graph 9: Turnover and duration of unemployment by age – women



Active labour market policy measures for elderly

As early retirement becomes less of an option for the elderly, the Labour Market Service assumes increased importance in the promotion of employment of older workers. This is in the main done by subsidising a reduction of working hours (phasing out) of older workers and re-employment of unemployed older workers (traditional integration measure). The former (Altersteilzeit) provides in effect an opportunity for older workers to circumvent the early retirement reform of 2000. In 2002 some 20,000 older men and women chose this course, which does not entail any additional costs to the employer – the employer only pays the actual working time. It does, however, involve expenditures for the Labour Market Service. The rationale for enticing older workers to reduce their working hours through a subsidy, is the hope that unemployed workers will be employed instead. There is no legal obligation for the employer, however⁴, to do so.

⁴ Contrary to Germany.

Marginal employment subsidies for the re-employment of the hard to place have been around since the 1980s⁵. In 1997 a new version has been introduced – Come Back. This allows the long-term unemployed to find an employer, who may receive up to 141 percent of the benefit the long-term unemployed would have received in exchange for a normal, social security backed, employment contract. The instrument has been taken up by employers in the main in the form of part-time employment. Somewhat more than one third of the employment subsidies benefit workers over 45.

All that said, the proportion of older workers thus helped to remain in employment or to regain employment in the year 2001 by this type of active labour market policy measure, does not amount to much more than 2 percent of the population aged between 50 and 64. This is only the beginning of the promotion of employment of older workers but it is a step in the direction Finland has taken.

Austria's priorities have been elsewhere, as has been pointed out. The timing and sequencing of integration measures for the elderly in Austria are tuned to the demographically induced labour supply scarcities at the onset of the second decade of the 21st century. The Finnish example of a comprehensive integration programme provides an indication of the time it takes from the implementation of a comprehensive integration policy to positive results. This suggests that the reforms of early retirement and disability pensions undertaken in the year 2001 are steps in the direction of raising the activity rate of the elderly. Unless these reform measures are accompanied by employment policies, they are not going to lead to an increased employment rate of older workers, however. The Finnish example demonstrates that a multiplicity of measures are necessary to raise the employment rate of older workers. If one takes into consideration that the unemployment rate in Finland is substantially higher than in Austria, one has to congratulate the designers of that programme to their courage to undertake integration measures for older workers. There are bound to be substitution effects between older workers and other unemployed, which represent a challenge to solidarity amongst the beneficiaries of the integration programmes and the unemployed. Thus, Finland has been very courageous to undertake these measures, which are the right ones from a long-term policy perspective.

Austria, in contrast, has not yet adopted a comprehensive policy stance towards increasing the employment rate of older workers. The reforms, which have been underway since 1993 (graph 6), are geared towards reducing the early exit rate of older workers without concomitant changes in the wage and tax policy on the one hand and demand policies on the other, which would ensure an increase in the employment rate of the elderly. Austria can thus learn from the Finnish model on how to proceed in its quest for increased integration of the elderly into the labour market.

⁵ In the case of a deficiency of labour market skills, education and training measures are the preferred active labour market policy measure. In other cases an employment subsidy may be the more promising integration route.

To sum up, Austria has not yet reached a political consensus on the need to bring the early exit from work culture to an end. There is a recognition of the need to reform the retirement pension schemes on the one hand and the concomitant need to increase the employment rate of older persons, e.g. an objective in the NAP 2002. The programmes so far are basically financial incentive schemes to remaining in the labour market beyond the statutory retirement age and penalty rates for retirement before the age of 60. No satisfactory solution for the phasing out of older workers has been found yet. Before one may expect to improve the employment rate of older workers a change in paradigm is needed, i.e., an understanding that older workers are an important resource of firms and the society rather than a burden. The improvement of the working conditions and the status of older workers in the society may not only act as an important motivating factor for older workers but also for youth, who currently have a rather bleak outlook and limited expectations as to their own well being in old age. The transferability of the Finnish ageing programme is, however, difficult, not least because of the fragmentation of the Austrian political actors. Austria does not have a tradition of co-operation and co-ordination of policy between the different ministries. Health policy in particular is regionalised together with social policy, which represents a major challenge for co-ordination with education and labour market policy.

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