

Pension reform and ageing populations in developed economies

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The forthcoming Session of the International Labour Conference will also discuss pension reform in developed economies. The debate will be continued in 2012 when the Conference will hold a general discussion on employment and social protection in the new demographic context. The two discussions are expected to redefine the position of the ILO vis-à-vis policies recommended by other international organizations in this area. Gary Humphreys, a US-based journalist, reports.

"In 1950 there were more than seven people of working age for every pensioner in the OECD," says Edward Whitehouse, an economist at the Social Policy Division in the Directorate of Employment, Labour and Social Affairs at the Organisation for Economic Co-operation and Development (OECD). "By 2047 that number is likely to fall to just two workers per pensioner."

Whitehouse believes that addressing this problem will require a mobilization of all available resources in labour markets to boost productivity. That mobilization includes making older people, and particularly older men, work longer, whether by increasing retirement ages or reducing incentives for workers to retire early. "Since the 1970s the work participation rates for older men have fallen substantially," Whitehouse says, pointing to incentives embedded in pension systems as the main driver of the trend.

Problem understood?

That this problem is well understood is evidenced by the trend in pension reform undertaken by a range of countries over the past decade, Whitehouse says, noting that in almost every case policy-makers have included some element designed to encourage people to work longer and to deal with provisions that significantly encouraged early retirement. Not every country has taken that line, however, and Whitehouse notes that Greece, Luxembourg, Spain, and Turkey have until now not chosen to make such changes.

But is the OECD right to put such emphasis on pension reform? Martin O'Brien, an economist and specialist in older worker employment issues at the University of Wollongong, Australia doesn't think so, arguing that the OECD fails to take into account the impact of labour market conditions on the choices made by older workers. "While some OECD research appears to recognize the labour market disadvantage faced by older workers, including in comparable estimation results of labour market variables, it is unwilling to advocate a strong active policy stance on labour demand and employment," states O'Brien in a recent article.¹

Other necessary policy responses

From an ILO point of view a discussion on the demographic challenges societies are facing worldwide should also include the following issues:

- An integrated and coherent approach to youth employment promotion
- Increasing female labour force participation and promoting gender equality
- Promoting employment opportunities for people with disabilities
- Managing migration
- Improving employment opportunities for older people

¹ M. J. O'Brien: "Older male labour force participation in OECD countries: Pension reform and 'the reserve army' of labour", 2010.

- Investing in employability within a lifelong learning framework
- Combating age-related prejudices and discrimination with particular attention to older women
- Creating fair and safe working conditions for all workers

In other words, tinkering with the pension system won't mean much unless there are jobs available for older men to stay in. John Woodall, a senior social security specialist at the ILO, concurs. "It needs to be stated and restated strongly that the idea of keeping people in work longer is only realistic if suitable work opportunities are available," he says.

Whitehouse rejects the notion that the OECD is neglecting the issue of demand for older workers. "We're well aware of this problem," he says, pointing to recent OECD publications that highlight the number of OECD countries that now have in place some form of legislation banning age discrimination in employment, for example. However, for Whitehouse, the evidence on the efficacy of such policies is unconvincing, as noted in a recent OECD report² that states: "It is difficult to detect whether these measures have been effective in tackling age discrimination and improving employment opportunities for older people."

For the ILO's John Woodall there is a broad overlap in the ILO's and OECD's analysis of the issues. "I think this would be agreed in general terms among all the agencies working on the field – certainly including the ILO, the OECD and the World Bank," Woodall says.

Need for an integrated approach

That said, Woodall believes that there is an important difference in emphasis that needs to be acknowledged. "The differences [between the institutions] concern assessing the weight to be placed on different aspects of the broad issue," he says. According to Woodall, "it is of the utmost importance to recognize that the issues of financing retirement benefits as societies age and adapting labour market policies to the needs of older workers are intimately linked. These issues must be addressed in an integrated manner."

² A. C. d'Addio, M. Keese and E. Whitehouse: "Population ageing and labour markets", in *Oxford Review of Economic Policy*: forthcoming issue on *Population ageing*.