2010

Exploring older worker labour force participation across OECD countries in the context of ageing populations: a reserve army of labour?

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Publication Details

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Keywords
Exploring, older, worker, labour, force, participation, across, OECD, countries, context, ageing, populations, reserve, army, labour

Disciplines
Business | Social and Behavioral Sciences

Publication Details

This conference paper is available at Research Online: http://ro.uow.edu.au/commpapers/1267
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Abstract

The governments of many developed economies are facing policy issues associated with ageing populations. Pension reforms, increasing labour force participation of older workers and increasing the standard retirement age are policy reforms suggested by the OECD to address ageing populations. However, many of the same governments now embracing these reforms had until recently encouraged early exit of older workers from the labour force in periods of excess labour supply, leading to allegations that these governments had treated older workers as a “reserve army of labour”. In this paper a panel model is estimated for the labour force participation of males aged 55-59 and 60-64 years in 21 OECD countries as a function of social security generosity and labour market variables using biennial data covering the time period 1961 to 2003. The findings emphasise the role of the labour market variables over social security generosity for explaining older worker labour force participation trends. This implies that OECD governments will now struggle to mobilise older workers as a reserve army of labour in response to ageing society pressures through pension policy reform alone without addressing the role of the aggregate labour market.

Introduction

The governments of many developed countries are facing a number of policy issues associated with ageing populations. That is, a demographic shift toward an increase in the older age group population compared to younger age groups. This has generally been the result of both decreases in fertility rates, increases in life expectancy, as well as the ageing of the baby boomer generation which forms a large segment of most populations. Such ageing societies face challenges associated with changing consumption patterns, labour force participation, healthcare and pension usage. As such, ageing of populations in countries with developed economies has inspired research and analysis of older workers labour force participation and pension usage in both those countries affected by ageing populations as well as by international institutions. This is because an increasing proportion of the older population, traditionally reliant upon publically funded pensions and healthcare, and a decreasing proportion of the population in the traditional workforce age group paying income tax, has been perceived to place strain on future government budgets.

Three international institutions that advocate alternative government policies to address labour force participation of older workers and pension financing associated with ageing populations are the World Bank, Organisation for Economic Co-operation and Development (OECD), and International Labour Organization (ILO). Government efforts to either encourage or discourage labour force participation of certain groups brings us the concept of the Reserve Army of Labour (RAL). In contrast to orthodox economists who would emphasise the microeconomic focus of financial incentives associated with non-wage forms of income such as pensions and private saving for older worker labour force participation, Marxist or radical economists would contend that the State plays an active role in manipulating the labour force status of older males in response to aggregate labour market conditions. Therefore, it is alleged that older workers are removed from the labour force in periods of labour supply surplus and mobilised into the labour force during periods of labour supply shortages.

There are two main aspects to the research presented here. First, we present the background to recent policy reforms expected to affect older worker labour force participation. Then we look at the trends evident in labour participation of older workers in OECD countries and analyse various theoretical explanations for such. A clear divide is evident between orthodox theories that emphasise a microeconomic reaction to financial incentives for the work/leisure choice versus non-orthodox theories such as the RAL hypothesis which emphasise macroeconomic forces external to the individual. The second part of the research involves quantitative modelling.
of the influences of social security generosity and labour market conditions on the labour force participation of older workers (55-64 years) across OECD countries. Using panel data from 21 OECD countries over the period 1961 to 2003 we estimate an econometric model of older male labour force participation as a function of social security generosity and features of the aggregate labour market.

The findings suggest that recent pension reforms to increase labour force participation of older workers does not neatly fit the RAL concept. This implies that OECD governments will struggle to mobilise older workers as a reserve army of labour in response to ageing society pressures through pension policy reform alone without addressing the role of the aggregate labour market. Thus, the findings are more conducive the ILO policy recommendations of a full employment policy.

Demographic ageing of populations and the policy platforms of the World Bank, OECD and the ILO

An ageing society occurs when there is an increase in the older population (generally aged 65 years and over) amongst the general population. The populations of many developed economies are experiencing such a demographic phenomenon as a result of both declining fertility rates and increased life expectancy. For example, the average fertility rate in OECD countries has declined from above 3.23 children per woman aged 15 to 49 in 1960 to below 1.65 in 2006 (OECD 2009a). Ceteris paribus, a fertility rate of 2.1 is required to maintain population stability. Turkey and Mexico are the only two OECD countries to have fertility rates above 2.1. The ageing population phenomenon is exacerbated by increasing life expectancy, with the OECD average life expectancy increasing from 65.8 and 70.8 years in 1960 to 81.7 and 76 years in 2006 for females and males respectively (OECD 2009a). Apart from the declining fertility rates and increasing life expectancy, ageing of OECD country populations is intensifying as a large proportion of the population, comprising the baby boomer generation (born between 1946 and 1960) gradually age, and reach the mandatory retirement age (generally 65 years) between 2011 and 2025.

The main policy concern anticipated for governments experiencing ageing populations was of supporting a growing proportion of older citizens in terms of social security and health expenditures traditionally reliant on the public purse. Coexisting with this situation of course is a smaller proportion of the population in the traditional working ages of 15 to 64 years. Therefore, while the proportion of the population ‘dependent’ on social expenditure spending was expected to increase, the proportion of persons ‘active’ and working, and thereby forming the traditional income tax base to fund such expenditure, was expected to shrink. At the very least, this situation was expected to put strain on the governments’ budget to finance its social security and health obligations. At the extreme, this situation was speculated to lead to intergenerational conflict from a younger minority financially supporting an ageing majority (Johnson et al. 1989). Of course, this situation became further complicated by early retirement or exit trends that emerged from the 1970’s onward.

Because of population ageing, older worker labour force participation rates, as well as social security pension reliance, have become important policy issues. As such, a number of international institutions have suggested, and national governments implemented, various social security pension reforms aimed at restricting pension eligibility and increasing the labour force participation rates for older workers. Three international institutions have contributed to policy platforms to address ageing populations, namely, the World Bank, the OECD, and the ILO. Each has a different political agenda and policy recommendations, and thus different implications for older male labour force participation rates and social security pension use.

The World Bank recommends a gradual shift away from publicly managed pay-as-you-go schemes. Instead, a multiple pillar retirement income system is advocated, consisting of a mandatory publicly managed unfunded scheme supported by a privately managed funded scheme, and supplemented by voluntary savings schemes (World Bank 1994; Holzmann 1998). However, because they are primarily lenders to governments in dire circumstances, their power
only spreads to a relative few countries. Therefore, many of the developed economies facing ageing population profiles will not be directly affected by the World Bank’s policy position.

The OECD recommends both welfare reform and encouraging longer labour force participation. The OECD research contends that older worker labour force participation has fallen over recent decades because of generous social security criteria and benefit levels (generally measured by replacement rates), allowing older workers to exit the labour force prematurely. Therefore, the removal of pensions that allow early exit from the labour force, reduced financial incentives for early exit, and increasing the standard age of retirement are all expected to increase labour force participation (OECD 1995, 1998; Blöndal and Scarpetta 1998; Casey 1998; Casey et al. 2003; Duval 2003; Burniaux et al. 2004).

Their research focuses solely on supply side issues and its evolution can be described as a three part process (O’Brien 2001). First, the identification of the future budget exposure posed by an ageing society, especially publicly funded pensions. Second, the role of these pensions for explaining the decline in older labour force participation was established. Finally, this research justifies the role of pension reform for reversing early retirement trends via restrictions to eligibility and lower social security pension value, thereby justifying a diminishing role for public pension financing. Some OECD research accepts the labour market problems faced by older workers (e.g. OECD 1995), but that these problems receive little policy attention in comparison to labour supply based initiatives.

In contrast, the ILO suggests a full employment policy, anti age discrimination action, and publicly funded pensions (ILO 1995, 2003; Auer and Fortuny 2000). The ILO largely rejects the rationale for the move from public to private funded retirement income schemes suggested by other institutions (Gillion 1998). However, it is apparent that most countries have adhered to the OECD and World Bank strategies of trying to reduce government responsibility for pension financing and either directly or indirectly trying to increase older worker labour force participation through addressing financial incentives for early exit inherent in social security schemes.

**OECD countries’ older worker labour force participation trends and theoretical explanations**

Individual countries face different challenges associated with ageing populations associated with their older worker labour force participation trends, social security pension systems, stage of population ageing, as well as political considerations. As expected, the labour force participation rates for males aged 60-64 years are generally lower than for those aged 55-59. In addition, many countries display a dramatic decline in the 60-64 year age group’s rates from the 1970s to the 1990s compared to a more gradual decline for those aged 55-59 years, except Japan. Finally, most countries display relative stability or increases in both age groups’ rates in more recent years. There are obvious variations in the trends observed for the different OECD countries suggesting that different factors are at force. The European countries generally show a larger fall in participation rates over time, in contrast to the US and Japan which display relatively high and stable participation. Australia would seem to occupy a position in between these two extremes (OECD 2009b).

Theoretical explanations for older worker labour force participation rates include roles for labour supply choice, labour demand, the institutional framework, and/or State policies. The orthodox model of labour force participation emphasises the individual’s decision between work and leisure as a response to relative price (financial) variables, which in turn are conditioned by their tastes and preferences for work and leisure. Alternative theorists argue that elements left exogenous to this model are fundamental to explaining older male labour force participation stylised facts. That is, the labour demand and the institutional framework of the labour market. Labour market explanations include the neoclassical labour demand theory and segmented labour market theory, addressing the firm’s design of financial incentives, as well as the potential role of structural changes and changes to employer labour use strategies over time. Finally, aggregate labour demand explanations include the discouraged worker hypothesis and the reserve army of labour explanations. These latter theories suggest that older workers occupy a disadvantaged position in the labour market, particularly in the face of aggregate
labour supply surplus, and the selective way certain groups within the labour markets can be manipulated by policy makers’ decisions.

O’Brien (2001) showed a clear divide in the literature between explanations prevalent in US versus European literature. A perusal of US literature on older worker participation reveals the apparent operation of orthodox theories and the lifecycle model of labour supply, emphasising individual preferences and response to financial influences. This literature establishes the role for rising wealth and an income effect, generous social security and (private) pensions, and poor health for declining older labour force participation. Further research suggests that the influence of poor health has been an illusion. With the ‘correct’ health variable measurement, this decision is also dominated by financial variables (Bazzoli 1985; Costa 1996). This paradigm also suggests job loss results in an increase in the expected retirement age (Chan and Stevens 1999). Empirical models have incorporated increasing dynamic and structural complexity over time, again reflecting the lifecycle model, and in part reflecting the availability of longitudinal data (Leonesio 1996).

However, most European literature emphasises labour demand constraints that have affected the relative position of older workers in the labour market, and that governments’ labour supply policy reacted to this by removing older unemployed workers from the labour force, as well as actively removing employed older workers in favour of youth employment.

Casey and Laczko (1989) question the mere description of older worker labour force participation trends in many European nations as early retirement, noting the large role of involuntary job loss, and instead describing trends more accurately as long term unemployment. Laczko and Phillipson’s (1991) findings also challenge the simpler version of the orthodox model of work-leisure predictions, describing the prevalence of a labour force state as early exit, representing an indeterminate status between the traditional two states of employment and traditional retirement age at 65. Early exit is distinguished from early retirement, the former is associated with unemployment, especially for the low skilled and low educated in industries experiencing structural decline. Older workers were thus characterised as a reserve army of labour (RAL).

The concept of the RAL was first proposed by Karl Marx. The existence and persistence of business cycles or crises was fundamental to Marx’s depiction of a capitalist economy. Furthermore, Marx argued that a reserve army of (surplus) labour was required for, and was the product of, capitalist production and accumulation (Power 1983). The ability to mobilise marginal labour into the labour force is desirable for capitalists, as it allows expansion of production without running into labour supply constraints and also keeps wages down. This RAL is then deemed expendable in periods of downturn or stagnation, until required for the next expansion phase. RAL theorists also emphasise the role played by the State for the formation or demobilisation of the reserve army in response to capitalists’ needs. This is in keeping with the radical economists’ view that the State acts primarily to protect the interests of the capitalist class. Therefore, the key proposition in this theory is to establish whether governments are an active party to the manipulation of older workers’ labour force status according to aggregate labour market conditions. That is, older male workers being systematically removed from the labour force in periods of sustained high unemployment, and coerced into participation in periods of tighter labour market conditions. Researchers have noted the role of aggregate unemployment for European governments’ older worker labour supply policy, such as Job Release Schemes and social security design, especially in the 1980s. This was in contrast to policy measures designed to keep older workers active after World War II in the face of labour shortages.

This RAL hypothesis has found mainstream acceptance in recent times among third generation segmented labour market theorists such as Rubery (1992) and Peck (1996). Older male workers may form a distinct segment of the labour force that can be manipulated as a RAL by the State. A weak position in the labour market where older workers can be marginalised would appear be a precondition for this theory to operate. Furthermore, it may be seen as socially acceptable to target older males as the reserve army if they are subject to employment difficulties, have the alternative role of early retirement, or could be seen as freeing up employment for other deserving groups such as the youth. The design of social security
pensions reflecting unemployment and weak labour market conditions as part of welfare policy would then provide an avenue to manipulate the labour force status of such workers.

Notably, RAL explanations and the use of early exit measures in periods of excess labour supply are not evident in the policies of all European countries. Stille (1999) noted that older worker labour force participation rates in countries allowing early exit measures tend to be substantially lower than prime-age, with little difference between older and prime-aged unemployment rates. Examples of such countries include Belgium, France, Italy, and The Netherlands. In contrast, other European nations not encouraging early exit exhibit similar labour force participation rates for all age groups, but substantially higher unemployment rates for older workers versus prime-age workers.

Strangely, aspects of OECD research would appear to agree with aspects of the RAL hypothesis. OECD (1995) discussed employment disadvantages of older workers such as the greater likelihood of becoming separated from employment involuntarily, and remaining so. Furthermore, it was acknowledged that this situation was often addressed by government policy intervention to remove the older unemployed from the labour market in the face of high aggregate unemployment levels. Therefore, these findings seem to recognise the role of deficient labour demand and aggregate labour market explanations for declining older worker labour force participation rates, however, no policy recommendations have been suggested by the OECD to address such.

**Method**

A panel econometric model of older male labour force participation will be specified and estimated in this paper covering 21 OECD countries and biennial data covering the period 1961 to 2003. In line with the above discussion of various explanations of older worker labour force participation over time we assume that older male labour force participation rates are a function of social security generosity and labour market variables thereby representing both financial considerations that may ‘pull’ workers from the labour force as well as external labour market constraints that may ‘push’ workers out. The eligibility of various social security pensions is not directly incorporated into this reduced form model, however, separate models are estimated for males aged 55-59 and 60-64 years which indirectly takes into account different age eligibility rules that may be present. The basic restricted model is specified as follows:

\[ LFPR_{kti} = \beta_0 + \beta_1 \text{SSRR}_i + \beta_2 \text{UNEMP}_i + \beta_3 \text{PRIME}_i + \epsilon_{kit} \]  

where \( k \) denotes the age group 55-59 years or 60-64 years, \( i \) denotes an OECD country (\( i = 1, ..., 21 \)), and \( t \) is time (1961 to 2003), \( LFPR \) denotes male labour force participation rates, \( SSRR \) social security replacement rates of unemployment benefits (per cent), \( UNEMP \) is the prime aged (25, 54 years) male unemployment rate (per cent), and \( PRIME \) represents the ratio of prime age males to the population of males aged 15 to 64 years.

In common with the previous OECD modelling from Blöndal and Scarpetta (1998) and Duval (2003) a standard fixed effects model is also estimated for each age group, allowing country specific differentials to the common intercept to be estimated for each country. The cross section fixed effects model is depicted in equation 2:

\[ LFPR_{kti} = \beta_0 + \sum_{i=1}^{n-21} (\beta_{1i} - \beta_0) + \beta_1 \text{SSRR}_i + \beta_2 \text{UNEMP}_i + \beta_3 \text{PRIME}_i + \epsilon_{it} \]  

The social security replacement rate of unemployment benefits (\( SSRR \)) was used as a proxy for all financial generosity of social security available as a non-wage source of income. We would expect a negative coefficient if social security generosity entices workers from the labour force. This particular measure was largely chosen because of data availability, however, it is expected to be a good proxy of all social security available to older males including disability pensions and early retirement pensions. First, replacement rates from unemployment benefits are significantly positively correlated to other non-employment benefit schemes such as disability...
pensions, which are the predominant form of non-employment benefit used by those aged 55-64 years. Second, many unemployment benefit schemes available to older males do not entail active job search with recipients, therefore, those in receipt are expected to be counted as not in the labour force (Blöndal and Scarpetta 1998).

The replacement rate is calculated by the OECD as the average of the gross unemployment benefit replacement rates for two earnings levels, three family situations and three durations of unemployment. Therefore, this measure takes into account schemes with short duration such as the US, Canada and Japan with a lower value. However, in 1995 over half of OECD countries allowed individuals to draw on unemployment related benefits from the age of 55 to the standard retirement age (Blöndal and Scarpetta 1998).

Cyclical labour force discouragement is captured by the UNEMP variable, the unemployment rate of prime aged males. We would expect a negative coefficient if labour force discouragement is a significant influence. Prime aged males are used for this measure to avoid endogeneity, with the labour force participation rate of older males being jointly determined with unemployment rates. Also, past research has shown a significant role for hidden unemployment for older male labour force participation, therefore the use of older male unemployment rates (which, by definition, conceals hidden unemployment) would not adequately capture this effect.

As first proposed by Blöndal and Scarpetta (1998), the percentage of prime aged males (25-54 years) within the working age male population (15-64 years), PRIMEPR is also used as a labour market variable. This influence is similar to the long-run rather than cyclical labour force discouragement concept proposed by Standing (1978), the BLMR (1983) and Peck (1996). We would expect a negative relationship under the hypothesis that any increase in the proportion of prime aged males will crowd out older workers from participating in the labour market. This proposition rests on two key assumptions. First, that prime-age workers are more attractive to employers than older workers, perhaps in terms of education and productivity. Second, employers are rationing available jobs to those most attractive within rigid labour market structures, with relative wages unable to adjust. This variable would appear to capture the pressures within many European countries of employers and governments to squeeze out older workers from the labour force in the face of persistent high unemployment in past recent decades which also coincided with a proportional increase in prime aged workers from the baby boomer generation cohort.

Empirical results

Data for 21 OECD countries covering a maximum time period of 1961 to 2003 was collected from the OECD website (OECD 2009b). The data for labour force participation, unemployment rates and prime age labour force proportions were able to be constructed from annual data, however, the social security replacement rates were only available every two years. In addition, various labour force participation rates and population data were not available for all time periods, thus the data used in the econometric models will be an unbalanced panel, with a country’s data used for estimation only if all variables are available in a particular time period. Descriptive statistics for the panel are presented in Table 1. Not shown here is the considerable amount of variation in the variables within and between OECD countries.

<table>
<thead>
<tr>
<th>Table 1: Descriptive Statistics for the (Unbalanced) Panel from 21 OECD Countries, 1961 to 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>LFPR55</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>SD</td>
</tr>
<tr>
<td>Skewness</td>
</tr>
<tr>
<td>Kurtosis</td>
</tr>
<tr>
<td>Obs</td>
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</table>
The results from the basic restricted model (equation 1) and the basic fixed effects model (equation 2) are presented in Table 2. The estimated coefficients in all models are all statistically significant and of the expected sign. Furthermore, the residuals are stationary at both the panel level and country specific level (LLC and ADF tests, respectively). Starting with the restricted model, the slope coefficients increase with age group, indicating that both social security generosity and labour market forces have a greater impact on those aged 60-64 than 55-59 years. However, the main finding is that the coefficients for the labour market variables are greater than those for social security generosity for both age groups.

The impact of an increase in social security replacement rates of 1 percentage point is expected to decrease older labour force participation rates by 0.20 and 0.43 percentage points for those aged 55-59 and 60-64 years, respectively. A 10 percentage point decrease would be quite a substantial pension reform but would be expected to increase labour force participation by less than 5 percentage points. In contrast, a 1 percentage point increase in the prime age unemployment rate is estimated to decrease labour force participation rates by 1.36 and 2.06 percentage points for those aged 55-59 and 60-64 years, respectively. Therefore, a labour market policy to decrease prime age unemployment rates by 2 percentage points would have a comparable effect to the aforementioned hypothetical pension reform. For each 1 percentage point increase in the percentage of prime aged males in the labour force aged population is estimated to crowd out older workers by 0.38 and 1.34 percentage points for those aged 55-59 and 60-64 years, respectively. Of course, governments would have only limited influence on this variable. They may influence it in the short run through migration or marginally through changing the standard age for labour force participation. They may influence this variable in the long run through addressing fertility rates.

The incorporation of country specific fixed effects within this specification shows a dramatic increase in explanatory power with the adjusted \( R^2 \) for the 55-59 and 60-64 age groups increasing from 0.34 to 0.90 and 0.41 to 0.85 respectively. This indicates that country specific factors are essential to explaining OECD countries’ older worker labour force participation. Some of these fixed effects are quite large in magnitude, with some approximately 20 percentage points different to the base estimate. European countries such as Austria, Belgium, France, Greece and Italy have intercepts substantially below the base estimate and Denmark, Japan, Norway and Switzerland display substantially larger coefficients. The estimated slope terms were only marginally affected by this specification, indicating quite robust results.

### Table 2: Estimation Results for Restricted and Fixed Effects Models.

<table>
<thead>
<tr>
<th>Country Specific Fixed Effects</th>
<th>LFPR55</th>
<th>LFPR60</th>
<th>LFPR55</th>
<th>LFPR60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>-0.218</td>
<td>0.297</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>-9.565</td>
<td>-29.768</td>
<td></td>
<td></td>
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<tr>
<td>Belgium</td>
<td>-19.411</td>
<td>-20.659</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>-0.651</td>
<td>2.617</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>13.192</td>
<td>13.559</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>-7.625</td>
<td>-6.710</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>-3.193</td>
<td>-13.769</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>2.783</td>
<td>-9.420</td>
<td></td>
<td></td>
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<tr>
<td>Ireland</td>
<td>-1.708</td>
<td>10.284</td>
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<td></td>
</tr>
<tr>
<td>Italy</td>
<td>-18.422</td>
<td>-23.233</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>8.454</td>
<td>11.705</td>
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<tr>
<td>Netherlands</td>
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<td>Spain</td>
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<td>11.524</td>
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<td></td>
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<td>Sweden</td>
<td>7.473</td>
<td>11.309</td>
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<td>Switzerland</td>
<td>17.225</td>
<td>22.581</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>0.600</td>
<td>3.693</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>1.037</td>
<td>3.992</td>
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$R^2$ | 0.347 | 0.415 |
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<tbody>
<tr>
<td>$\hat{R}^2$</td>
<td>0.340</td>
<td>0.409</td>
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$F$ statistic | 50.683 | 68.924 |
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Unit Root Tests

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<th>Value</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
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<td>LLC</td>
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<td>[0.000]</td>
</tr>
<tr>
<td>ADF</td>
<td>62.625</td>
<td>[0.021]</td>
</tr>
</tbody>
</table>

Conclusions and policy implications

The ageing of OECD populations poses a number of policy challenges for governments and is perceived to place strain on future budgets. Although countries face different severity of ageing in coming years and display varying trends in older worker labour force participation, most governments are adhering to OECD policy recommendations of targeting pension reforms to decrease fiscal vulnerability.

However, the findings econometric models emphasise the role of labour market variables over social security generosity and also country specific causal factors. Policies to address the labour market would appear to have a larger influence in increasing labour force participation of older workers rather than decreasing the financial generosity of social security. Indeed, an implication from model results was that recent stability or increases in older male labour force participation rates was likely to be the result of declining prime age unemployment rates and easing crowding out pressures rather than the result of recently enacted pension reforms. However, the role of the labour market is largely ignored in OECD policy prescriptions to address an ageing society. It would therefore appear as if the recent pension reforms to address ageing populations are now out of character with the RAL hypothesis that has operated over recent decades. That is, there is apparent asymmetry in the role of the government within this hypothesis. There is ample evidence governments being party to the removal or exit of older males during periods of excess labour supply. Examples range from being indirect or passive through social security eligibility allowing exit via unemployment benefits design or labour market criteria in disability pensions, to very active with Job Release Schemes. However, pension reforms to increase older worker labour force participation would now seem to precede actual labour shortages in the future and be predominantly based on government budget considerations rather than aggregate labour market conditions.

While there appears to be an explicit recognition of the disadvantage faced by older workers in the labour market within the OECD research, there is an unwillingness to push a strong active policy stance on labour demand and employment. The lack of demand and employment policy reflects a lack of priority to this area and a level of reluctance on the part of the OECD. While a bulk of detailed OECD pension reform literature exists backing up their pension policy reform stance, they meekly cite a lack of research for a lack of older worker employment policy formulation. This preoccupation with pension reform means that supply side policy affecting the relative price and availability of non-wage income is the predominant policy tool recommended to address an ageing society. While this may ease concerns over future budget exposure, it is argued that this policy stance is inequitable and merely shifts the financial responsibility of unemployment or retirement to the individual, and does little to address deficient aggregate...
labour demand and the labour market disadvantage faced by older workers. It is therefore suggested that many countries would stimulate older worker labour force participation more effectively by following ILO recommendations addressing aggregate labour demand.

References


