*Bertelsmann Stiftung (ed.)*

# Active Aging in Economy and Society

Carl Bertelsmann Prize 2006

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# Contents

# Introduction

*"The old usually forget that they were once young,*
*or they forget that they are old now,*
*and the young never comprehend that they could get old."*
Kurt Tucholsky

Germany is undergoing a profound demographic change. The tasks of the future workplace will fall on the shoulders of an increasingly smaller and older potential workforce.

The 2006 Carl Bertelsmann Prize for Active Aging in Economy and Society is founded on the belief that combining growth and innovation with a high employment rate while preserving social cohesion can only be achieved if we foster and utilize the employment potential of every individual. In view of demographic changes, we need to preserve the value-generating potential, skills and experience of older people in particular for our economy and society, and promote their (re)integration into the workplace. In light of high unemployment levels among seniors—and not just in Germany—keeping older people in the workforce longer will demand integrated efforts across various social sectors and social levels. We must achieve a clear paradigm change, rewriting the standard career biography to foster greater diversity and longevity with a positive model for active aging!

The 2006 Carl Bertelsmann Prize will highlight successful efforts to redefine gainful employment in ways that extend individual productivity into the later years and enable workers to create meaningful career biographies. This publication presents and discusses challenges, perspectives and strategies that could be very significant as elements of a comprehensive strategy for active aging in Germany.

Many other countries are also searching for new options in their economies and societies. Germany can learn from their experiences.

In his contribution, *Mark Keese* outlines the economic challenges that an aging population poses for Germany and other OECD states. Advocating a comprehensive mobilization of aging workers, he examines the OECD nations' different labor market strategies and emphasizes the need for a new reform agenda to promote age-friendly employment strategies and practices. Implementing these will require close cooperation between the government, employers, unions and civil society.

In the debate over demographic change, the term "active aging" comes up more and more often in the political and social discourse, yet the term is often defined differently depending on context. In their segment, *Dr. Jens U. Prager* and *Dr. Ulrich Schoof* portray the parallel development of the term "active aging" and the first promising active aging concepts put into practice in an international context. From this they derive essential preconditions and principles that national strategies for activating the value-generating potential of seniors must satisfy to achieve a social paradigm change.

Learning from the best—this is one objective of the Carl Bertelsmann Prize and the basis for international research conducted by the Bertelsmann Stiftung. Results of this research take center stage in the segment by *Dr. Hans J. Barth*, *Andreas Heimer* and *Dr. Iris Pfeiffer*. During the research phase for the prize, Prognos AG in Basel examined and evaluated over 40 models and initiatives from around the world, monitored by a committee of experts from academia, politics and business. The findings presented here give reason for hope; we see a number of exemplary initiatives that have built a positive image of active aging and restructured gainful employment in order to extend productivity into the later years and facilitate meaningful career biographies. The research focused in particular on those strategies and examples that provide a convincing governance approach, one that could serve as a model for Germany and give fresh impetus to efforts here. The findings also make clear that we can only achieve a paradigm change—activating new career paths with greater diversity and longevity, creating a positive model for active aging—if everyone works together.

As two top political representatives, we are fortunate to have *Vladimír Spidla*, EU Commissioner for Employment, Social Affairs and Equal Opportunity, and *Franz Müntefering*, German Federal Minister of Labor and Social Affairs, to highlight the perspectives of Europe and Germany in the final chapters of this volume on active aging in economy and society. Both acknowledge that mighty tasks lie ahead for us, including recognizing the potential of seniors and correcting outdated ideas about aging. We need to acknowledge our current predicament and improve the framework conditions for encouraging employment in general. Above all, we need to bring seniors back into the heart of our society, not push them to the periphery!

We would like to thank all the authors who contributed to this publication, as well as Nadine Ehrenbrusthoff and Corinna Teuffel, who edited this volume with such care and skill. Our special thanks to Dr. Jens U. Prager, André Schleiter, Dr. Ulrich Schoof and their team for their exceptional commitment to preparing this year's Carl Bertelsmann Prize.

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Executive Board Member
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Economic and Social Affairs

# Aging Workforce and Employment Policies in the OECD Region—The Challenge Ahead[1]

*Mark Keese*

## Introduction

Germany is not alone in facing the challenge of a greying workforce. Rapid population aging is a big, but largely predictable, demographic shock that is hitting all OECD countries. In many ways, this should be seen as good news since it reflects a significant and ongoing increase in longevity. We are not only living longer but also in better health. However, fertility rates have also fallen considerably and consequently all OECD countries will experience a steep increase in the share of elderly persons in the population and a large decline in the share of the population of prime working-age. Thus, if nothing is done, population aging could also result in much slower economic growth than in the past and in unsustainable increases in public social expenditures both in Germany and other OECD countries. But these outcomes are not inevitable, and OECD economies can and will adapt to demographic change. In particular, by removing the obstacles and disincentives to working at an older age, the challenge of population aging can be turned into an opportunity for longer, more prosperous lives.

The paper begins in Section 1 by placing the economic challenges facing Germany as a result of population aging in the context of those facing other OECD countries. It then goes on to argue in Section 2 that the key policy response to meeting these challenges is to mobilize more fully the labor supply of older people. This is particularly important in Germany where early retirement has become a deeply

1 This paper draws heavily on the OECD report, *Ageing and Employment Policies: Live Longer, Work Longer* (OECD 2006). Nevertheless, the views expressed in this paper are those of the author and should not be ascribed to the OECD or its member countries.

entrenched feature of its labor market. A new reform agenda of age-friendly employment policies and practices is put forward in Section 3. The paper concludes in Section 4 with a call for action on the part of government, the social partners and civil society.

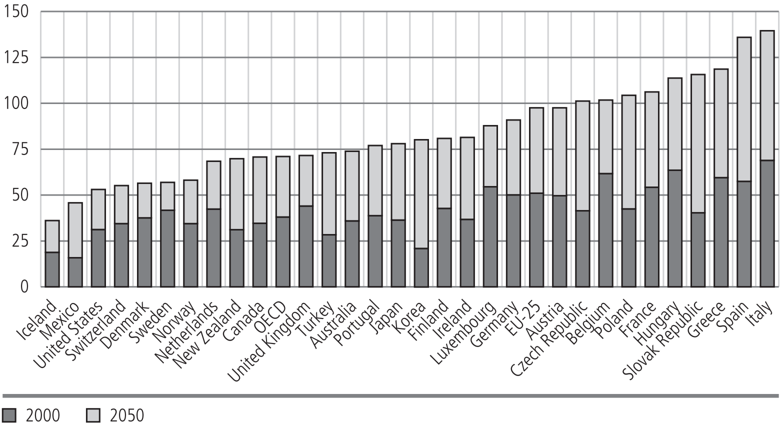
## 1. The challenge ahead

The demographic challenge facing Germany is considerable, even if a few OECD countries are facing larger challenges. For example, the share of the population aged 65 and over is projected to reach 30 percent in Germany in 2050. This is somewhat less than the share of one-third or more projected for Italy, Japan, Korea and Spain but considerably higher than the share of one-fifth or less projected for Mexico, Turkey and the United States. While Germany is already experiencing rapid population aging, even more rapid change is likely to occur in Korea given that its share of the population aged 65 and over is currently one of the lowest in the OECD area but is projected to be one of the highest in 2050.

For many countries, much of this increase will be concentrated over the next three decades as the baby boom generation moves into the age group 65 and over. Consequently, in most countries, the number of workers retiring each year will increase sharply and eventually exceed the number of new labor market entrants. However, in the absence of a rebound in fertility rates and as a result of further gains in longevity, old-age dependency ratios (i.e. the population aged 65 and over as a ratio of the population aged 20 to 64) are likely to continue to rise, even after the impact of the baby boom generation on each country's demographic profile begins to fade. If there is no change in work and retirement patterns, the ratio of retirees to workers in Germany will almost double from 50 percent in 2000 to just over 90 percent in 2050—in both cases close to the EU average but well above the ratios for Iceland, Mexico, Switzerland, the Nordic countries and the United Sates (Figure 1).

Such large increases in the number of retirees per worker will place increasing strain on public finances in most OECD countries. For example, expenditure on public pensions, as well as on health and long-term care, is projected to increase significantly as a proportion of GDP in most countries over the coming decades (OECD 2001; EC 2006). In the absence of any significant change in labor force par-

**Fig. 1: Population aging will place a growing economic burden on workers* (Inactive persons aged 50 and over as a % of the labor force)**



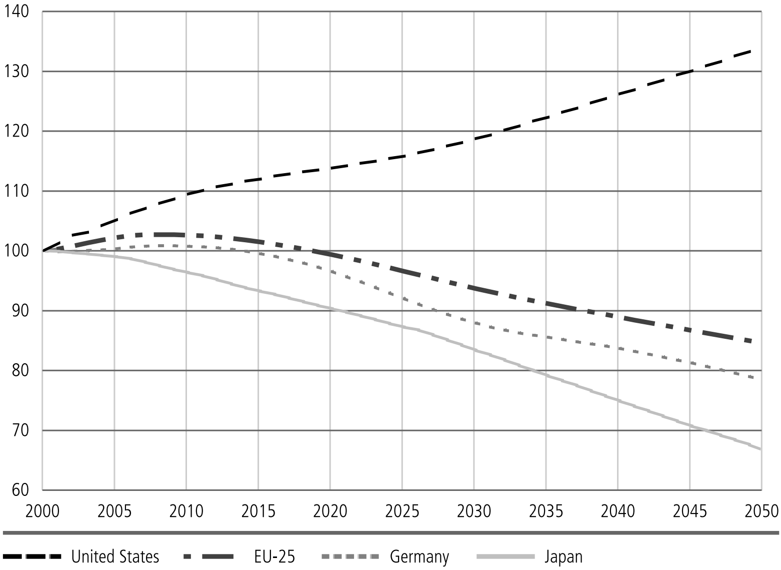

* These projections assume that participation rates by age and gender remain unchanged from their levels in 2000.

Source: OECD Demographic and Labour Force Projections Database

ticipation patterns, these projected rises in public expenditures will have to be financed by either an increase in social security contributions and other taxes or by a cut in the generosity of benefits or by some combination of the two.

Population aging will also place a drag on economic growth by reducing labor force growth. Indeed, in some countries such as Germany, but also notably in Japan and Italy, the labor force may even begin to contract within the next 10 to 20 years if labor force participation rates by age and gender remain at their current levels (Figure 2). Under this scenario of unchanged participation patterns, and assuming unchanged productivity growth, the growth of GDP per capita in the OECD area would decline to around 1.7 percent per year over the next three decades, about 30 percent less than its rate between 1970 and 2000. The magnitude of this projected slowdown differs considerably across countries with the result that there could be a reversal of the long-term trend towards convergence across OECD countries in the level of GDP per capita. For example, on the basis of a continuation of recent cohort patterns of labor force participation, it has been

**Fig. 2: The labor force will grow more slowly or even contract over the period 2000–2050* (Index: Labor force in 2000 = 100)**




* These projections assume that participation rates by age and gender remain unchanged from their levels in 2000.

Source: OECD Demographic and Labour Force Projections Database

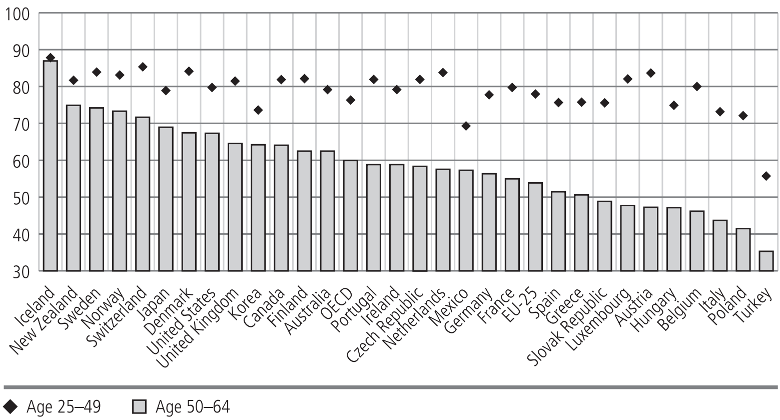
projected that the current gap in GDP per capita between the leader, the United States, and the other major OECD economies is likely to widen over the next 50 years (Oliveira Martins et al. 2005). Particularly large gaps of over 20 percent and 30 percent are projected for Germany and Japan, respectively.

## 2. Removing barriers to older people's employment should be the key policy response

It is sometimes argued that the negative impact of population aging on economic growth and public social expenditures could be offset by policies to encourage greater immigration, higher fertility or faster productivity growth. While these developments would all help, they need to go hand-in-hand with attempts to mobilize all available labor reserves in order to sustain economic growth. Older people already constitute one of the most significant sources of additional labor supply in most OECD countries and the importance of this group will become even greater in the future as its share of the population rises. If the labor force participation of older people could be boosted, this would result in a triple dividend: It would boost labor force growth and help offset the negative impact of population aging on economic growth; it would improve public finances through reduced public expenditures associated with early retirement while increasing tax revenues; and it would also help employers by smoothing the pace at which they will have to replace retiring workers with new entrants.

There is substantial scope for promoting employment of older workers, although the situation varies greatly across countries. On average in the OECD area, only 60 percent of the population aged 50 to 64 were working in 2005 compared with 76 percent for the age group 24 to 49. The figure varies from less than 50 percent in certain countries to more than 70 percent in others. In Germany, only around 56 percent the population aged 50 to 64 were working just

**Fig. 3: Employment rates of older people vary considerably across OECD countries***




* The data refer to 2005.

Source: European Community Labour Force Survey and national labour force surveys