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Declining employment of older workers: has Britain turned the corner?

by

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- From 1998 Q4 to 2002 Q4, employment among people aged 50 and over increased by over 650,000, according to the Quarterly Labour Force Survey. This is in sharp contrast to the two decades prior to the mid-1990s.
 - There are clear differences in employment trends among older people according to age, gender and educational qualifications.
 - There is a strong cyclical component to the upturn, with improved economic conditions particularly benefiting men in their fifties and women with educational qualifications. Any weakening of GDP growth may slow or even reverse the recovery in employment rates.
 - On the demand side, demographic change and the absence of future large scale declines in manufacturing and/or privatisations will reduce the likelihood of future precipitate falls in employment of older workers. But it is too early to say whether there is any evidence of a long run upturn in the demand for older workers.
 - On the supply side, falling equity markets and tighter regulations concerning ill-health related retirement in public pension programmes may have led people to postpone retirement. There is no clear evidence that reforms to the public disability insurance programme have had any effect on employment rates.
 - Other policies, such as the voluntary code of practice on age diversity and New Deal 50 plus may have had small effects but mostly serve to keep the issue of employment of older workers on the public agenda.
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1. Introduction

It is well established that, in common with most other OECD countries, the employment of men and women aged 50 and over in Britain has declined markedly since the early 1970s. A variety of explanations – both supply and demand – have been adduced for this decline (Blundell, Meghir and Smith, 2002; Campbell, 1999; Disney, 1999, Banks *et al*, 2002). These arguments include: that older workers have lacked the requisite skills in the face of skill-biased technical change, faced forms of institutional discrimination, have been disproportionately located in declining sectors of economic activity, and have been induced into retirement by a combination of social security and occupational pension incentives.

In the last five years or more, however, there seems to have been a change in the economic fortunes of this age group, as illustrated in Table 1:

Table 1 around here

The table shows that, at the end of 2002, roughly 7 million people aged 50 and over were employed in Britain, of which about 56% were men. The total number of 7 million at the end of 2002 represented an increase of 653,000 over the same period in 1998, with the increase equally shared between men and women. Even allowing for supply changes, with the ‘baby boom’ generation just entering their 50s in the late 1990s, this reflects a significant increase in the employment *rate*. For example, economic activity rates among men aged 50 to 64 increased by 2 percentage points during the period 1998-2002.

Is this increase a genuine increase, reflected in other data sets? Is it a temporary phenomenon, associated with the upturn phase of the business cycle in the latter part of the 1990s, or is the start of a new trend, reversing the apparently secular decline of the previous 25 years? And what factors lie behind this reversal of the recent trend, whether temporary or permanent? In particular, have government policies such as the ‘Welfare to Work’ strategy, the cutback in disability benefits, and anti-age discrimination initiatives played any part in it? This chapter investigates these issues, focussing on recent trends and recent policies. Much of the background analysis on general inducements to retire and on the factors underpinning the demand side of the labour market can be found in Disney (1999).

2. Employment trends among older workers

2.1. Data discrepancies

Chart 1 provides time series of employment rates from 1986 to 2000/2002 drawn from two sources: the Labour Force Survey, which is regularly used in government publications when describing activity rates, and the Family Expenditure Survey, which is a long running sample survey of households. The group for which we compare alternative data sets in Chart 1 is 50-54 year olds; an age group that will probably be the first to actively considers retirement decisions.

One striking feature of the data is the convergence of employment rates among men and women in this age group. The employment rates of women exhibit two conflicting trends – a slight tendency to earlier retirement as each cohort ages, akin to the trend amongst men, offset by each successive cohort in this age range having a higher overall rate of participation in economic activity. In the cross section, the latter effect dominates – the greater participation of later date-of-birth cohorts of women outweighs any tendency to earlier retirement, which is why there is an increase in age-specific employment rates. Cohort analyses of men and women's employment rates show very different trends from the cross section (Banks, Disney and Smith, 2000).

Chart 1 here

What is also striking from Chart 1, however, are the different trends in economic activity when comparing the Labour Force Survey (LFS) and the Family Expenditure Survey (FES). In 1986, the economic activity rates among both men and women are around 3% higher in the FES than the LFS. By 2000, the economic activity rates are almost identical across the data sets – making the recent improvement in economic activity rates among older people look more dramatic in the LFS than the FES. The FES also accentuates the fluctuations in the cycle (such as the recession in the early 1990s). Taking the LFS numbers, economic activity amongst older men in this age group is almost restored to mid-1980s levels by around the year 2000 and the employment rate of women is almost uniformly rising over the period. Neither trend is so apparent in the FES, although there has definitely been a turnaround in older workers' fortunes from the mid-1990s in the FES.

These comparisons show that we have to be very careful in discerning (changes in) trends from relatively short periods. However, such discrepancies in economic activity rates are less apparent for other, older, age groups and there is general agreement among the data series as to the improvement in conditions for older workers towards the end of the period.

2.2. Economic activity by age and schooling

2.2.1. Employment trends by age group

Table 2 describes economic activity rates for different age groups of men and women, using the Labour Force Survey (*Family Expenditure Survey*) at five year intervals since 1986.

Table 2 here

For men, both data sources suggest that employment rates by 2000-2002 amongst older workers had been restored to levels of a decade earlier. However, as mentioned in the previous sub-section, the data send mixed signals as to the decline in the late 1980s, and therefore as to the extent of recovery relative to 1986. It should be noted, nevertheless, that of every five men in their fifties, two are not working. The very low figures for employment after age 65 indicate the impact of receipt of the state pension on retirement, although it should be noted that, since the abolition of the ‘earnings test’ in 1989, the direct tax system contains no disincentives to working after 65 (60 for women). Indeed there is evidence of a small but significant increase in hours worked among those who continue to work after state pension age (Disney and Smith, 2002).

For women, there is evidence of a steady rise in employment rates among those aged 50 or more, largely arising from the ‘cohort effects’ described earlier. The rise is more striking in the LFS than the FES, but present in both. A significant proportion of women – around a fifth – continue to work beyond women’s state pension age (60). The LFS and FES differ systematically as to how many women work beyond 65, but the numbers are not large in any event.

2.2.2. *Self employment*

Chart 2 examines another trend of some interest – the rise in self-employment. The data for age group 55-59 are chosen by way of illustration – trends for 50-54 year olds are very similar but there is less evidence of any trend for those aged 60+. Here the two data sources substantially agree – there has been a rise of around 50%, or five percentage points, in the self-employment rate amongst older men since the mid-1980s. On the other hand, self-employment rates among older women are much lower and have show little sign of an increase.

Chart 2 here

The increase in self-employment may arise as a result of higher levels of redundancy (both voluntary and involuntary), particularly in newly privatised sectors and contracted-out sectors (Haskel and Szymanski, 1993), which has led to the growth of ‘buying in’ of labour services and other forms of consultancy. Whether there is any evidence of changes in benefit eligibility and ‘welfare to work’ policies playing a part, we defer to a later section.

2.2.3. *The role of education qualifications*

The final piece of descriptive evidence concerns the composition of employment. We illustrate this with data for men, differentiating between workers with educational qualifications beyond school leaving age (which we term, at the risk of simplification, ‘skilled’) and those who left school at the earliest schooling leaving age (‘unskilled’). The data are from the Family Expenditure Survey, since we do not have LFS data on a comparable basis for longer period. Chart 3 illustrates the employment rates of men aged 50-54 and 55-59, for out two groups termed ‘skilled’ and ‘unskilled’.

Chart 3 here

The data illustrate rather different trends for the different groups. ‘Skilled’ men aged 50-54 exhibit a slower secular decline in their employment rate. But ‘unskilled’ men aged 50-54 exhibit much greater volatility in their employment rates with sharp declines in recessions in the early 1980s and early 1990s and recoveries in the improved economic conditions of the mid to late 1980s and late 1990s. Indeed in 1988-89, parity in employment rates had been restored although this had not yet taken place in the second upturn of the late 1990s.

Comparing 50-54 year olds alone might suggest that unskilled employment amongst older workers is disproportionately affected by adverse demand shocks, while skilled workers are less affected. But examination of the 55-59 category suggests that we cannot generalise this finding – ‘skilled’ 55-59 year old workers have almost the same time path of employment rates as ‘unskilled’ 50-54 year olds, while ‘unskilled’ 55-59 year old exhibit a more rapid, secular, decline in economic activity, at least until the 1990s. This suggests that there are two potential dimensions to vulnerability to demand shocks (the business cycle): lack of skill and age. Younger, more skilled workers may be the most immune to fluctuations, and older unskilled workers the least affected (although even this group sees some improvement in the late 1990s). Investigations of ‘older workers’ that do not differentiate workers by age and skill level may miss some of the picture.¹

2.3. The evidence: A summing up

This examination of the evidence on employment trends among older workers, especially in the late 1990s, has suggested a number of findings:

- There has been a reversal of decline in employment among older men that occurred prior to the mid-1990s. The reversion of employment rates for men to previous levels is more apparent in the Labour Force Survey (LFS) than the Family Employment Survey (FES), because the latter gives higher employment rates at the start of the period.
- There has been an increase in employment rates among older women, largely stemming from ‘cohort effects’ arising from higher participation. The same *caveat* when comparing the LFS and the FES applies.
- These trends are common to all age-groups, although there are still very substantial numbers of inactive men – around half of men in their fifties are not working (employed or self-employed).

¹ For 60-64 year olds, the decline in employment rates from around 70% in 1979 to 43-44% in 1999 is common to both ‘skilled’ and ‘unskilled’ men, suggesting that age dominates skill in the vulnerability of the oldest group in the labour force. Conversely, for *younger* groups (i.e. aged less than 50), there is again greater cyclicalities in employment rates among ‘unskilled’ than ‘skilled’ men, but with a smaller overall fall in the former’s economic activity rates over the period. This confirms the general points made in the text. For women, the disparate trends are reflected in an *increase* in employment rates amongst ‘skilled’ 50-54 year olds, while employment rates remain roughly constant for the ‘unskilled’, as well as slightly more volatility. (Data are available from the authors on request).

- Self-employment among men has increased by about 15% over the last fifteen years, probably due to contracting-out and privatisation inducing greater redundancies and subsequent employment on limited contracts and consultancies.
- There are both cyclical and secular factors at work. For men, vulnerability to economic downturns is most likely among the unskilled and older workers. The recent improvement in economic conditions has therefore disproportionately benefited older workers with less education, although among those aged 60+, economic conditions have done little to decelerate the decline in the employment rate.
- The growing employment rate among older women has disproportionately benefited those with more educational qualifications.

3. Explanations: The demand side

3.1. Secular trends

The demand factors behind the long-term decline in employment rates of older workers are well-established. Over time, the demand for skilled workers appears to have increased faster than the demand for less skilled workers in many countries (as in the evidence of Juhn, 1992, for the United States). Older people have less formal qualifications (such as level of educational attainment) than younger people. Although older workers on average embody greater on-the-job-training than younger workers, skills depreciate with age. So older workers are more vulnerable to skill-biased technological change than younger workers.

There are other features of the UK economy that have contributed to this decline in employment of older workers. Because older workers have fewer 'modern' skills such as in computer-assisted tasks, and were historically concentrated in declining sectors of the economy, such as manufacturing (Campbell, 1999), they have been more vulnerable to adverse macroeconomic shocks in the traded sector of the economy (such as exchange rate rises). Moreover, insofar as semi-skilled and unskilled jobs involve greater physical effort, there is evidence that age reduces physical functional capacities and increases the likelihood of early retirement in such jobs (Chirikos and Nestel, 1991).

It might seem desirable to older workers to seek alternative jobs that involve less effort, responsibility or hours, especially if their existing career jobs are stressful, physically or mentally. But changing careers late in the working life is risky. As Hurd (1996) points out, jobs involve ‘packages’ of fixed hours, wages and overhead costs. For older prospective employees and employers alike, the shorter time horizon to retirement when hiring new workers makes younger workers (so long as they can be retained) a better investment than older workers if there are substantial fixed costs (such as training or hiring costs) involved. Disney, Hawkes and Heden (2000) show for the UK that occupations in the Labour Force Survey that offer training are much less likely to hire older people (however other fixed costs seem to play little part in ‘explaining’ differences in the age composition of hires across occupations).

Could older workers bear the brunt of these training costs, so enhancing their attractiveness to employers? Whilst older workers may have accumulated some financial capital that could be used to pay for training, their payoff period, too, is limited and the ‘return’ on this training is relatively low. Finally, leaving a career job for alternative employment is likely to induce substantial cuts in both wages and, perhaps, pension rights – which are an increasingly important consideration as the worker ages (Gustman and Steinmeier, 1991). So there is a strong incentive for older workers to retire directly from full-time work into economic inactivity rather than to seek alternative, less onerous, employment in order to extend their economically active life.

This interaction of fewer (or dated skills) among older workers, fixed costs of jobs (such as training costs), preferences for less strenuous activity, and inducements to retire from full-time work show why older workers are more likely to leave the labour force in the face of adverse demand conditions than younger workers. However, before considering whether the recent upturn has temporarily reversed this decline, it is also worth considering if there are any factors that might reverse the long term trend as well.

The first possibility is that the long run shift of the economy towards the service sector may benefit older workers. In the first place, the large scale collapse of manufacturing employment (accompanied by privatisation policies and contracting-out) that led to the early retirement of so many men in the 1970s and 1980s may have petered out, so that the declines in employment rates of older workers seen in those periods may not be repeated. Some service sectors jobs may require interpersonal

skills that are accumulated with experience and also require less in the way of physical functional capacities. Moreover the gradual ageing of the population increases the demand for services utilised by older people, and older workers may benefit from these shifts in spending patterns.²

The stereotype of the ‘career job’ culminating in retirement may also be ending. Gregg and Wadsworth (1999) provide evidence of a decline in ‘long term jobs’ in the UK economy compared to ‘short term’ jobs, since the 1970s. This trend could be associated with greater flexibility, such as ‘bridge’ jobs to retirement, spells of self-employment interspersed with employment, and so on (Ruhm, 1990). This might or might not be to the benefit of older workers who want to prolong their time in the workforce but would prefer to shift out of their existing jobs because they are too physically onerous or taxing in other respects. However, to the extent that greater ‘flexibility’ in the labour market is associated with training and re-training, and other fixed costs, the barriers to older workers described previously remain. Moreover, in one important dimension, the labour market in the UK seems to be no more ‘flexible’ than before. Harkness (1999) argues that average hours of work have *increased* in the UK from the late 1980s to the late 1990s, both for men and women. If older people prefer fewer hours of work, this is a deterrent to continuing in paid work, although, without young children, older workers may be more amenable to ‘non-standard’ working hours such as shift working.

The final reason for being cautiously optimistic for older workers is simply that, given demographic trends, in future there will be fewer young workers with which to compete (although, of course, correspondingly larger numbers of older workers to compete against). This ought to lead employers to rethink their behaviour towards age, whatever the institutional and legal environment. Well-publicised cases of service sector employers explicitly recruiting among older people may be part of a new trend, or simply illustrate the exceptions to continued myopic thinking among other employers.

² This argument should not be oversold, however. The assertion that changes in the composition of demand will be matched by changes in the composition of *employment* remain largely unproven, and there are some clear cases, such as the demand for nursing and residential care, where increased longevity will almost certainly be associated with growing demand for younger, largely female, workers, rather than older workers.

3.2. Cyclicalities

The discussion of the previous sub-section gave reasons as to why the precipitate decline in employment rates of older men in the 1970s and 1980s might be expected to slow down as the UK economy changed. A number of factors were described – some suggesting that a slower decline might continue, others that the trend might be reversed. Before inferring that the recent recovery in employment rates reflects a trend reversal, however, it is essential to consider the issue of cyclicalities of employment rates in more detail. Chart 3, and the discussion thereof, showed that certain age-sex-skill groups seemed to have employment rates more susceptible to the business cycle than others. In this sub-section, the issue is investigated further. To the extent that strong cyclicalities are revealed in the data, it suggests that the recent recovery in employment rates may only be a temporary phenomenon.

To undertake this analysis, we run simple bivariate regressions of employment rates by age-gender-skill groups on annual GDP growth in constant prices for 1978-2000. The object of this exercise is to see whether the sensitivity of the relationship (if any) between this cyclical measure and employment of older workers varies across groups – no direct structural interpretation (for example, a production function framework) should be attached to the results which are essentially correlations.

Table 3 describes the results of this basic exercise. The results are straightforward. First, there are positive correlations between employment rates and GDP growth, as expected. Second, the age group ‘50-54’ exhibits similar responsiveness to those aged under 50. The responsiveness (correlation) then declines monotonically with age – although there is still a significant relationship for all age groups. Third, if anything, those defined as ‘skilled’ in terms of schooling are more responsive than the ‘unskilled’. Fourth, men’s employment rates are more responsive to GDP growth than those of women. There is also some evidence (not shown) that, for younger age groups, the responsiveness depends on whether GDP growth is positive or negative, with some suggestion that employment rates are more responsive to GDP falls than to rises.

These results therefore imply that the upturn in the economic cycle since the mid-1990s has played a large part in the recovery in employment rates of older workers, but that this effect dampens with age and is slightly stronger for men with

better educational qualifications. As economic growth slows from 2001 on, therefore, we might anticipate a slowing of the improvement in the economic activity of older workers.

Table 3 here

4. Explanations: the supply side

This section considers ‘supply side’ explanations of the recovery in employment rates of older workers, arising from changes in institutional arrangements that affect the work incentives of, particularly, older people. Four factors are examined:

- Changes in occupational pension schemes and early retirement provisions
- Changes in the public disability benefit regime
- Anti-age discrimination policies
- Welfare-to-work policies

4.1. Changes in occupational pension schemes and early retirement provisions

One feature of pension provision in the United Kingdom has been the importance of retirement incentives within occupational pension schemes. These arise from two features: opportunities for early retirement on grounds of ‘ill health’ and from the specific incentives concerning choice of retirement date within ‘defined benefit’ pension plans.

Most occupational pension schemes offer some form of ‘early retirement’ package for people who become permanently incapacitated or seriously ill before ‘normal’ retirement age, and these packages have been extensively utilised. In the public sector in the late 1990s, ill health accounted for 39% of all retirements in the police service, 39% in local government and 22% in the civil service (HM Treasury, 2000; see also Audit Commission, 1997). Within the fire service, rates of ill-health retirement varied from 11% in some authorities to 93% in others. This form of early retirement grew rapidly in the 1980s and 1990s and, as the figures for the fire service indicate, exhibited disparities in levels that could not be explained simply by underlying trends in illness in the population.

The growing prevalence of ill-health retirement in the private sector has not been so dramatic. Even so, as the Cabinet Office Performance and Innovation Unit

(2000) suggested, private sector managers saw ill health-related retirement as an increasingly attractive way of ‘downsizing’ workforces in the late 1980s and 1990s – the payment of pensions were ‘off budget’, pension funds were in general running significant surpluses at that time, and there were fiscal incentives for individuals to take retirement packages.

These incentives have been eroded. The changed tax treatment of pension funds coupled with changes in the accounting treatment of pension liabilities, and the reduction in the value of pension funds arising from the collapse in equity markets, have made it tougher to finance such generous early retirement ‘packages’. These financial pressures are not so direct in the public sector, where several pension plans are either partially or wholly unfunded. However, following recommendations in HM Treasury (2000) and the Cabinet Office report, stronger efforts have been proposed to deter early retirement in the public sector. These proposals included linking Service Delivery Agreements from 2000 to target reductions in rates of early retirement across sectors, active measures in each sector for redeployment rather than retirement, greater consistency in medical procedures and examinations, and (after some debate), a proposal from the Cabinet Office report to investigate having normal retirement at 65 rather than the (then) current effective age of 60. Mandatory retirement ages have in fact been abolished but it is hard to get good evidence on whether there is a changing ‘culture’ in the public sector towards later retirement – government web sites are currently devoid of information as to whether the new SDAs targets on ill health-related retirement have been implemented, let alone achieved.

In the private sector, there have been other changes to pension plans. Since 1978, most occupation pension schemes have been ‘defined benefit’ (DB) – that is, benefits depend on some formula related to years of service and salary (typically final salary or an average of years close to final salary). Such plans give a strong incentive for individuals to retire at or around the time that their final salary is likely to peak (subject to life expectancy), as described in Disney (1999). Since around 2000, however, many companies have switched new employees (and in some cases, existing plan members) into ‘defined contribution’ (DC) schemes, where benefits depend solely on contributions to, and returns on, plan members’ funds, taking advantage of more lenient contracting-out rules after 1988. The reasons for this transition are straightforward – with falling equity markets, members rather than funds bear the

investment risk in DC plans, the tax privileges of occupational pensions have been eroded, and tougher regulations on matching assets to liabilities are by-passed.

How does this shift from DC to DB plans affect retirement decisions? There is a plausible argument that the *incentives* in DC plans may encourage deferral of retirement, since the fund value accumulates with every year that retirement is postponed whereas, after a time, with a plausible age-earnings profile, individuals lose out from not retiring through a DB plan (Disney and Whitehouse, 1999). Against this is the wealth effect by which higher fund values may induce earlier retirement (Blundell, Meghir and Smith, 2002). A combination of falling values of fund investments, coupled with employees bearing a greater share of investment risk, suggests that retirement decisions may be deferred in the future. This will be, potentially, an important barrier to early retirement although in the recent past, tightening up of early retirement through DB schemes is likely to have been the greater constraint.

4.2. Disability benefits

For those not covered by occupational pension schemes, the only route in recent years into retirement pre-state pension age has been through the disability benefit scheme (Blundell and Johnson, 1998; Disney, 1999). Numbers of claimants increased rapidly in the 1970s and 1980s and policies were introduced in the mid-1990s with a view to halting this exodus. The main changes under legislation introduced in 1995 were (i) to debar new claimants from receiving the main disability benefit, Invalidity Benefit (IVB), beyond state pension age; (ii) to cut some benefit rates and to make the replacement for IVB, Incapacity Benefit, taxable (unlike IVB and the state pension) and; (iii) to toughen up the eligibility tests for disability benefits.

Chart 4 examines the impact of these changes on older male and female claimant numbers. It is clear that there is a fall in claimant numbers after 1995, but that this stems almost wholly from phasing out claims of IVB above state pension age over the five year period. The increase in claimants among men aged 50 or more, but below state pension age, has abated but there seems to be no decrease in the growth of claims among older women of working age. Moreover, preliminary econometric evidence in Disney, Emmerson and Wakefield (2003) can find no evidence of an impact of the 1995 legislation on economic activity among older people of working

age. The reduction in the increase in claims among older men of working age may again be related to the more buoyant demand for labour in the late 1990s.

Chart 4 here

4.3. Anti-age discrimination policies

The Cabinet Office Report (2000) suggested that attitudes to older workers “have made an important contribution to the problem of falling employment rates among older people, and that a government strategy to address the problem..” (p.52). Surveys of employers in the late 1990s, cited by that Report, suggested that employers were reluctant to employ older workers, who were believed to be resistant to change, lacked ambition and were unwilling to cope with the pressures of technological and market change. On the other hand, as suggested above, some respondents argued that older workers had experience and knowledge lacked by younger workers. Moreover large companies (especially privatised utilities) that had downsized rapidly had suffered ‘corporate memory loss’ as a result of which much about the business had to be re-learnt from scratch (railway operators and Railtrack being the most obvious example).

It is of course hard to distinguish stereotyping of older people, which may illustrate age discrimination, from genuine age-related differences in productivity and skills. Since 1999, issues associated with age discrimination have been handled through the voluntary Code of Practice on Age Diversity launched by the Department of Education and Employment (DfEE). It aims to tackle age discrimination by setting out the standard for non-ageist approaches to recruitment, training and development, promotion, redundancy and retirement. By raising awareness of age discrimination and the benefits of age diversity in the work place, it is argued, the trend towards early retirement toward early retirement may be reduced. The Code of Practice was updated in December 2002 and has been promoted by the government-backed Age Positive Campaign (2002).

An evaluation of the Code of Practice by National Opinion Polls (2001) found that, although larger employers were aware of the Code of Practice this was not the case for the medium and small employers. The report argued that there was a need to promote the Code of Practice to smaller firms (this has subsequently been the aim of the revision to the Code of Practice), and that the Age Positive Campaign should be

extend to the general public rather than aimed merely at professional bodies, trade associations and linked government organisations. It was also suggested that eventually the Code would need to become law.

A legislative approach to age discrimination, however, is forthcoming since the European Council of Ministers adopted the Employment Directive on Equal Treatment (on the basis on Article 13 of the EU Treaty. This requires that all EU member states introduce legislation prohibiting direct and indirect discrimination on the grounds of age, sexual orientation, religion and belief, and disability. The anti-age discrimination component of the legislation must be introduced by 2006. Equal treatment in employment and vocational training is already being implemented under the Employment Directive (EU Council Directive 2000/78/EC) and it will be interesting whether the association between training offers across occupations and disproportionate hirings of younger workers described in Disney, Hawkes and Heden (2000) will be taken as evidence of indirect discrimination.

It is hard to evaluate whether the voluntary approach has had any impact. Not only is the extent of 'heightened awareness' open to doubt, from the evidence of employer attitudes, but it is difficult to prove that awareness generates action. For this reason, many bodies have advocated the more legalistic approach that underlies the European Union's stance. Nevertheless, even here, it is hard to predict what the employment effects of legislation will be without recourse to some 'natural experiment' in which some groups of workers are subject to anti-age discrimination legislation and others are not. This 'experiment' is present in the United States where, although Federal legislation has been in place on anti-age discrimination since 1968, there are substantial variations across states and across time in discretionary additional legislation and in the enforcement of the legislation.

The impact of such legislation on older workers is, however, rather complex. If workers are paid their marginal product at every point of their lifecycle ('spot market equilibrium'), there are no mandatory retirement ages, and employers can observe productivity, there should be no discrimination against hiring older workers. As in the standard Arrow model of discrimination, employers (or indeed other workers) may have a 'taste' for discrimination but it is still true that, in the absence of collusion, competition should drive out discriminating employers.

Reluctance to hire older workers in these circumstances must arise because age-specific wages do not fully reflect current productivity levels plus average

overhead costs (such as retraining or replacement training). This non-equivalence of productivity and current remuneration could arise because employers ‘backload’ pay as an incentive device to retain more efficient workers (or to induce greater efficiency). In which case, if such long-term contracts are costlessly negotiable, legislation that induces firms to retain older workers should flatten lifetime age-earnings profiles. However, if negotiating such contracts is costly because firms may arbitrarily renege on them (i.e. by getting rid of older workers whose current total remuneration exceeds their current productivity), anti-age discrimination may *steepen* the age-earnings profile whilst maintaining employment levels of older workers. This last argument is made by Neumark and Stock (1999), who use the cross-state and time variation in legislation across states of the US to argue that this is precisely what has happened in practice. If this is true (and it is possible that ‘long term contracts’ of this kind are increasingly rare in the ‘flexible labour market’), then the mere presence of anti-age discrimination legislation may have positive effects for the employability of older workers. At present in the UK, however, there is little clear-cut evidence of employment effects stemming from the existing Code of Practice.

4.4. Welfare to work policies

New Deal 50 plus was launched in nine Pathway areas in October 1999 and extended nationally in April 2000. It is a voluntary scheme available to those over 50 who have been on Jobseeker's Allowance, Income Support, Incapacity Benefit or Severe Disablement Allowance for six months or more. The aim of the programme is to help people aged 50 or over back into employment, by personal advice and help with job search. If the recipient finds employment with an income of less than £15,000 they receive a tax free employment credit of £60 a week for a full time post (at least 30 hours) and £40 for a part time post (at least 16 hours) for up to 52 weeks. This employment credit is also paid to those entering self-employment. In addition a training grant of up to £750 can be paid to those receiving an employment credit. £600 of this can be received in the first year of employment to be used to support back-to-work training. The remaining £150 will be paid into an Individual Learning Account after 12 months in work.

On February 2002, the Cabinet Office announced that, in the first 22 months of the New Deal 50 Plus programme, more than 60,000 people over fifty had gone into work. However, as in evaluations of other welfare-to-work programmes, it is

important to know the counterfactual – how many of the target group would have found work in the absence of the programme and what is the aggregate employment impact of the programme. An evaluation of New Deal 50 Plus was undertaken by the Institute for Employment at the University of Warwick in a series of research reports for the former Employment Service (Atkinson *et al*, 2001; Atkinson, 2001a, 2001b; Atkinson and Dewson, 2001). These reports consist of largely qualitative data from New Deal 50 plus participants and employment service/benefits agency staff. This evaluation was undertaken in two stages. The first stage of the analyses was conducted on four Pathfinder areas on a relatively small sample of 38 clients questioned during focus group sessions. The second stage was undertaken in two waves. The first wave was based on 1023 clients interviewed in September 2000. The second wave followed up 250 of those in wave one and an additional 250 new clients to New Deal 50 plus. In addition at each stage around 50 New Deal Personal Advisors were asked about their experiences of the scheme.

The main findings of this evaluation were that both the clients and the advisors considered the employment credit to be the key reason for participation in New Deal and consequently finding a position. This was largely because the employment credit enabled the client to accept a lower paid job. A concern raised by the advisors that, once the employment credit expired, many programme participants would leave their job, did not appear to arise to any great extent in the studies of participants. Once in employment the New Deal 50-plus participants did not appear to change jobs. The second finding focused on the lack of take up of the training grant. In most cases clients reported that they had not known of this part of the New Deal 50-plus.

Other than this qualitative and rather subjective study, there do seem to have been other analyses undertaken. Indeed, whilst *Labour Market Trends* publishes figures concerning New Deal 18-24 and New Deal 25+, comparable figures for New Deal 50 plus are not reported. In the absence of quantitative evidence, it is hard to escape the conclusion that much of the re-employment of New Deal 50 plus participants has arisen from the favourable demand conditions. Perhaps the main purpose and rationale of the programme so far has been to create a recognition, in Whitehall as much as anywhere, that disadvantaged workers need not simply be young, or single mothers.

5. Conclusion

This chapter has suggested that there has been a significant reversal in the trend towards lower employment rates among older workers since the mid-1990s, although the magnitude of the change differs across data sets. Moreover, the aggregate increase for older workers conceals significant differences across old workers differentiated by gender, age and educational qualification. Men close to state pension age with less educational qualifications have been less affected than men closer to 50 with skills. Higher participation of later cohorts is driving up employment rates among women, especially among those with more schooling.

There are undoubtedly some longer term factors that have slowed the previous decline in employment rates among older workers. The collapse of manufacturing industry in the early 1980s and the downsizing of workforces associated with privatisation will not occur on such a large scale simply because both these sectors are so much smaller. Moreover demographic changes to the composition of the labour market and, possibly, changing in employer attitudes, may have played a part. Of much more significance has been the upturn in the economic cycle that took place in the late 1990s. Workers in their fifties, in particular, have benefited from the improved economic conditions, which may or may not be long-lasting.

On the supply side, the difficulties of private pension funds associated with falling equity markets, and tightening of the regulations governing early retirement in public pension programmes, may have played a part. There is no clear cut evidence that the reforms of the public disability programme have had any large-scale effect. Finally, the code of practice on Age Diversity, the Age Positive campaign and New Deal 50 plus may have had impacts, but these may be through their symbolic importance and the association with relatively favourable demand conditions, rather than through the measures themselves. In the short run, at least, the recovery in employment rates among older workers is going to depend in large part on the state of the macroeconomy.

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Table 1:
Numbers of employed men and women aged 50 and over
Q4 1998 – Q4 2002

<i>Age group</i>	<i>Aged 50 to SPA</i>	<i>Above SPA</i>	<i>Total</i>
	<i>(Thousands)</i>		
<i>Men</i>			
1998 Q4	3,325	263	3,588
2002 Q4	3,603	306	3,903
<i>Change</i>	+278	+43	+315
<i>Women</i>			
1998 Q4	2,213	522	2,735
2002 Q4	2,485	588	3,073
<i>Change</i>	+272	+66	+338
Total change	+550	+109	+653

Notes:

Data from Quarterly Labour Force Survey. SPA = state pension age (currently 65 for men, 60 for women).

Table 2
Economic Activity Rates (%) 1986-2002

(a) Men

	50-54	55-59	60-64	65 and over
1986	0.67 <i>(0.72)</i>	0.59 <i>(0.61)</i>	0.40 <i>(0.42)</i>	0.04 <i>(0.06)</i>
1991	0.63 <i>(0.65)</i>	0.58 <i>(0.52)</i>	0.39 <i>(0.34)</i>	0.05 <i>(0.05)</i>
1995	0.61 <i>(0.62)</i>	0.51 <i>(0.52)</i>	0.32 <i>(0.33)</i>	0.04 <i>(0.03)</i>
2000	0.64 <i>(0.63)</i>	0.54 <i>(0.55)</i>	0.35 <i>(0.32)</i>	0.04 <i>(0.04)</i>
2002	0.64	0.56	0.36	0.04

(b) Women

	50-54	55-59	60-64	65 and over
1986	0.57 <i>(0.61)</i>	0.44 <i>(0.46)</i>	0.16 <i>(0.16)</i>	0.02 <i>(0.04)</i>
1991	0.59 <i>(0.63)</i>	0.47 <i>(0.48)</i>	0.20 <i>(0.20)</i>	0.02 <i>(0.05)</i>
1995	0.60 <i>(0.59)</i>	0.46 <i>(0.45)</i>	0.21 <i>(0.22)</i>	0.02 <i>(0.05)</i>
2000	0.63 <i>(0.64)</i>	0.50 <i>(0.51)</i>	0.21 <i>(0.20)</i>	0.02 <i>(0.05)</i>
2002	0.66	0.51	0.23	0.03

Source: Labour Force Survey. *In italics: Family Expenditure Survey.*

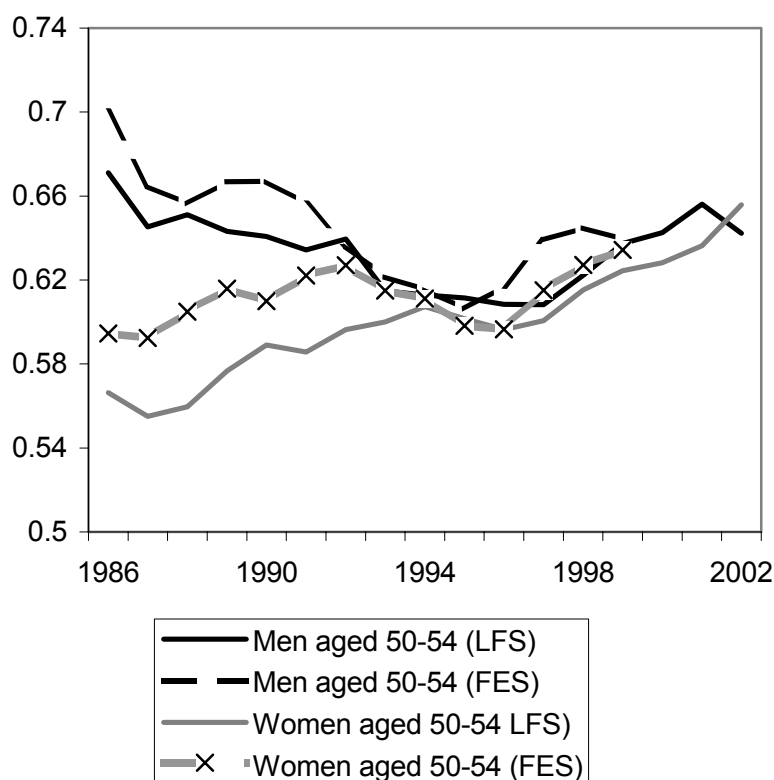
Table 3
Regression of employment rate by group on real GDP growth, 1978-2000

(a) men

'Skill'	<i>Above SLA ('skilled')</i>					<i>At SLA ('unskilled')</i>				
	<50	50-54	55-59	60-65	>65	<50	50-54	55-59	60-65	>65
	Men									
<i>Δreal GDP</i>	0.23 (5.8)	0.22 (5.7)	0.20 (5.4)	0.13 (5.0)	0.03 (4.7)	0.21 (5.6)	0.20 (5.4)	0.18 (5.3)	0.12 (5.1)	0.02 (4.1)
	Women									
<i>Δreal GDP</i>	0.19 (5.8)	0.18 (5.9)	0.14 (5.6)	0.06 (5.0)	0.01 (4.3)	0.16 (5.5)	0.16 (5.5)	0.13 (5.3)	0.05 (5.0)	0.01 (4.1)

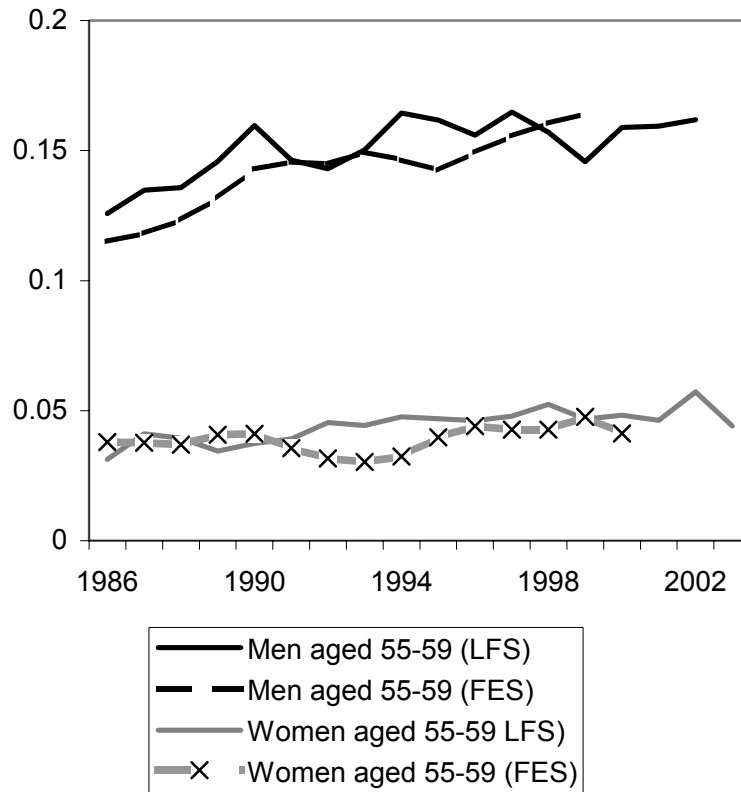
Key: *SLA* = school leaving age. 'Above' or 'At' indicates whether cell group left school at *SLA* or stayed on at school. age groups: '<50' = aged below 50, '>65' = aged 65 and above. *T* stats in parentheses.

Chart 1
 Employment rates compared (FES v. LFS):
 People aged 50-54



Note: Own calculations from LFS and FES. Note that the FES data are smoothed given smaller sample size [as $(t-1*0.25)+(t*0.5)+(t+1*0.25)$] so that information for 2000 (the latest available year) is lost. 'Raw' employment rates in the FES for 50-54 year olds in 2000 are: men=0.635, women=0.625.

Chart 2
Self-employment rates (FES and LFS):
People aged 55-59



Note: Own calculations from LFS and FES. Note that the FES data are smoothed given smaller sample size [as $(t-1*0.25)+(t*0.5)+(t+1*0.25)$] so that information for 2000 (the latest available year) is lost. 'Raw' self-employment rates in the FES for 55-59 year olds in 2000 are: men=0.165, women=0.062.

Chart 3
Employment rates among skilled and unskilled older men, 1979-1999

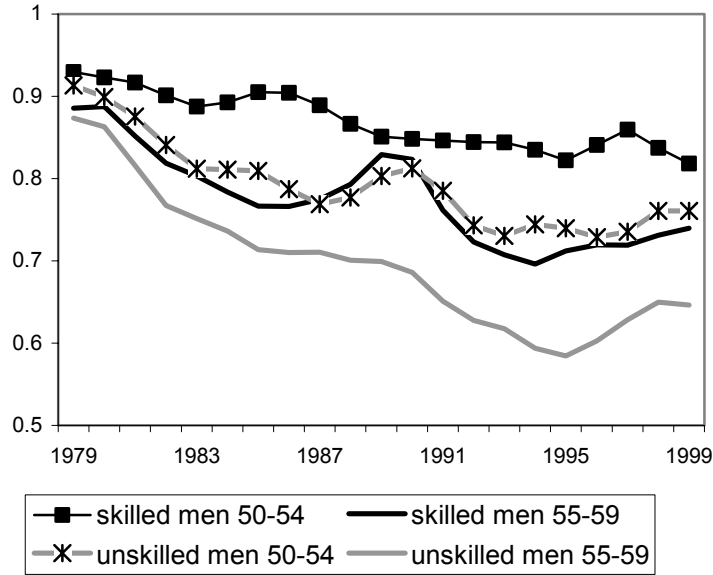
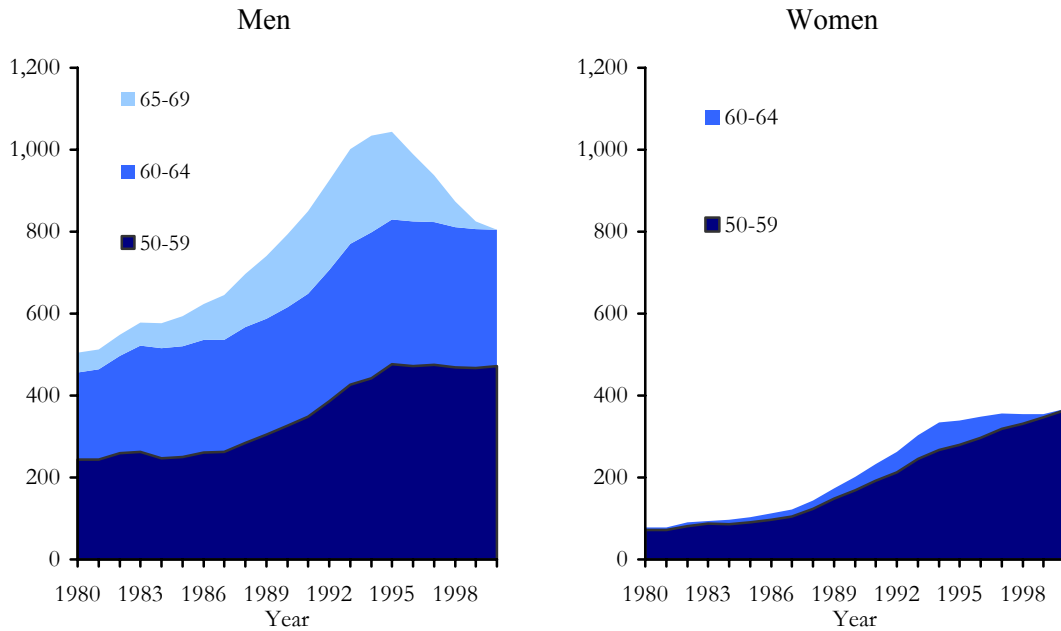


Chart 4
Numbers of claimants of Invalidity and Incapacity Benefit aged 50 and over, 1980 to 2000



Source: Banks *et al* (2002)