

Labour market implications of Ageing

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Outline

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D B

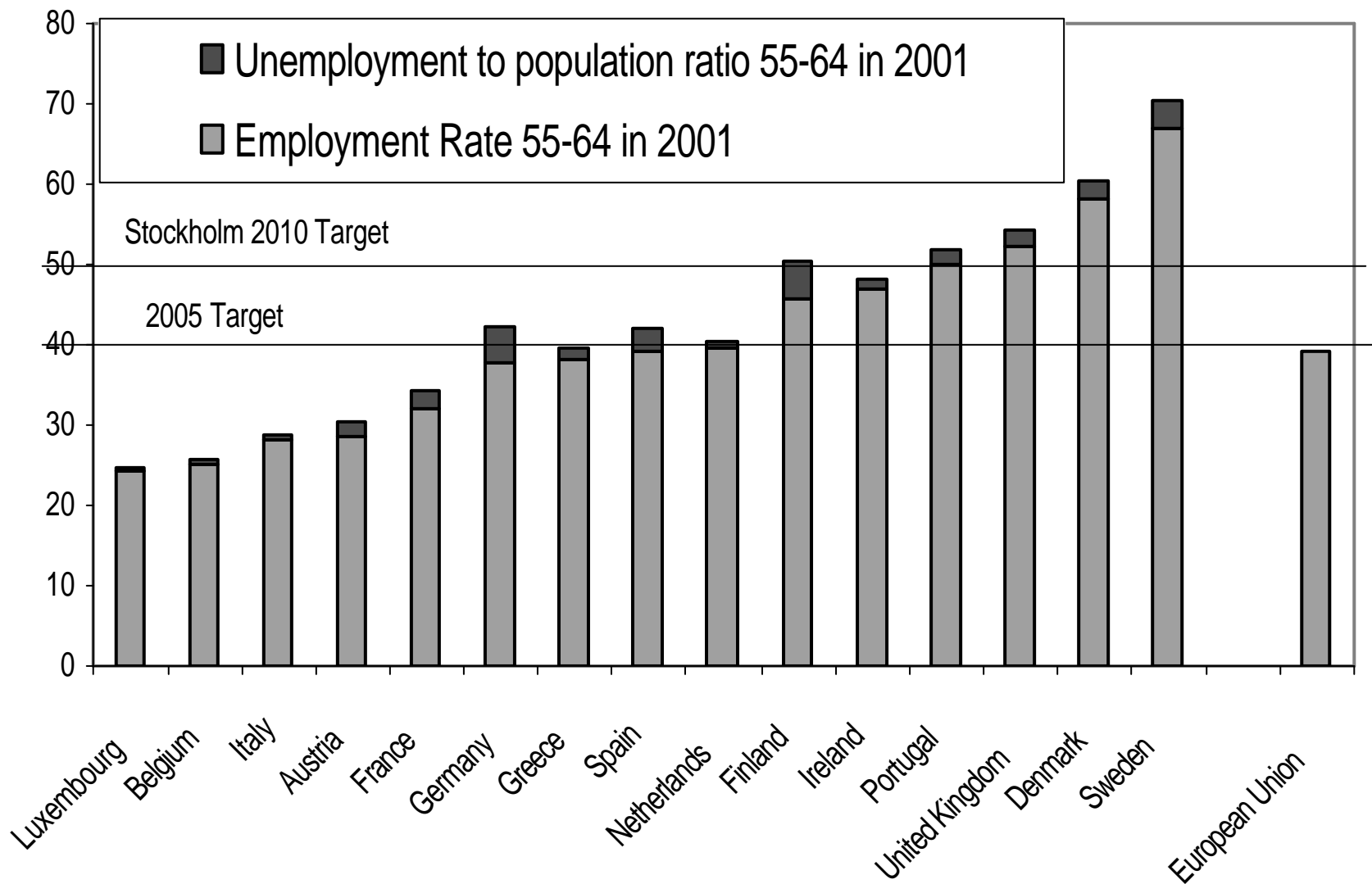
- Targets and mid-Summer night dreams
- Low participation of older workers: labour supply or labour demand problem?
- Equity: not only an intergenerational matter
- Opposition to reforms: which reforms are politically feasible?

Key points

- Targets must be realistic
- Pension problem is mainly labour supply problem
- Unreformed pensions crowd-out intra-generational redistribution
- Political feasibility requires:
 - some gradualism
 - consistency/credibility
 - better information

Stockholm target

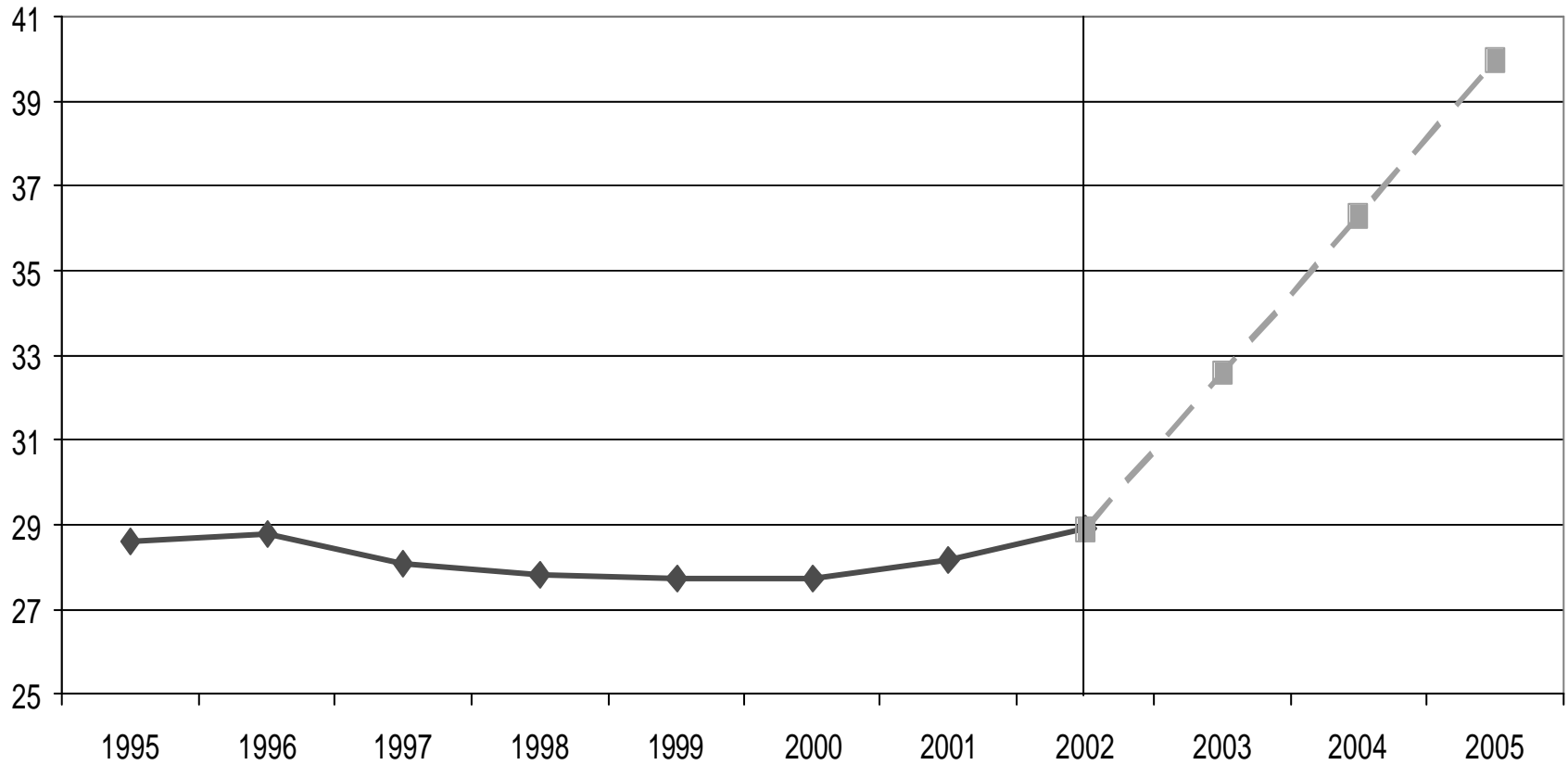
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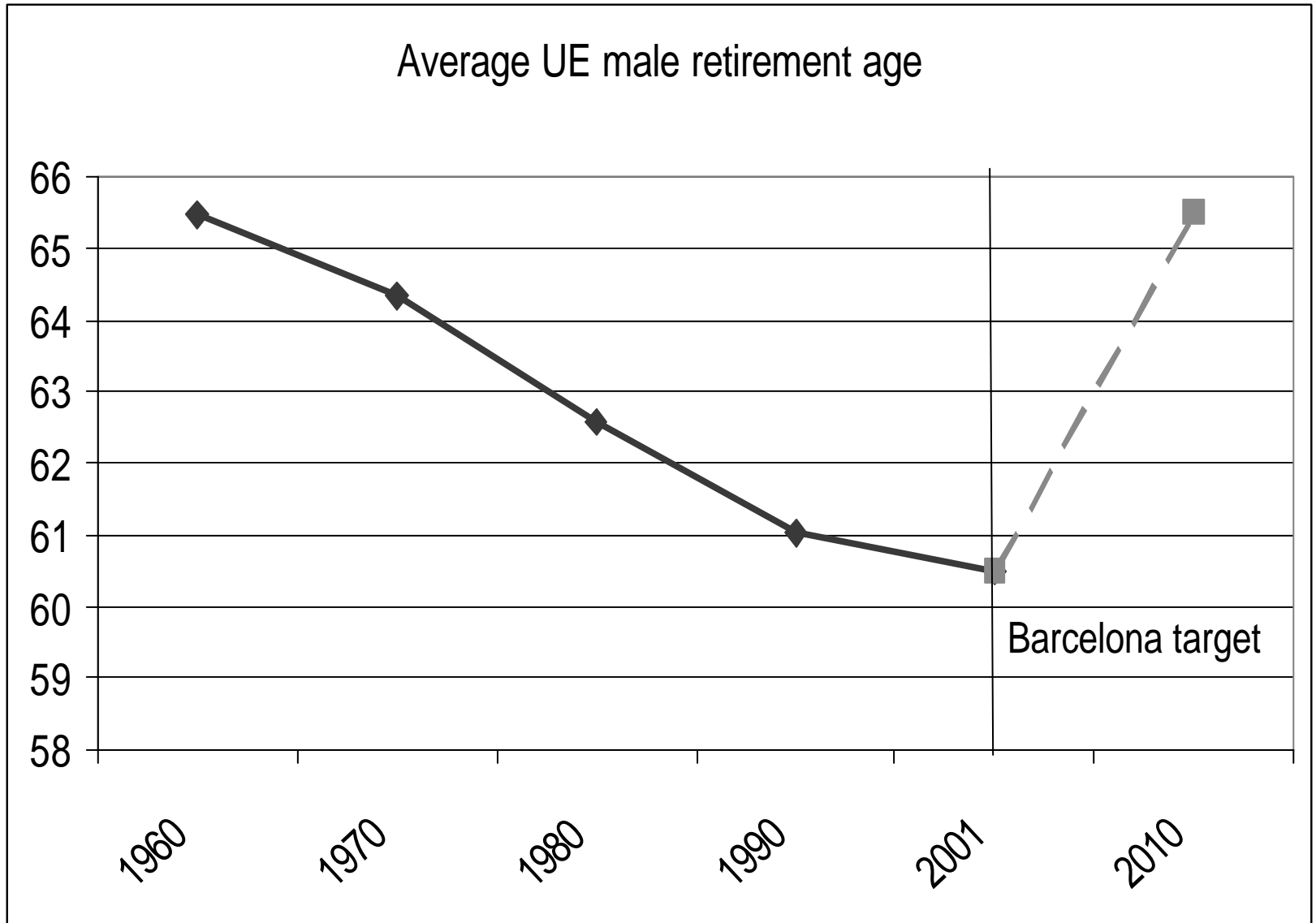
Will dreams ever come true? ^f R

D B

Employment rate 55-64, Italy

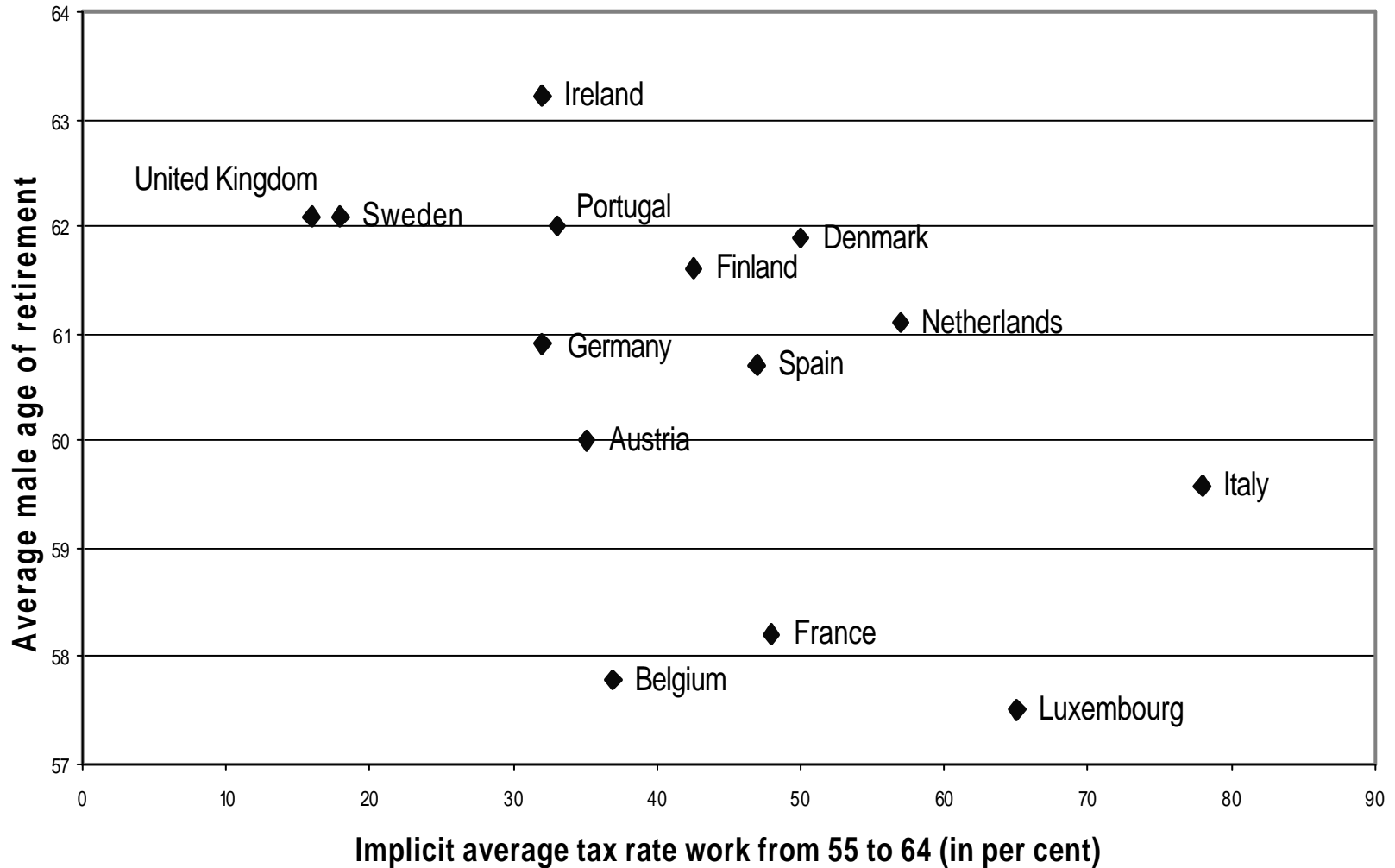


How about the Barcelona target?



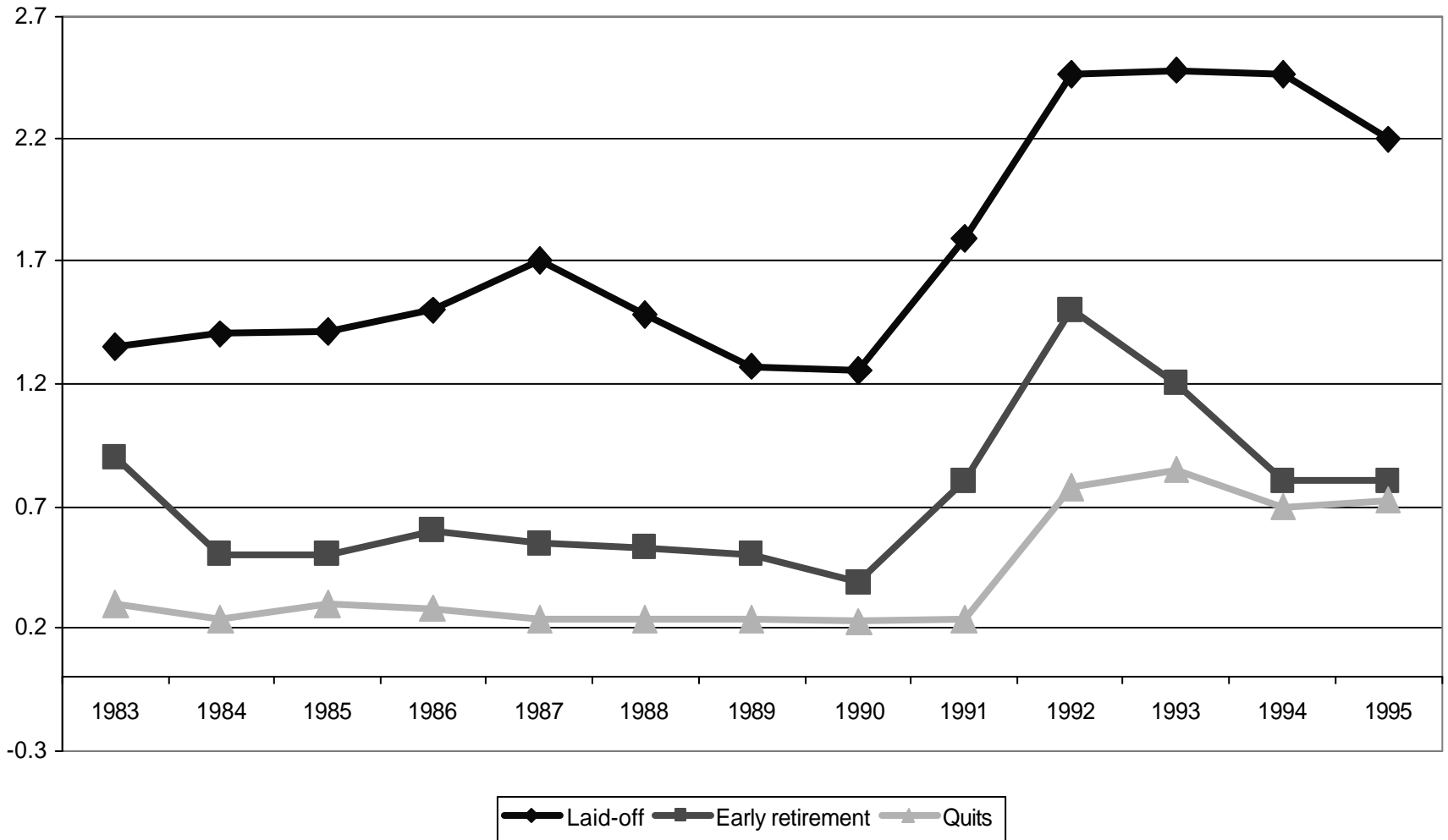
Labour supply problem?

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Or a labour demand problem?

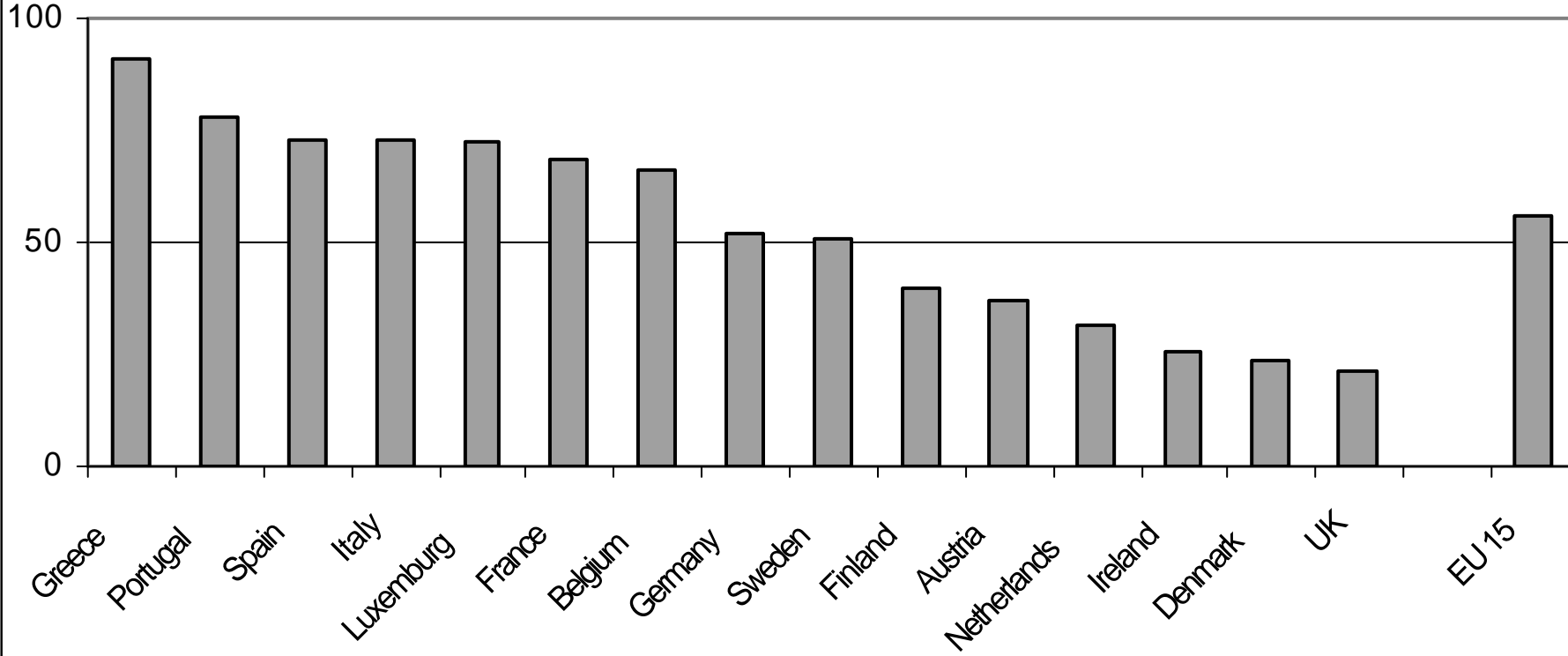
Persons aged 45-64, currently without a job, by reason for leaving their last job



The lump of labour fallacy is popular

People in their late 50's should give up work to make way for younger and unemployed

agree

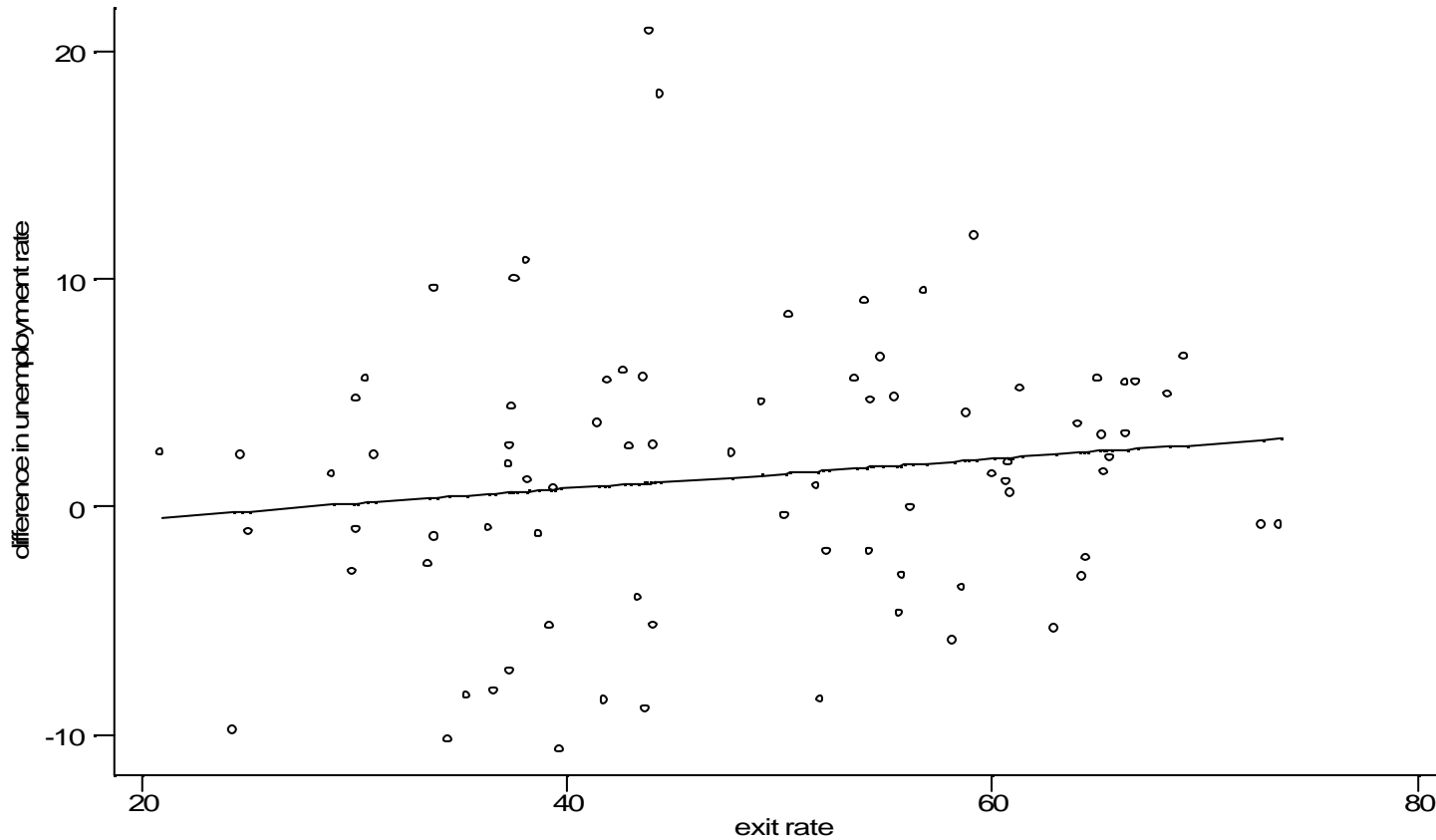


But it is a fallacy

(youth unemployment and early retirement)

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Early retirement (exit rate, born 1931-40) and changes in youth unemployment (aged 21-30), Men

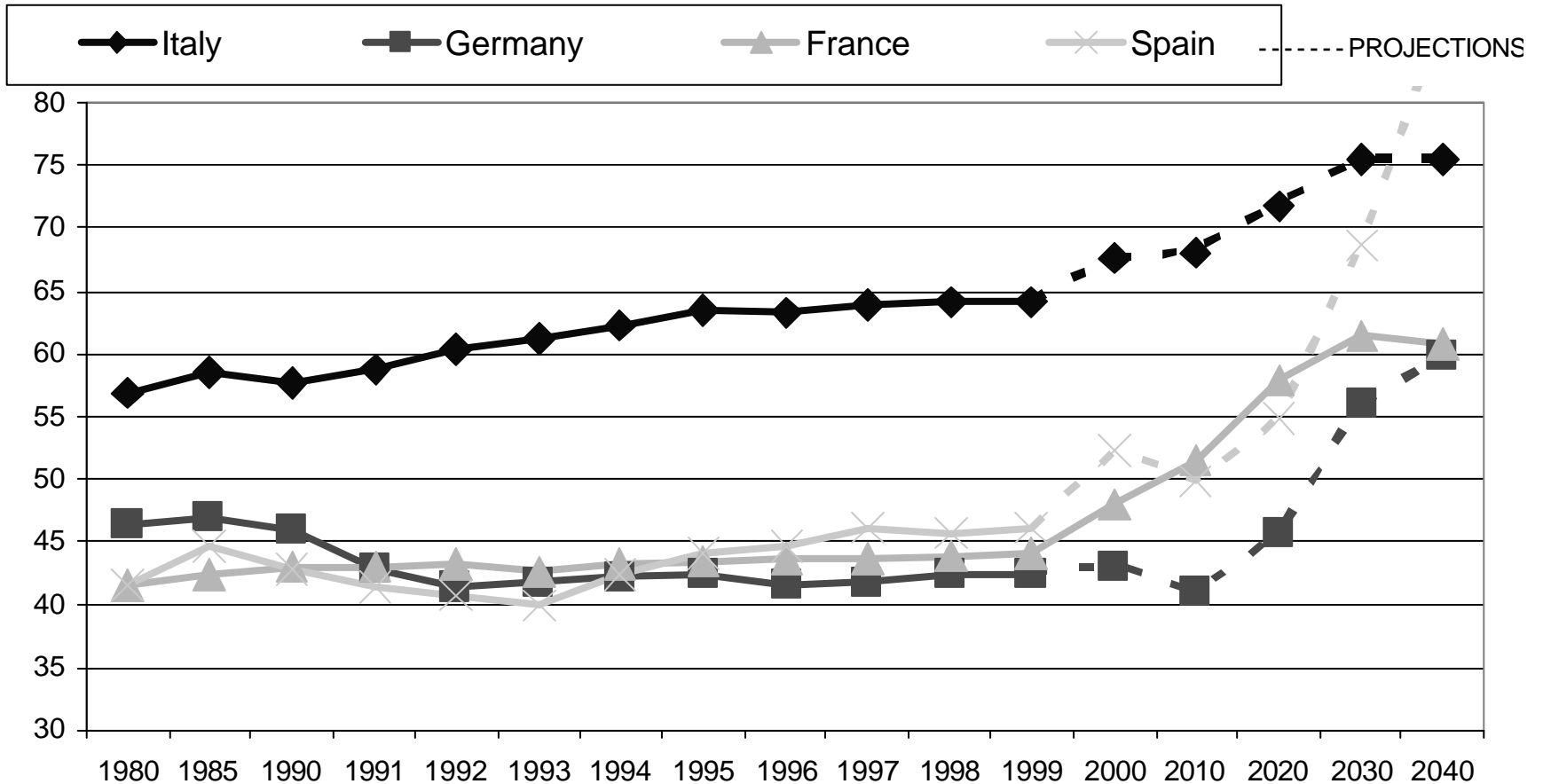


Source: Boldrin et al. (1999) using three European Labour Force Surveys for the years 1986, 1991, and 1995

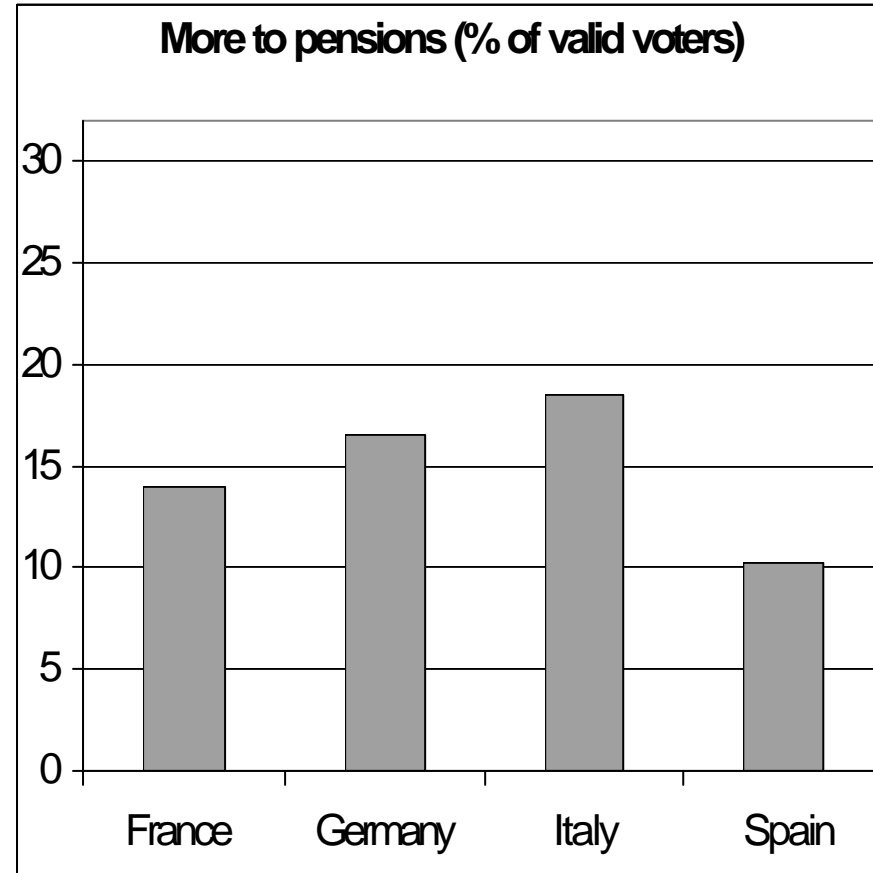
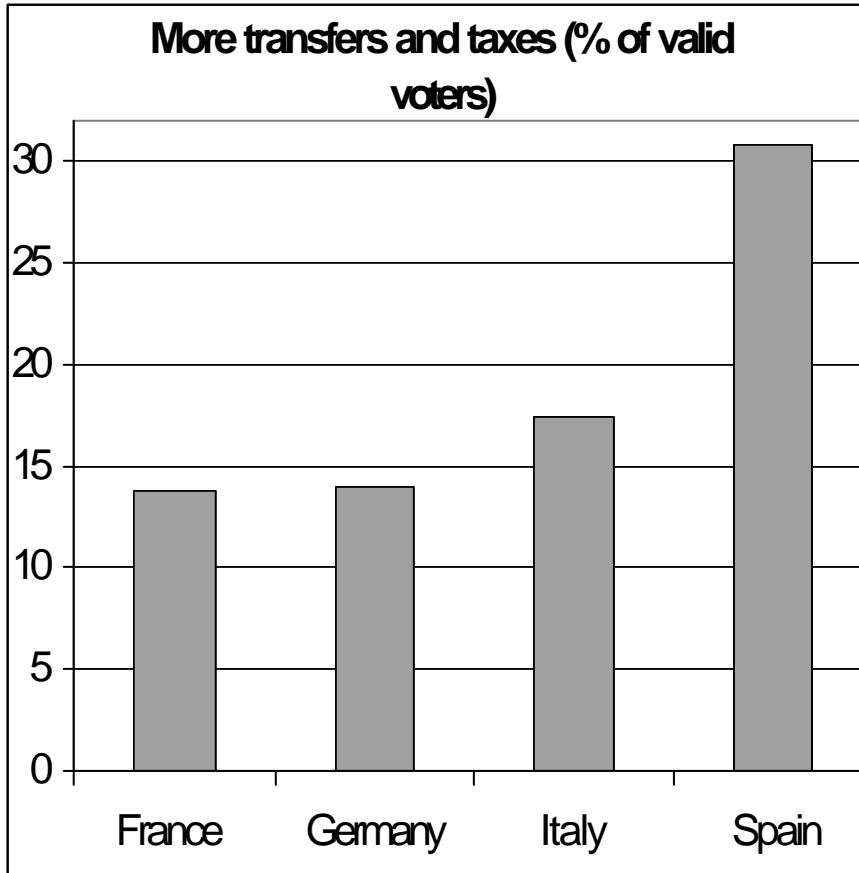
Pension spending crowds-out redistributive policies

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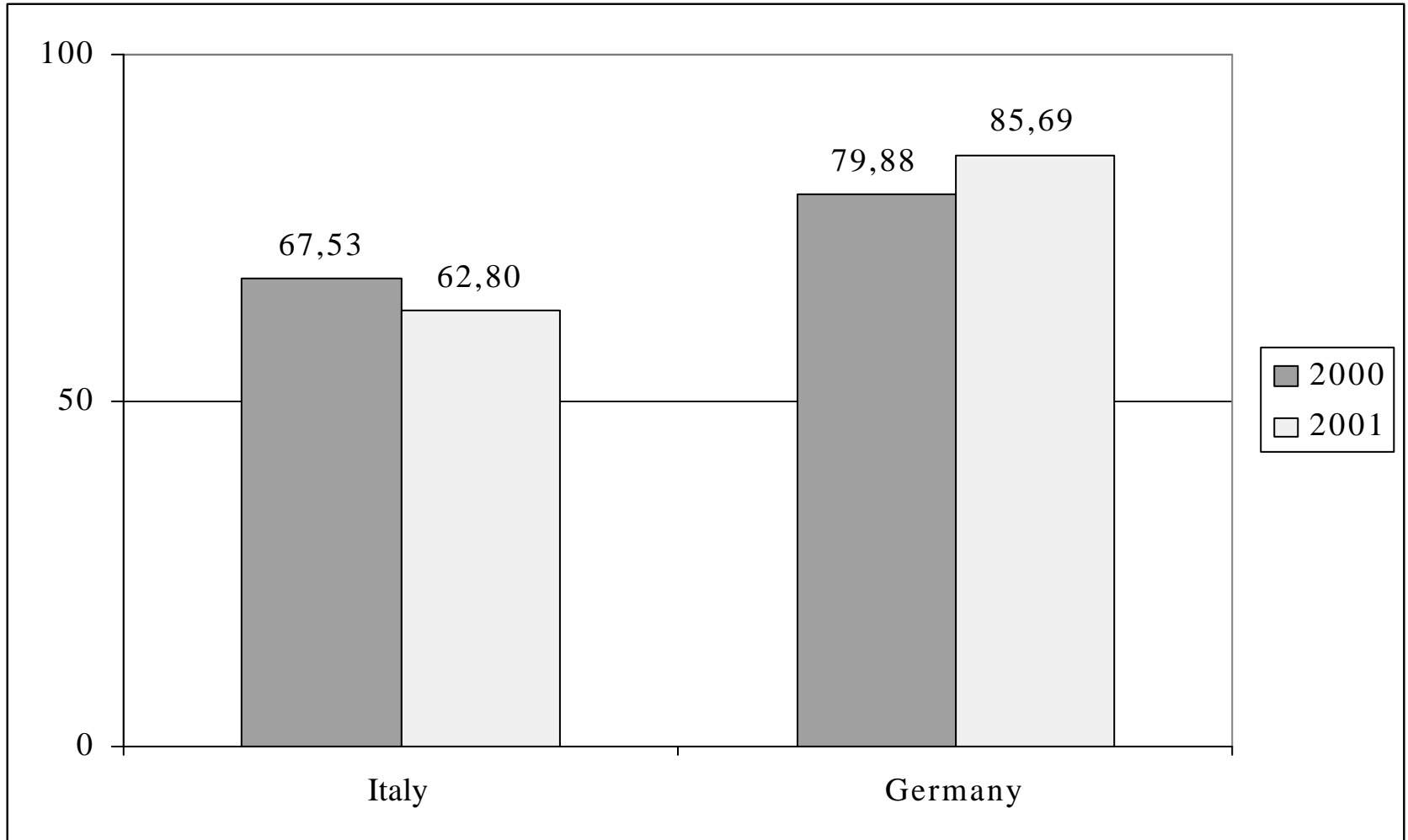
Pension expenditure as a share of total social expenditure



And citizens do not want to pay more taxes or allocate more resources to pensioners

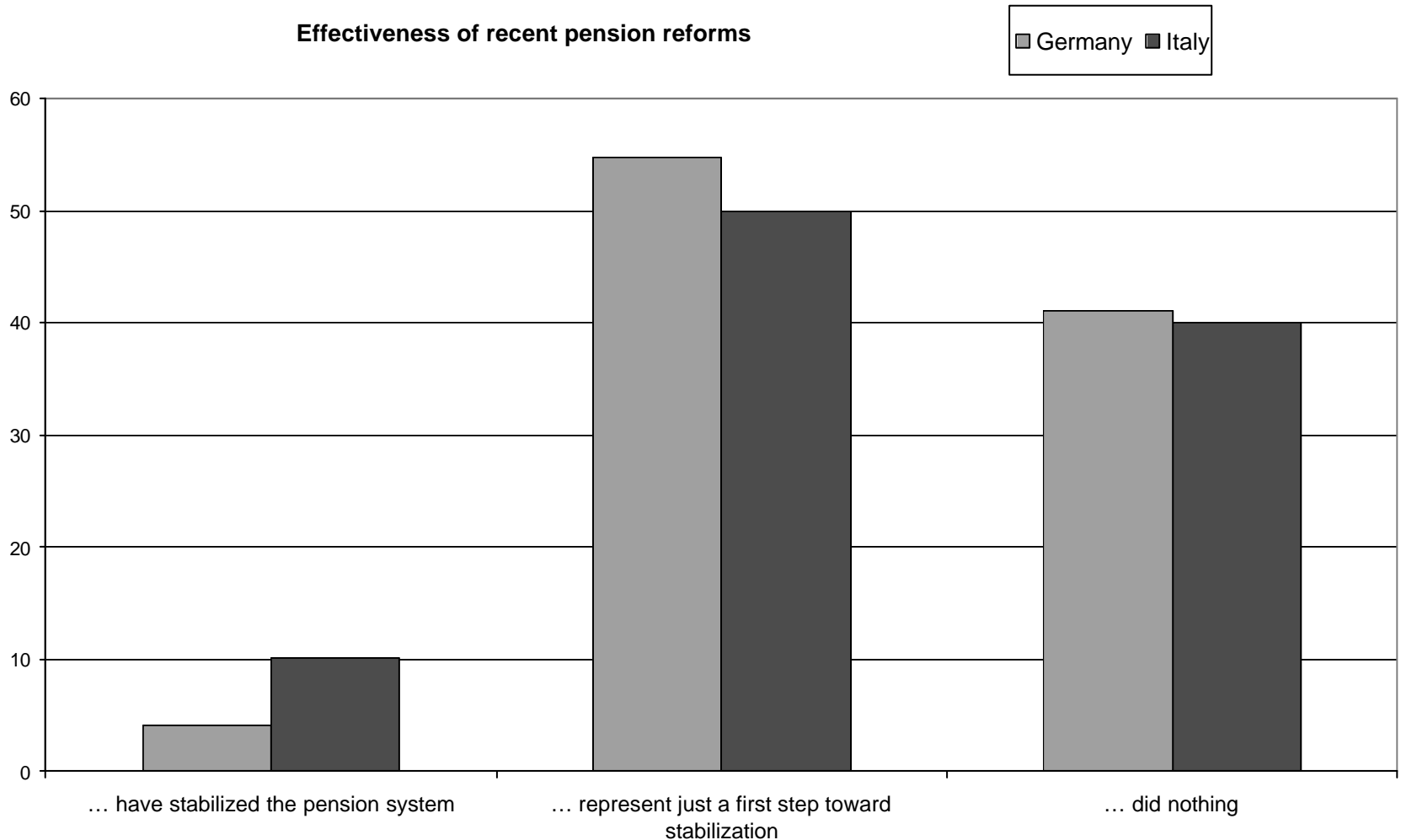


Aware of problems: there is a Risk of a Pension Crisis in 10-15 years

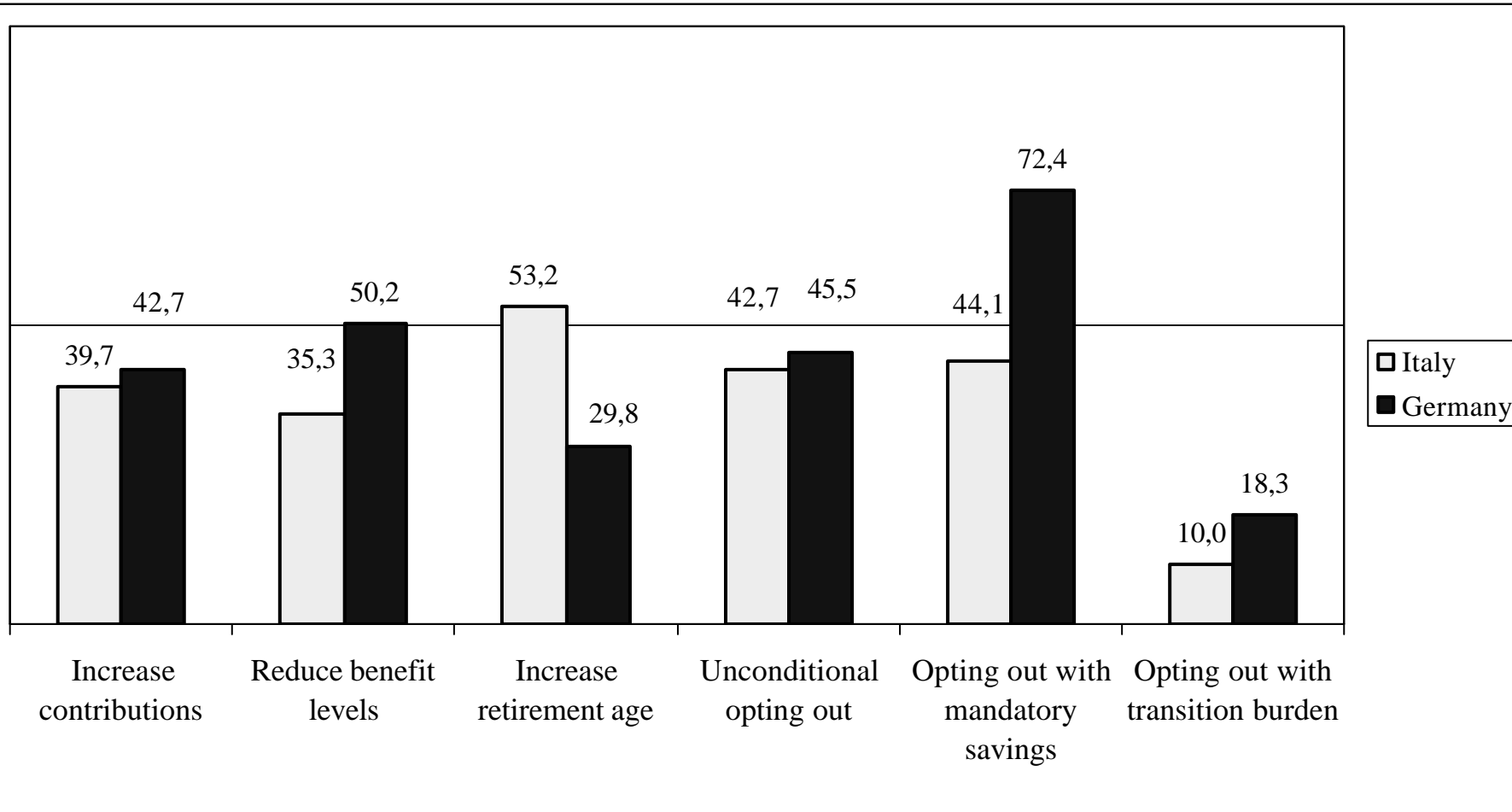


And they know that the “reforms of the Century” are only a first step....

Effectiveness of recent pension reforms



But oppose most reforms (% favourable, valid votes)

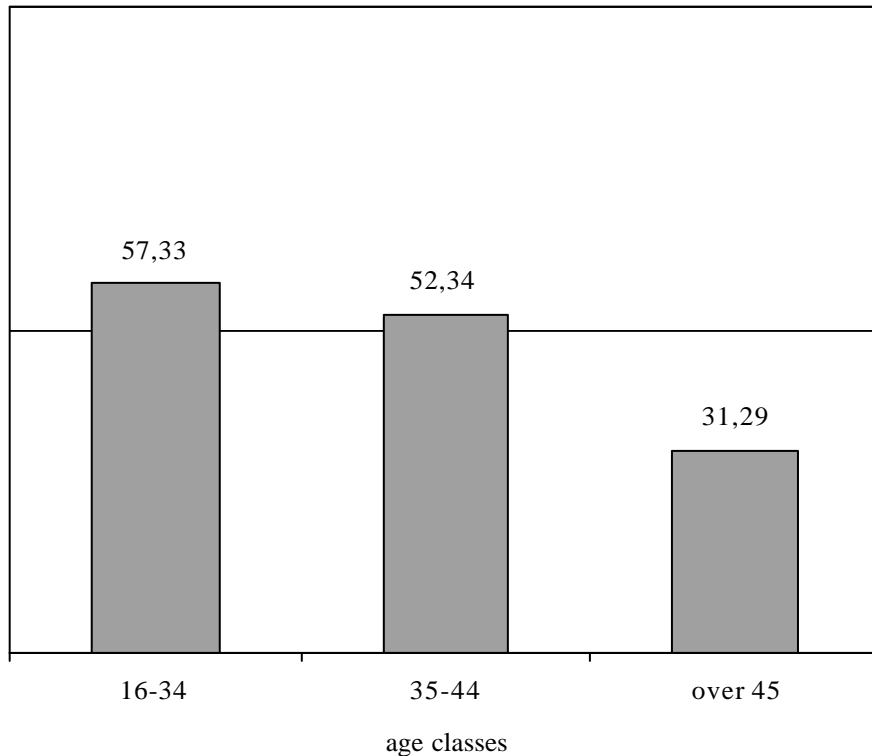


Information is lacking

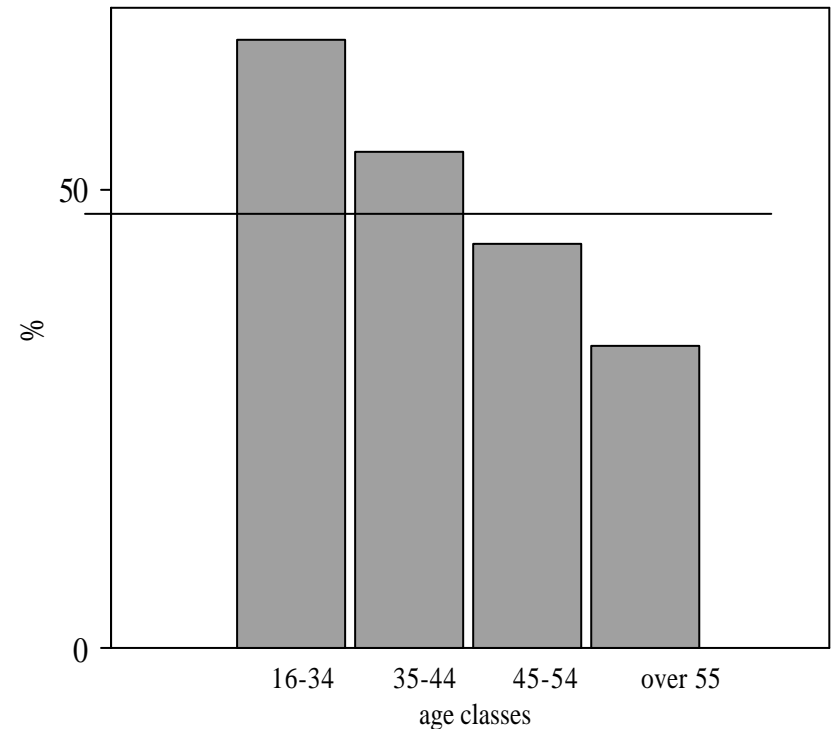
- Most underestimate actual contributions to public pension systems
- Only 40% understand PAYG system
60% think that contributions go to an individual account
- Those informed are more prone to support reforms

Age divides: ways to find political support to reforms

Italy, Support to Unconditional Opting-Out
(respondent as a percent of valid votes only)

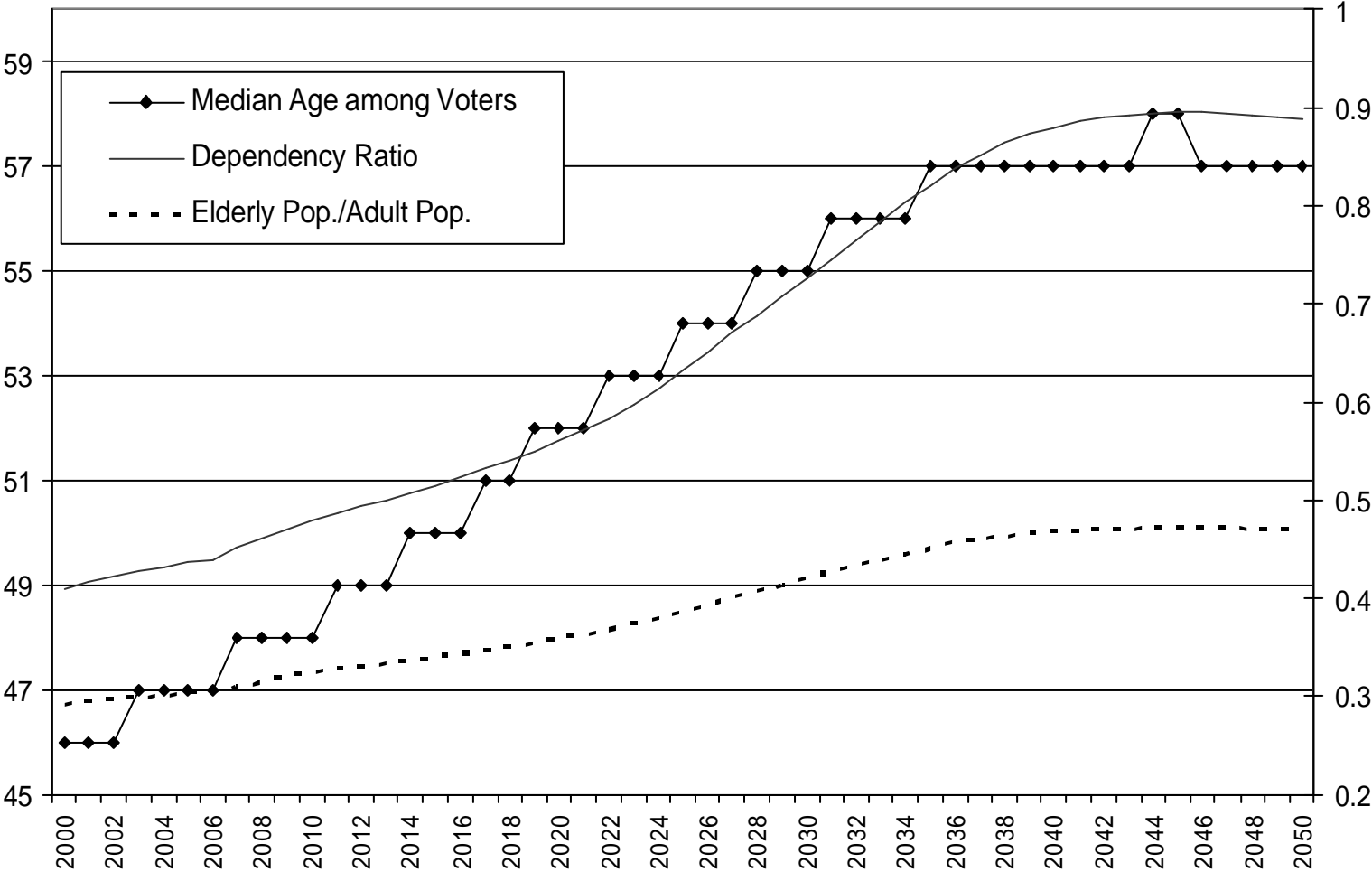


Germany, Support to Unconditional Opting-Out
(respondents as a percent of valid votes only)



But window of opportunity is eroding away

Expected Demographic Dynamics 2000 - 2050



Summarising

- Define more realistic targets (e.g., in terms of information)
- Mainly labour supply problem
- Political opposition: procrastination, selfishness and dis-information
- Politically feasible reforms
 - diversified by age
 - informing on actual costs of the status quo
 - highlighting its intra-generational iniquity (unreformed pensions are a threat to “Social Europe”)