

Taking a **New Look** at Old Age

*If the 20th century was marked by the redistribution of wealth, then the 21st century will see the redistribution of work. This is the central thesis propounded by **JAMES W. VAUPEL**.*

In the following article, he takes a look at the hotly debated subject of demographic change and concludes that the scenario of an aging society is neither an issue to be ignored nor a prospect to be viewed with horror. Rather, it is essential to heighten public awareness of the changes that the future will bring, as that is the only way to engender an adequate response – for example by distributing work more evenly over life.

Germany is getting older. Politicians and society alike have long ignored this fact, but for a while now, the concept of demographic change, once familiar to only a handful, has suddenly become the subject of hot debate. Discussions about the future goals and prospects of society, and about education, social systems and the dynamics of the economy are dominated by demographics. The realization has dawned that demographic change will affect a host of things. Strident horror stories are common enough, in which Germany is painted in shades of weary gray, its depopulated regions incapable of withstanding the pressures of aspiring nations such as China and India.

However, predictions of doom are no more helpful than ignorance of the facts. What society needs first and foremost is to be clearly aware of which demographic changes lie in wait. And then solutions must be found to adapt life in Germany to the new conditions that will apply. A current study of the working population's age structure is shedding light on demographic developments and their economic consequences, as well as demonstrating that discussion of our aging society need not leave us petrified with fear.

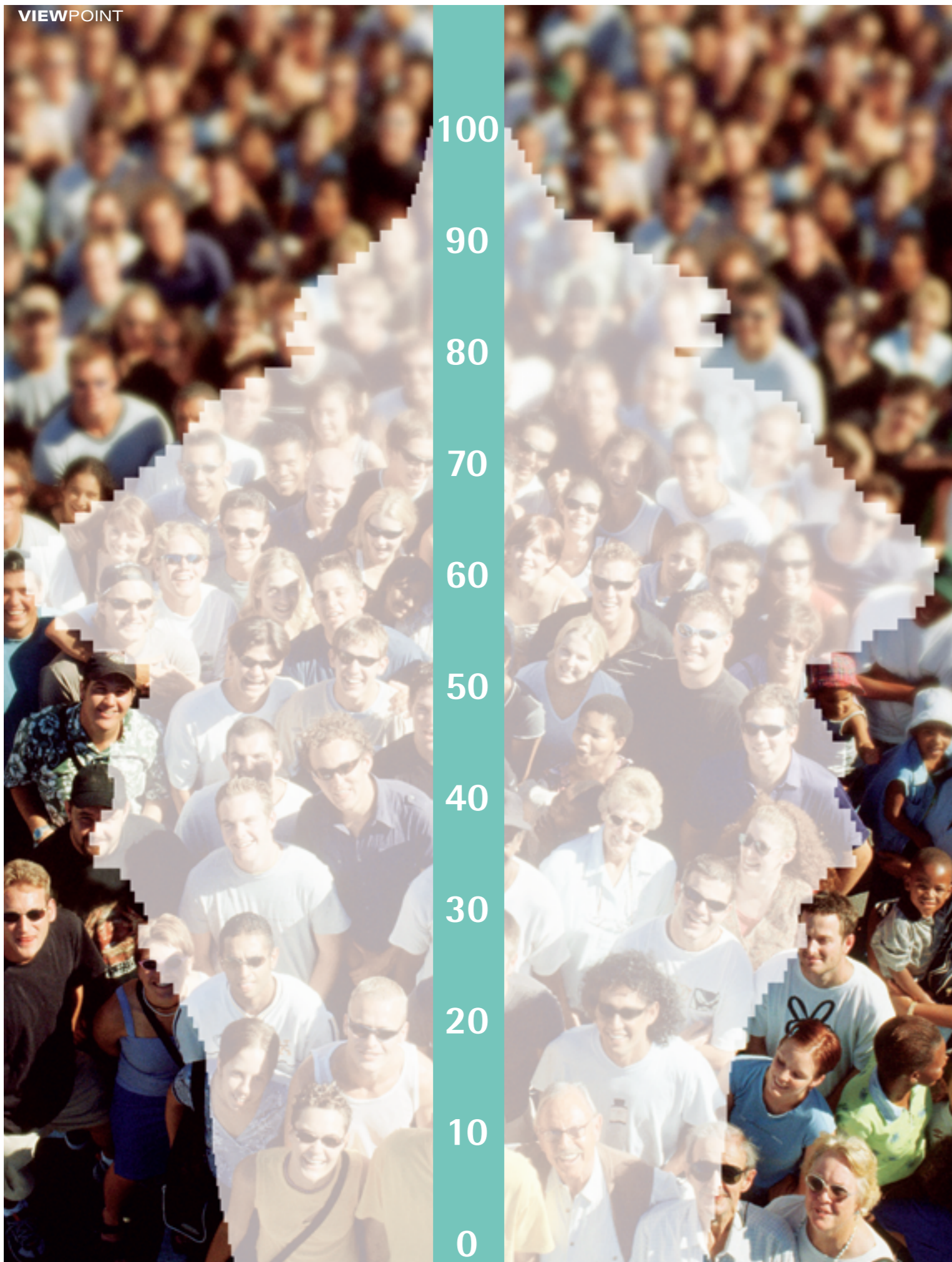
True, the study shows that collective aging could impose economic penalties even sooner than previously anticipated. However, it also prompts suggestions as to how such negative effects could be avoided, and even of

how individuals might discover new opportunities to enjoy more active and more productive lives than is presently possible.

An index developed by my doctoral student Elke Loichinger and me delivers unambiguous results: given the forthcoming demographic upheaval, the labor market in its present form is not sustainable. Public debate in Germany has thus far concentrated on the financial burden that will be borne by a decreasing number of young people twenty years from now, when the baby boomers fade into retirement and begin making demands on the social system. The prospect of more and more claimants being financed by fewer and fewer contributors has already prompted politicians to attempt social reforms.

However, what we call the Rostock Index makes it clear that an aging population will create high costs far sooner than that – if things remain as they are. The baby boom generation, born in the 1950s and 60s in the age of the Economic Miracle, is growing to maturity in a labor market that brands workers at the latest at age 50 as unproductive and over-expensive. At present, neither private- nor public-sector employers have more than minimal prospects to offer the sharply expanding population cohorts aged between 50 and 65.

The index allows us to quantify the macroeconomic consequences of this ageism in the labor market and to



make comparisons between countries and regions. And the results are startling: if personnel managers continue to exclude older people from paid employment with the gusto they currently display, then by the year 2025, there will be nearly 9 percent fewer man-hours worked than at present.

Employers in Germany are far too slow in comprehending how greatly the population structure is set to change in the coming years – and with it, the availability of workers. When the first demographers attempted to break down the population by age group, they spoke of a population pyramid. Around 1900, the classic pyramid structure was indeed in evidence: the large numbers of children and young people formed the base, and the pyramid tapered regularly as it rose in height to peak in a small number of elderly folk.

Nowadays, it would be more accurate to speak of a population sphere rather than a pyramid. There are comparatively few children and young people. The middle-aged segment of the population – born in the baby boom years – represents the majority and constitutes the broad circumference of the sphere, and from there upward, the number of older people naturally declines, though far more slowly than in the past thanks to better health care.

The baby boomers are getting older

In the coming decades, the former pyramid shape will change even further. The bulge formed by adults currently aged around 40 is climbing higher year by year. The first of the baby boomers are now aged around 50, and in 20 years or so, the majority of them will be around 60 years old. The once broad base of the pyramid is shrinking noticeably: the birth rate in Germany began to collapse as early as 1965 – very early by international standards. Since the mid 1970s, women in Germany have had an average of only 1.4 children. Yet in numerical terms, for children to replace their parents generation for generation would require an average of 2.1 offspring. (MAXPLANCKRESEARCH 3/2005, page 70 ff.)

Thus, for more than 30 years there have been not only too few children, but also too few future parents. Despite a constant birth rate, the actual number of children born is falling year by year. This change in age structure has already laid the foundation for a steadily aging society in which a high number of middle-aged individuals contrasts with a low number of young people – and the process is accelerating. By 2050, the population pyramid will have been turned almost on its head, looking more like a flower vase that is narrow at the base and widens at the top.

What significance does this sustained aging of society have for the development of the economy? One frequently used unit of measurement is the age quotient,

which describes the ratio of older people to be provided for (people over 60) to the working population (aged 20 to 60). Whereas, 50 years ago, for every 30 people over the age of 60 there were another 100 of working age between 20 and 59, that figure today has already fallen to 45. By 2030, for every 100 younger people of working age there will be 70 over the age of 60. These figures presuppose that people of working age will continue to do the same amount of work. The reality, however, is very different: long periods of education and training delay entry into working life; women still account for less gainful employment than men; and employment rates in Germany decline rapidly with increasing age.

Today, almost 90 percent of men between the ages of 30 and 50 in Germany are working; the figure for women of the same age is 70 percent. However, by age 60, the proportion of men in employment falls to 30 percent, and the proportion of women is just 15 percent. Germany is not alone in Europe in this respect, but other countries are doing better, such as Sweden and Denmark. Older job seekers are considered to be hard to place in Germany, as older employees are regarded as less productive and less motivated. The government has even introduced financial incentives for older workers to take early retirement at the expense of the social system.

The perception of older people as weak points in their operation, despite being frequently unjustified in individual cases, can prevent employers from investing in training for older employees. Average worker productivity may indeed decline with advancing age, but this has no direct bearing on the performance profiles of individuals, whether young or old.

The Rostock Index now highlights the speed with which the total number of hours worked declines in an aging society, and will continue to decline if older people play as small a part in working life in the future as they do today. The index is based on the unit H, which measures the average hours worked per week per head of population, from infants to the elderly – irrespective of whether or not they are gainfully employed. The average value of H is therefore significantly lower than the 40 hours or so worked by full-time employees. The present figure in Germany is 16.5 hours (2003). In the US, the average number of hours worked is 18.5. In France it is 15.3. But the H value changes in individual countries as time goes on. In Germany 20 years ago, thanks to a higher rate of employment, the average was 16.9. Over the next 20 years, the figure will fall further still.

There are many factors that contribute to a decline in average hours worked, including a rise in unemployment, the falling rate of female employment and extended periods of training. However, in the future, the changing age structure of the population could, on its own, be responsible for the fact that, on average, less work is done.

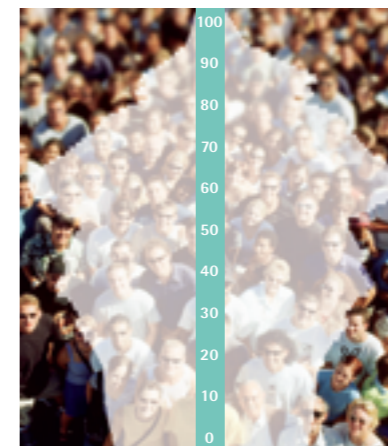
A second element of the Rostock Index measures how the average number of hours worked changes solely as a result of an aging society. The development over the past 20 years shows a positive balance. The average number of hours worked may have fallen by half an hour, but this was not due to the increasing age of society. Rather, it was the product of changes in weekend working and in employment rates. In fact, from a demographic perspective and in view of the available labor force, we presently find ourselves in a highly advantageous situation: the baby boomers now aged around 40 are available for work, and in comparison with previous generations, they have fewer children to care for. With the cohorts born in the boom years having grown to working age, they have yielded a slight demographic bonus over the past 20 years in Germany, accounting for 0.3 percent more hours worked.

In the next two decades, however, as the baby boomers grow older, this demographic advantage will be steadily reversed. In just a few years' time, the average hours worked will shrink, above all as a result of our aging society. Every industrialized country with an aging population is facing a demographic deficit. Our forecast for Germany indicates that, by 2025, some 9 percent fewer hours will be worked than in 2003. Admittedly, this will apply only if things stay as they are at present – in other words, if the many older people continue to work a little and the few young people continue to work a lot.

All in all, the resulting loss of capacity would be comparable with present-day unemployment in Germany. A substantial volume of potential labor would go unused, while the burden on young people forced to support their older counterparts via social security systems would increase. Fewer hours worked per head of population means a loss of income and restricts the freedom of the government to distribute what is left.

Although today's standard of living could be maintained if productivity were to increase substantially, there would be even more people than today who did no work at all. And every hour not worked means greater transfer payments and lost tax revenues. Work would be even less evenly distributed than it is now. In short, the burden of work would fall on the shoulders of the few young people left.

Rostock Index calculations for the coming years underscore one primary fact: the cause for the decline in hours worked over the next 20 years will be the rise in older workers, not the rise in those who have already retired. Only after 2025, when the baby boomers retire, will the economic consequences be increasingly driven



by the growing proportion of retirees. Until then, however, the cause will lie with the under-70-year-olds who could be gainfully employed but who, in reality, are virtually excluded from the labor market.

This is where the search begins for alternatives to today's labor market. How can these potential negative effects be compensated for? How do

we stop the boom-year cohorts from degenerating from a driving force into an economic burden? The participation of older people in the labor market is becoming a major economic factor.

Today, a 45-year-old works an average of 30 hours per week, while a 60-year-old works an average of just 8. If the average number of hours worked is to be prevented from sliding headlong downhill, this pattern must change. Model calculations indicate that, by 2025, we need to have reached the point at which 50- to 60-year-olds work the same 30 or so hours per week as 35- to 50-year-olds, and the working week for 60- to 65-year-olds has risen to 20 hours. This is the only way to keep work input at a constant level in economic terms in the face of an aging working population.

The idea has an even more radical aspect: if working hours were maintained at the same level until the age of 65, and if people were to have at least some involvement in working life until the age of 70, the burden on other age groups could be reduced. Consider, for example, the younger working population aged between 20 and 40 who are so heavily burdened with work that they are unable either to start a family or to spend time with their children.

Work should be evenly distributed over life

If the main feature of last century was the redistribution of wealth, in the century just begun it will be the redistribution of work. More specifically, it is a question of distributing work more evenly over the average life span. We are steadily getting older, and remaining healthier in the process. Life expectancy is increasing by two or three months each year – one of the great achievements of modern societies. By contrast, in Germany, the legal retirement age of 65 has remained unchanged since 1916, while the actual retirement age is even lower. Back in those days, life expectancy in Germany was 15 years below the retirement age; now it is 15 years or more above. In past years there has been a continuous increase in the period for which pensions are drawn.

The Rostock results support the contention that, in the future, better use should be made of the potential of older people to work. In Germany, 60-year-olds have a far

greater performance capacity today than they did just a few decades ago. In the work world, the demand for hard physical labor is steadily falling, whereas the growing service sector could well absorb the older workers of the future. The response from politicians has thus far been hesitant. In Germany, there are plans to gradually increase the retirement age to 67 by the year 2029. The Ministry of Labor is preparing a “50-plus” initiative with a view to increasing the participation of older people in gainful employment.

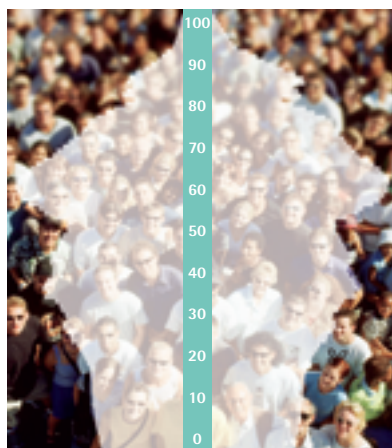
However, the deciding factor would appear to be, not simply extending, but actively and creatively planning our working lives. Despite a substantial rise in life expectancy, the working lives of young and old are still constrained within a rigid traditional pattern of training, working and retirement. Much would be gained if we could break with this familiar, rigid three-stage process that crams learning into the first stage of our lives, work in the central phase and leisure in the latter years.

Education and training take a long time; the path to work can be stony and paved with internships, while time out from employment has a negative effect on future prospects. In mid-life, the simultaneous demands of family and employment in a changing labor market impose a heavy, and often excessive, burden. In most cases, people withdraw early from active employment. The following decades of joblessness are a time of leisure, supported by those in work who are juggling the needs of raising a family while making provisions for their own old age.

More responsibility also means more opportunity

If, on the other hand, work were to be more evenly distributed over our natural life span, there are far more things that our lives could accommodate: education, work, leisure, family and social life, all of which could be weighted according to the stage of life we have reached. Today, the obstacles to living these aspects of life side by side are considerable.

Perhaps future generations will shake their heads at this corseted timetable for life and wonder why their parents and grandparents did not live more balanced lives, why so many opportunities were passed up, why, in the midst of life, they were so overworked and in later years so underworked, why they allowed the pressure of work to deprive them of the children they desired, rather than wait until their children were grown before maximizing their working hours. An aging society demands that individuals plan their lives more actively. That means taking responsibility – and it presents an opportunity. Redistribution has a ring of state interven-



tion. However, if work is to be more evenly distributed over life, then individuals themselves must play an active and creative role. Whether an individual chooses to reduce his or her working hours in order to raise children, or alternate work with education in order to advance their professional qualifications, or intensify their working life once their family is

grown, or work less as they grow older – is a decision that only they can make. The concept is one of a lifetime working-hours account that should, ultimately, be balanced, but that must be responsibly managed a lifetime long.

Politics and economics can create the conditions for greater freedom of choice: education and training programs for older people and those completing the family phase of life have as great a role to play as incentives to take family time and design family-friendly work patterns, the abolition of rigid age barriers and the elimination of the automatic assumption that workers become more expensive as they get older. This would remove some of the great obstacles that presently stand in the way of more flexible work-life planning.

Model calculations using the Rostock Index highlight the need for society to critically review and revise its traditional view of working life. Whether young parents should work part-time or whether older people should have the same opportunities in the labor market as their younger counterparts are not lifestyle issues. As a result of demographic changes, new economic necessities are emerging that demand that we make adjustments if our aging population is not to soon throttle this country’s economic development.

Of course, the traditional working life as we know it today remains an option, but at a price: anyone with a life expectancy of 80 who retires at 50, whether of their own accord or because they are pushed, cannot expect to be generously paid. Those who want to cram an entire career into the period between the ages of 30 and 40 will likely have to forego having children, or see little of their first years of life.

We must prepare ourselves for the aging society of tomorrow. That means overcoming age discrimination in the labor market and allowing older workers to contribute to a productive society. However, it also means new freedoms, taking responsibility for the structure of our lifetime’s labor and being much more flexible than we currently are in allocating time for work, family, education and social commitment. ●

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