How to manage an ageing workforce

Governments, employers and workers all need to change to keep baby-boomers on the job
One of the side-effects of the second world war was the most momentous social change of the past half-century. As men marched off to fight, women put aside their grooming magazines and gardening gloves and took their husbands' places in factories and on the farms. They never looked back. Many people worry about the impact on family life of their entry into the labour force, but most now take it for granted that women have as much to offer at work as men do. Another change as large as that one is now under way. In a further half-century it will seem just as absurd that western societies today are content to press another potentially productive set of workers to stay at home sipping tea and potting begonias—and to pay them for it, to boot. The question of how to deal with the growing number of retired people has recently been seen as chiefly a financial puzzle: how to pay for the leisure of those ageing layabouts. When Bismarck first introduced State pensions in the 1880s, they kicked in at the age of 70, about 20 years more than the typical life span. Nowadays State and Company pension schemes kick in at or before 65, almost 20 years less. But the issue is more than just a financial one: it raises social as well as economic questions, and its resolution will involve governments, employers and people.

Sans teeth, sans work

The baby-boom generation, which started to turn 60 this year, contains the largest number of people ever voluntarily to give up work in such a short time. Because it is far larger than the generation that follows it - or any that preceded it - it casts a shadow over the companies it is set to leave behind. Japan expects its workforce to shrink by 16% (some 10m people) over the next 25 years. Europe will see the number of workers nearing retirement grow by a quarter. Some companies are already complaining of a shortage of skills, even before they have started to dole out carriage clocks and fountain pens by the barrow-load. There are several ways of dealing with a falling supply of labour: work might be shifted offshore, to take advantage of abundant cheaper workers in poorer countries; laxer immigration rules might allow in more skilled labour from abroad; new equipment could enhance the productivity of a better-educated workforce. But one of the readiest sources of skilled labour is closer to hand.

If staying on at work were up to older employees alone, many would jump at the chance. That is partly because they will no longer be able to retire in the style that they have been led to expect. Corporate pension schemes and health benefits are becoming ever less generous. Last week General Motors joined the line of revisionists with an announcement that it will cap health-care spending by its retired workers. That will not be the last cut. Baby-boomers say they want to stay in the workforce for more than money. Many also want to carry on working beyond the Standard retirement age for the mental Stimulation (try that on the next bored-looking 20-year-old you meet in the lift). Their productivity may decline as they get older - although people gain in experience, their capacity for sharp thinking falls off — but the traditional pattern of retirement, in which one day an employee is in a bustling office busy as a bee and the next he is good only for the potting shed and the fire-side chair does not make sense for the economy, for companies or for people. You couldn't imagine that fate for the 69-year-old Carl Icahn (besieging Time Warner) or the 88-year-old Kirk Kerkorian (shaking up General Motors). It shouldn't be urged on their less enterprising peers, either. If baby-boomers want to work longer and companies want more skilled workers, what's the problem? Part of the answer is that labour markets work particularly badly for older workers. Pensions need to be unhooked from final salaries, so that workers are not heavily penalised if they take pay cuts to stay in employment. That is already happening, with the decline of companies' defined-benefit schemes. State and private pensions should encourage workers to postpone retirement. That is already happening in Sweden and Switzerland, which both have relatively high labour-participation rates among older people. Pensions should be designed so that they allow part-time workers to continue to contribute even after their official retirement age. Since governments benefit if people work longer (because they pay more in tax and cost less in benefits) they should be eagerly enacting such measures. But instead of freeing up labour markets to help older people work, governments are focusing on legislating to ban discrimination on grounds of age. European Union member countries are introducing such laws, even though experience in America, where they are already in force, suggests that making older people hard to fire discourages companies from hiring them. Companies, as well as governments, need to be flexible That's beginning to happen, partly because employers are keen to attract more women, and the part-time jobs that often appeal to them are attractive to the old as well. Big, well-man-aged companies tend to offer that sort of flexibility; others will have to learn.

Make work not war

Lastly, older workers need to adapt. In many cultures, age is related to seniority, and therefore to pay. The older the worker, the more expensive he is. Boomers will find work only if they accept that their wages will be based on what they are worth to the company - rather than their salary at the top of their career. Although a shortage of skills might well push up wages for all workers, older ones may nevertheless have to accept a relative decline in salary and Status. Baby-boomers have been changing the world since the 1960s. They're about to do it again by turning the world of work upside down. This social upheaval may be quieter than the last one they were responsible for, but its consequences will be more profound and longer-lasting.

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