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PRESS RELEASE

Employees: too expensive at 50? The influence of "age" in the wage formation
(Article for the June 2014 Economic Review)

In common with other EU countries, the employment rate for people aged 55 and over has risen in Belgium in recent years although it is still 9 points below the EU average. Given the ageing population, which is gradually also becoming apparent in the employee age structure of companies, the labour demand for people aged 55 and over has become a major social and economic challenge.

An examination of all recruitments in 2012 shows that 46% of new employees were in the 20 to 29 age category, whereas the proportion of 55 year-olds and over was under 3%. Hence, opportunities for being hired decline as people get older. The profile of employment exits is completely different: people in the youngest age category account for a significant share of terminations (particularly as a result of fixed-term contracts and temporary employment), but these exits also become more important after 55 years of age.

This development in the case of the 55s and over is ascribed to people availing themselves of early withdrawal schemes. During the 1970-1990 period, these schemes were regarded as being beneficial to staff and employers alike. Access to these paths to an early exit from the labour market has gradually been made more difficult in recent years as a result of raising the age and career conditions for entitlement, in particular in the "pre-pension" system (renamed "unemployment with employer top-up", along with the will to activate these people) and its counterpart for the former employees of smaller firms (scheme for older unemployed people exempt from seeking work).

As a result of the comparatively generous early retirement schemes, the large number of exits and the low number of recruitments in these age categories, the estimated length of career is lower in Belgium than for the best-performing European countries, mainly the Scandinavian countries, the Netherlands and Germany. These countries have all applied extensive reforms to their early labour market exit schemes. Some have also revised the regulations governing their pension schemes (the normal retirement age indexed to life expectancy, higher decrual rates in case of pensions drawn before the statutory retirement age, etc.).

Wage profiles are linked to age in all European countries to a varying extent. However, the remuneration path is seen to be continuing to rise for the over-50s in Belgium, whereas it flattens out until the date of retirement in the Scandinavian countries, the Netherlands and Germany. However, this development might be attributed to some extent to composition effects: there could be a process of (self-) selection for people staying on at over 50 years of age, with solely the biggest earners continuing to work.

Wages vary according to the size of the employer's business, the branch of activity, education level, professional experience and seniority in the company. Nonetheless, the gaps according to education level tend to increase as people get older. The increase is particularly large in the case of highly educated people. Wages keeping pace with increasing seniority is not economically problematic if this reflects a higher level of productivity.

However, labour productivity cannot be observed directly. Aggregate measures are a way of avoiding the psychometric tests approach to individual productivity, which do not necessarily take experience into account nor the collaborative efforts and the social skills that play a key role in labour productivity, nor, moreover, do they reflect the fact that the type of tasks to be performed changes during the course of a professional career. One potential approach is to assess how age variation among employees affects firms' output. The econometric results for Belgium show that a higher percentage of employees aged 50 and older tends to weigh on average on corporate profitability.

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Social dialogue in Belgium still reflects the distinction made between the manual and non-manual employee statute. The bulk of the collective agreements establishing the job classifications and corresponding wage scales for non-manual employees provide for wage changes to be based on the employee's seniority, whereas no such adjustment is made for manual employees, whose experience-related wage increases involve changes of job and, thus, changes of wage scales.

The social dialogue should take into account the question of the importance of seniority in wage scales to encourage people to work longer without unduly affecting business costs.

Moreover, the productivity of older workers can be boosted as a result of additional training efforts, implementing measures that aim at adjusting workplaces, including ergonomics, and a better organisation of work.

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