

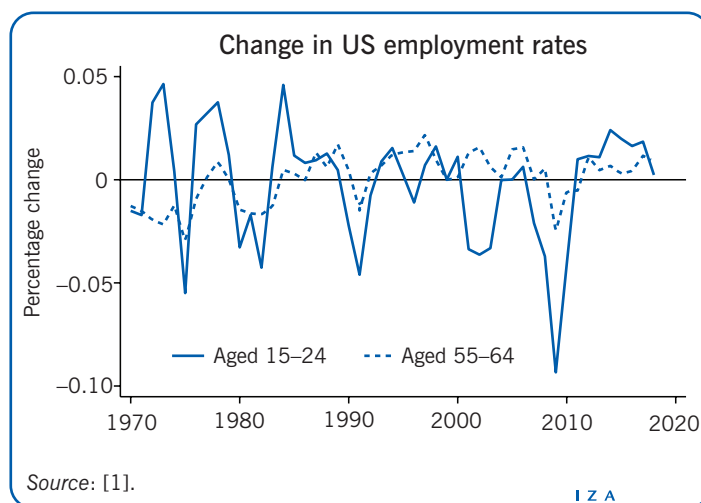
The effect of early retirement schemes on youth employment

Keeping older workers in the workforce longer not only doesn't harm the employment of younger workers, but might actually help both

Keywords: early retirement, youth unemployment, social policy

ELEVATOR PITCH

The fiscal sustainability of state pensions is a central concern of policymakers in nearly every advanced economy. Policymakers have attempted to ensure the sustainability of these programs in recent decades by raising retirement ages. However, there are concerns that keeping older workers in the workforce for longer might have negative consequences for younger workers. Since youth unemployment is a pressing problem throughout advanced and developing countries, it is important to consider the impact of these policies on the employment prospects of the young.



KEY FINDINGS

Pros

- ⊕ There is no trade-off in the employment of young and old workers: higher employment for older workers coincides with higher employment for younger workers.
- ⊕ Increasing the retirement age increases younger workers' wages.
- ⊕ Younger and older workers are complements for each other rather than substitutes.

Cons

- ⊖ Reducing the employment of older persons does not provide more job opportunities for younger persons.
- ⊖ Increasing the employment of older persons neither reduces the employment, nor does it lead to more unemployment, of younger persons.
- ⊖ Lowering the retirement age decreases the incentives to train and to invest in additional skills, and therefore leads to lower economic growth.

AUTHOR'S MAIN MESSAGE

Most OECD countries have reformed their pension systems by increasing the effective retirement age. It is often argued that a higher effective retirement age, which is considered necessary to sustainably finance state pensions, will lead to more youth unemployment. There is, however, no empirical evidence for this claim. On the contrary, increasing effective retirement ages and policies to foster employment of older workers are likely to support the employment of both older and younger workers. Policymakers, therefore, need not fear that such pension reforms will create problems for younger workers since, in all likelihood, increasing labor demand for one cohort will lead to more overall employment.