

Pension Reform, Retirement Ages, and Labour Supply in the United States and the European Union (EU15) 1950-2060

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Abstract:

Reform of retirement age provisions in public policy schemes for the older population has moved to the centre of welfare state reform debate and policy during the past decades. Since the late 1980s European pension policy can be said to be in a state of permanent reform, questioning and affecting almost all dimensions of the systems that have been inherited from the past. During the most recent decade with increased European economic integration, the European Union level has also become an important actor in pension politics, stipulating targets such as the increasing of the participation rate for citizens between the ages of 55 and 64 to 50 per cent. Developments in the United States differ fundamentally from European trajectories in that the last major change to the public pension system was implemented in 1983 under the Ronald Reagan presidency. An absence of recent reforms has not meant an absence of policy initiatives and debate: Successive presidents (Clinton, Bush, Obama) have initiated reform debates yet nothing has come out of these initiatives and the 1983 reform remains a key benchmark in US public pension policy. Part of the Reagan reform scheduled an increase in the normal retirement age from 65 to 67 to be phased-in gradually between 2000 and 2027. Quite remarkably in light of European developments, this schedule has remained unaltered more than 20 years on and the raise in retirement age provisions is currently in the process of being implemented. Until the mid 2000s, European policy makers have given priority to reforming and abolishing various early retirement options but judged by current policy processes, pensionable age reform has now entered a new stage whereby it is to be anticipated that in the near future all major EU countries will have followed the U.S. example and have enacted legislation stipulating a normal pensionable age of 67 (or older).

Taking a long 60 year look at trends in pensionable age policy this chapter places current policy initiatives in a broader context and considers how the different policies in the U.S. and EU15 countries have impacted on labour supply and participation of older people and how recent policies currently being phased-in are projected to impact during the next 50 years. In the 1950s labour market participation of older people was pretty similar on both continents but since the 1970s a substantial gap developed, with EU15 as a whole and most member countries lying substantially below U.S. rates. Trends have been similar but troughs and peaks have been much more pronounced in Europe than the U.S. We argue that the substantial gap between the rates on the two continents developing until the mid 1990s can largely be explained by differences in retirement age policy and that the much stronger increase in participation in EU15 vis-à-vis the U.S. during the past 15 years is one of the fruits of the new policies that have been adopted. Indeed, projections of the impact of retirement age reform discussed in the chapter indicates that in future we can expect EU15 countries to have higher participation rates for older people than the United States, thereby turning the pattern of the past forty years on its head.

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