EUROPE

Older Employees Breathe New Life Into Europe's Labor Market

Influx defies conventional wisdom and bolsters Continent's economy, but gains could come at the expense of younger workers

By Tom Fairless
July 16, 2019 5:30 am ET

BARCELONA—When entrepreneur Kim Diaz opened a bar-restaurant in this buzzing Mediterranean city four years ago, he adopted a strict hiring policy: only workers aged 50 and above.

The bet has paid off. Older staff are punctual, polite and hardworking, the 51-year-old said, and their professionalism has proven a hit with younger customers.

"We're talking about waiters who enjoy their jobs, remember exactly how you take your coffee in the morning, how you want your beer without a head and your Coke with just one ice cube. These are values that we've been losing in hospitality recently," Mr. Diaz said. His average employee is 54.

Across a rapidly aging Europe, employers are finding ways to keep older staff on the job for longer, or adding new ones.

Workers aged 55-74 accounted for 85% of employment growth in the eurozone between 2012 and 2018, according to the Organization for Economic Cooperation and Development, a think tank for mostly rich countries. Around 10 million jobs were created during that period.

The trend upends the usual thinking on labor markets. Normally, it is cheaper and more-flexible younger workers that are coveted. But the large and highly educated baby-boomer generation has accumulated skills that are tough to replace, employers and economists say.

The shift toward older workers comes as Europe approaches a demographic cliff. Sixteen percent of the working-age population of the region's currency union, aged 15-64, will be lost by 2050 relative to the region's total population, according to a paper published in June by the European Central Bank. That is double the share of the U.S. working-age population that will be lost over the period.

To stave off demographic decline, European governments and businesses are hustling to boost employment and productivity among older workers.

Mindful of a rapidly aging workforce, executives at German auto maker BMW AG tried an experiment at a factory in Bavaria a few years ago. They staffed an assembly line exclusively with older workers, with an average age approaching 50.

By making small tweaks—ergonomic chairs, less-rigid wooden floors, lenses to magnify smaller parts—BMW transformed the line into one of the factory's most efficient. The total outlay: around €40,000 ($45,000).

"We found that older workers had the same productivity as younger ones, and in terms of quality they were even better," said Jochen Frey, human-resources spokesman for BMW in Munich. The line's design has since been replicated in BMW factories across Germany and beyond.

Economists had until recently assumed that workers' productivity peaked somewhere between the ages of 30 and 45, before declining rapidly after about 60. But some recent research challenges that assumption: Examining large data sets, economists led by Axel Boersch-Supan at Munich's Technical University found that the productivity of manufacturing and servicesector workers doesn't change much through age 65.

Older workers prepare the house specialty of grilled mushrooms with prawns at the Soriano pinchos bar in Logrono, Spain.
PHOTO: DAVID SILVERMAN/GETTY IMAGES

While labor-market success for older workers is positive for Europe's economy, it could widen an existing gap in unemployment rates between old and young Europeans, at least in the short term. Europeans in their 20s have struggled to gain a foothold in the workforce since the financial crisis.

Those early losses weigh on the lifetime productivity of young workers and intensify concerns of a lost generation in Europe. The under-25 unemployment rate is around 16% in the eurozone, double the rate in the U.S. It is above 30% in Italy and Spain. That reflects labor laws that favor insiders over new entrants, as well as lower skill levels among young workers and weak demand in parts of the region.

In southern Europe, younger workers face a double whammy: The debt crisis pushed up youth unemployment especially, whose jobs were less protected. But the recovery has benefited mainly older workers. That is particularly worrying as Europe's economic recovery stalls, potentially leaving large numbers of young workers out in the cold.

Meanwhile around three-quarters of Germans aged 55-64 are working, up from 59% in 2008, according to OECD data. In Italy and France, the employment rate of 55-64 year-olds has risen to 55%, from 35% and 40% respectively before the financial crisis. The employment rate of older Americans has held steady at around 65%.

The influx of older workers means that the eurozone's labor force is now 2% larger than before the crisis, defying predictions it would shrink. That has helped lift the region's recovery from a deep financial crisis, making it easier for firms to fill vacancies and for governments to plug holes in public coffers.

"It is often profitable for companies to make minor changes to keep people on board," said Juergen Deller, professor of industrial psychology at Germany's Lüneburg University, who has studied the phenomenon of "silver workers."

Siemens AG , the Munich-based industrial conglomerate, runs a reverse-mentoring program, in which older staff are taught social media and other digital skills by younger colleagues, said Ralf Franke, a Siemens executive. Enel SpA operates a similar program. Siemens taps its most-experienced employees, which it calls silverbacks, to assess risks in its biggest projects.

To capitalize on this trend, Caroline Young founded a recruitment agency in Paris in 2005 that places retired workers with industrial companies in France, Germany and Belgium. French companies had been laying people off in their late 50s to cut costs. Now, many companies want them back.

"Employers have realized you're not that old at retirement," says Ms. Young, who says she has more than 1,000 retirees working every year. Her oldest placement was 80 years old.

"Younger people are not very flexible anymore in terms of traveling," said Steffen Haas, who runs a similar agency in Germany for aging automotive experts. "Our guys are 65-70, they will jump in a plane and fly to Mexico next week."

One of his recruits is Georg Häussler, who retired six years ago after working for decades at companies in Europe and the U.S. Now, the 67-year-old commutes weekly to a job with an automotive supplier in southern Germany from his home near Hannover. He plans on working for at least two or three years.

At BMW, where workers over 55 will make up around a quarter of the German workforce by 2025, the company is experimenting with exoskeletons to help workers lift larger weights, and robots that follow workers around the factory floor and help with heavy tasks.

There are limits to such initiatives. Entrepreneurial activity is less common among older workers, because they tend to be more resistant to new technologies, said Ekkehard Ernst, chief of macro policy at the International Labor Organization. "This effect is shown to be quite relevant in terms of productivity growth."

SHARE YOUR THOUGHTS

Do you think aging workers are hurting economic growth in Europe? Why or why not? Join the conversation below.

Still, some investors are betting on an increasing role for aging entrepreneurs as the internet economy matures.

Christian Miele, a venture-capital investor in Berlin, argues that the next generation of European tech startups is likely to be run by older founders, reflecting their complex business models.

Rather than selling books and shoes online, companies will be selling insurance products that require regulatory approvals, complex business-to-business products, or Artificial Intelligence tools. To create such products, founders will need decades of experience or research under their belts. "More senior and experienced founders will become very natural," Mr. Miele said.

One example is Peter Hagen, who stepped down in his mid-50s as chief executive of Vienna Insurance Group, a large Austrian insurer, after a near-30-year career.

Now 59, the Austrian executive has reinvented himself as a startup entrepreneur in Berlin, building a digital insurance company, Coya, with a former executive at German insurer Allianz SE who is also 59. He is also working on separate ventures in Moscow and Nairobi, Kenya.

"I don't even think about retiring," Mr. Hagen said.

—Nathan Allen contributed to this article.

Write to Tom Fairless at tom.fairless@wsj.com