

Economic Aspects of Mandatory Retirement: The Canadian Experience

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Résumé de l'article

Les conséquences économiques de l'interdiction de la retraite obligatoire, sont à la fois capitales pour le débat politique concernant la désirabilité de cette prohibition et les prescriptions de la Charte des droits ainsi qu'au sujet de la « logique » de permettre la discrimination en matière d'âge sous la forme de retraite obligatoire. La justification empirique énoncée dans cet article montre que, au cours de la période de 1975 à 1986, le taux d'activité des personnes âgées de 65 ans et plus dans la population active a décliné au Canada ainsi que dans les provinces prises individuellement, y compris celles qui ont éliminé la retraite obligatoire. Au Québec, où la loi interdisant la retraite obligatoire a été mise en vigueur en 1982, le taux d'activité des personnes de 65 ans et plus a baissé de 2,1 pour cent, soit d'une moyenne de 9,2 pour cent à une moyenne de 7,1 pour cent entre 1983 et 1986. De même, au Manitoba, où la retraite obligatoire fut déclarée illégale en 1981, le taux d'activité de ces personnes a diminué d'un pourcentage de 0,7, soit de 10,1 pour cent à 9,4 pour cent au cours de la même période. Ces chiffres démontrent que, dans la mesure où le bannissement n'a aucunement augmenté, le taux d'activité des travailleurs les plus âgés, l'impact fut si faible qu'il n'a pas réussi à inverser le déclin normal du taux d'activité au cours de cette période d'une douzaine d'années. L'analyse régressive, où l'on a utilisé le taux d'activité des personnes de 65 ans et plus en Ontario comme mesure imaginaire pour tenir compte des facteurs naturels qui influencent l'activité, a confirmé le fait de l'influence très faible et statistiquement négligeable en tant que résultat de l'interdiction de la retraite obligatoire.

Lazear (1979) a proposé un modèle théorique de la retraite obligatoire qui assume que les travailleurs sont sous-payés au début de leur carrière et qu'ils sont surpayés plus tard sous forme d'incitation au travail (traitement différé). Lazear suppose aussi que, si les travailleurs trainent à l'ouvrage, ils seront immédiatement congédiés et que, par conséquent, ils seront incapables de toucher un salaire plus élevé vers la fin de leur carrière. À mon avis, le modèle de Lazear n'est pas satisfaisant comme théorie de la retraite obligatoire parce que (I) le renvoi immédiat devrait être dans la pratique, une incitation suffisante contre la flânerie d'où l'inutilité d'un mécanisme de traitement différé. (II) Les recherches récentes (Abraham et Farber 1987) indiquent que le traitement différé n'est pas généralisé dans l'économie. (III) Dans les occupations comme l'enseignement universitaire, qui disposent de systèmes de traitement différé et d'une sécurité d'emploi élevée, la théorie n'explique pas la retraite obligatoire parce que le renvoi pour nonchalance est difficile. (IV) En ce qui a trait aux emplois de cols bleus syndiqués où la promotion repose en partie sur l'ancienneté, la théorie ne tient pas non plus parce que, dans de telles situations, le salaire est lié au poste plutôt qu'au travailleur et que l'entreprise ne réduirait pas les coûts en remplaçant un ancien employé par un plus jeune. Bien que les pensions puissent constituer un traitement différé, elles n'expliquent pas la retraite obligatoire parce qu'un employeur peut prévenir une hausse des coûts de la retraite tout simplement en effectuant les ajustements actuariels appropriés si l'employé choisit de demeurer au travail au-delà de l'âge normal de la retraite.

Étant donné que la démonstration empirique indique que l'interdiction de la retraite obligatoire n'a que très peu d'influence sur le taux d'activité des travailleurs âgés, celle-ci n'aura par conséquent qu'un impact minime sur les possibilités d'emploi pour les jeunes et les politiques de personnel relatives à l'évaluation des employés. Un ajustement actuariel des régimes de retraite privés en vue d'adapter un âge de retraite flexible n'est qu'une question administrative mineure qui a déjà été appliquée dans quelques provinces canadiennes. À mon avis, les conséquences économiques relativement infimes du bannissement de la retraite obligatoire ne justifient pas le maintien d'une pratique d'emploi qui est manifestement discriminatoire.

Economic Aspects of Mandatory Retirement

The Canadian Experience

Frank Reid

Economic impacts of eliminating mandatory retirement are a crucial aspect of the Charter of Rights arguments concerning the «reasonableness» of age discrimination. Evidence suggests that the number of employees who would work past normal retirement age in any given year is only a fraction of one percent of the labour force. Eliminating mandatory retirement would consequently have minimal impact on job opportunities for youth and personnel practices concerning evaluation of employees. Actuarial adjustment of private pension plans to accommodate a flexible retirement age is only a minor administrative matter and has already been implemented in some Canadian jurisdictions.

THE IMPORTANCE OF ECONOMIC ARGUMENTS IN THE MANDATORY RETIREMENT DEBATE

An assessment of the economic impact of banning mandatory retirement is critical for determining the legality of mandatory retirement and its social desirability. From the policy viewpoint, the debate on mandatory retirement involves weighing the human rights violations against any adverse consequences for the labour market of eliminating mandatory retirement. Implications of particular concern are effects on the efficiency of the competitive market, employment opportunities for young persons entering the labour market, and the administration of pension plans.

From a legal viewpoint, the interesting question is whether provincial legislation permitting mandatory retirement is consistent with the *Canadian*

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Charter of Rights which prohibits discrimination on the basis of age. For example, the *Ontario Human Rights Code* [s.4(1)] prohibits discrimination in employment on the basis of age, but «age» is defined to mean being between 18 and 65 years old [s.9(a)]. Excluding persons 65 years and older from the protection of the Code is clearly discriminatory and the Code is therefore in violation of s.15 of the *Canadian Charter of Rights* which prohibits discrimination on the basis of age. The important legal question is whether the discriminatory provisions of the *Human Rights Code* are saved by section 1 of the *Charter of Rights* which permits discrimination if it can be shown to be reasonable in a free and democratic society. Thus, to a great extent the constitutionality of mandatory retirement depends on economic arguments because the economic impact of banning mandatory retirement will influence the «reasonableness» of a ban.

Mandatory retirement has essentially been banned in Manitoba since 1981 through court interpretation of the *Human Rights Code* and in Québec through legislation introduced in 1982. The federal government eliminated mandatory retirement for federal employees in 1986 and announced its intention to modify the *Canadian Human Rights Code* to abolish mandatory retirement in the remainder of the federal jurisdiction. In 1985 the *Alberta Individual's Rights Protection Act* was amended to prohibit discrimination on the basis of age by not restricting its definition to an upper limit, however, it also provided for «reasonable and justifiable» exemptions. A board of inquiry was established by the Alberta Human Rights Commission in 1986 to determine if mandatory retirement was prohibited. New Brunswick eliminated mandatory retirement in 1973 but exempted employees covered by pension plans that provided for mandatory retirement. Since this exemption excluded most employees who were subject to mandatory retirement the ban had little practical impact. In other provinces the issue is unsettled, particularly Ontario where in 1986 the provincial government established a Task Force to investigate the issue. In 1978, the United States eliminated mandatory retirement for federal employees. For most other employees in the U.S. the mandatory retirement age was raised from 65 to 70 in 1978 and eliminated in 1986.

A crucial element in assessing the desirability of a ban on mandatory retirement is the *quantitative impact* of a ban on the labour force participation of older employees. The following section presents new empirical evidence based on several years experience with mandatory retirement in Québec and Manitoba which shows that the impacts are very small. In light of this evidence, subsequent sections critically review both the theoretical explanations for the existence of mandatory retirement and the expected impact of a ban on the availability of jobs for new labour force entrants, the nature of the employment relationship, and the operation of pension plans.

DIMENSIONS OF THE MANDATORY RETIREMENT ISSUE

Survey evidence from a study of mandatory retirement by the Conference Board in Canada (Dunlop, 1980, p. 7) indicates that «... for the economy as a whole, approximately 54 per cent of employees work for employers with private pensions and are therefore affected by mandatory retirement policies». The Conference Board survey also reveals, however, among those employees already 55 years of age, over 70 per cent will probably leave the employer *before* age 65 due to death (15 per cent), layoff (6 per cent) and early retirement (50 per cent). Consequently, only a tiny fraction of the labour force (about one-fifth of one per cent) is likely to be actually *constrained* by mandatory retirement in any given year.

Other Canadian studies have indicated that a similarly small fraction of the labour force is actually constrained by mandatory retirement. A study for the Economic Council of Canada (Kapsalis, 1979) estimates 0.3 per cent of the labour force would want to work past normal retirement and a study by the Ontario Ministry of Labour (1985) estimates 0.4 per cent of the labour force would want to work past normal retirement.

These projections of a very small impact of banning mandatory retirement are consistent with evidence on actual labour force participation rates of persons 65 and over in jurisdictions in which a ban has been implemented. Labour Force Survey data (Statistics Canada 1986) indicate that for Canada, in the twelve year period from 1975 (when the survey was substantially revised) to 1986, the participation rate of persons 65 and over declined by 2.0 percentage points from an average of 9.8 per cent in the first four years of the period (1975-78) to an average of 7.8 per cent in the final four years (1983-86).

Similar declines occurred in every province including Québec and Manitoba which banned mandatory retirement in the intervening period. In Québec the participation rate of persons 65 and over declined by 2.1 percentage points from an average of 9.2 per cent in 1975-78 to 7.1 per cent in 1983-86. In Manitoba over the same period the participation rate declined by 0.7 percentage points from 10.1 per cent to 9.4 per cent. By comparison, in Ontario, a province which did *not* ban mandatory retirement, the participation rate over the same period declined by 2.3 percentage points from 10.4 per cent to 8.1 per cent. These results lead to an important conclusion: if banning mandatory retirement increased the labour force participation of persons over 65, the impact was so small that it did not reverse the long-term downward trend of participation rates over this twelve year period.

To estimate the impact of the mandatory retirement ban in a more systematic way simple OLS regressions are estimated for Québec and

Manitoba with the participation rate of persons 65 and over as the dependent variable. The explanatory variables include a dummy variable to capture the ban of mandatory retirement and the Ontario participation rate of persons 65 and over to capture secular and cyclical changes such as those due to changes in attitudes and health. The results presented in Table 1 indicate that the ban on mandatory retirement in Québec appears to have had a small, positive (0.4 percentage point) but statistically insignificant impact on the participation rate of persons 65 and over. The mandatory retirement dummy is also statistically insignificant in Manitoba with a small negative coefficient (-0.30). The Ontario participation rate of persons 65 and over is significant as a proxy for other influences in the Québec equation but not the Manitoba equation. The conclusion from these regressions, consistent with the evidence outlined above, is that the impact of mandatory retirement on the participation rates of persons 65 and over is small and statistically insignificant.

EXPLANATIONS FOR THE EXISTENCE OF MANDATORY RETIREMENT

The Productivity of Older Workers

One of the factors contributing to age discrimination against older persons is a misconception that the typical employee's productivity drops off substantially in his sixties. Medical evidence reviewed by Laufer and Fowler (1971) indicates that the physiological and sensory changes over time generally tend to be moderate and the physical demands of most jobs are within the capacities of most aging workers. Within the 65 and over group, one should also differentiate between the «young-old» (65 to 75) who tend to be in relatively good health and the «old-old», who are more likely to fit the stereotype of the elderly.

Similarly, the Conference Board of Canada's survey (Dunlop, 1980, p. 39) of Canadian employers revealed no evidence of a decline in the productivity of older workers:

It was found that 77 per cent of employers believe that the efficiency of older workers, aged 55-65, generally is «about the same» as younger workers while 12 per cent think that «older workers are more efficient» than younger workers. Furthermore, 78 per cent of employers believe that the use of sick leave by their older workers is either about the same as or better than younger workers. There is, consequently, little support for the view that people in the retirement period are generally not able to perform satisfactorily...»

TABLE 1
Regression Results for Participation Rates
of Persons Aged 65 and Over, 1975-86

<i>Variable</i>	<i>Province</i>	
	<i>Québec</i>	<i>Manitoba</i>
Constant	-1.48 (-0.4)	7.50 (3.0)
Ontario participation rate for 65 +	0.99 (2.8)	0.27 (1.1)
Mandatory retirement ban dummy	0.40 (0.5)	-0.30 (-0.5)
R ²	.61	.31
Durbin-Watson statistic	1.62	2.06

Note: t-statistics in parentheses

Research on the productivity of American workers also reveals no substantial decline in productivity with age. Abraham and Medoff (1982, p. 312) summarize the results of their own research and 21 other studies relating productivity to age or job tenure and conclude that:

This research provides support for the proposition that, beyond a typically short orientation period, those who have greater than average service typically perform no better or less well than those with similar assignments who have less than average service.

The evidence that the productivity of the typical older employee does not differ greatly from the productivity of other employees further strengthens the conclusion that the abolition of mandatory retirement will have a minimal impact on the overall labour market.

The Puzzle of Mandatory Retirement

In the competitive model of the labour market usually taught in introductory and intermediate level microeconomics courses, the existence of mandatory retirement is somewhat of a puzzle. In this model wages for each type of labour are assumed to adjust to equate supply and demand and workers are paid according to their (marginal) productivity.

If labour markets worked according to the competitive model, mandatory retirement would not exist because, even if the productivity of older

workers were lower than that of middle-aged workers, the result would be an appropriate reduction of the wage rate to reflect the lower productivity rather than forced retirement. As Edward Lazear (1979) has noted in his article «Why Is There Mandatory Retirement?», the interesting question is why the adjustment is through termination of employment rather than a reduction of wages.

Lazear also rejects several other possible explanations for the puzzle of mandatory retirement. One such explanation is that lowering the wages of older workers would adversely affect their morale. As Lazear points out, however, it is not obvious that forcing retirement will have a less severe effect on morale than lowering wages. «A 60-year-old worker who is faced with approaching termination is not necessarily going to have a better attitude than one who knows his wage will be lowered 5 years from now.» (Lazear, 1979, p. 1262)

Another possible explanation for the existence of mandatory retirement is that it would be too difficult or costly for the employer to monitor the productivity of older workers. As Lazear notes, however, employers in the competitive model are assumed to assess the productivity of all workers and there is no reason why such assessments should be more difficult for older workers. Furthermore, even if the employer knew only that, *on average*, productivity of older workers decreased, the appropriate response would be a reduction of wages of older workers rather than termination.

The Lazear «Work Incentive» Theory of Mandatory Retirement

In an attempt to resolve the puzzle of mandatory retirement Lazear (1979) proposes his own theory in which a pattern of deferred compensation combined with the threat of being fired is used to prevent employees from «shirking» on the job, i.e. «performing at a level of effort lower than expected». In the Lazear model the employee's productivity level is assumed to be constant over his working life. If the employee can be prevented from shirking his productivity will be at a higher constant level and the resulting increased output is assumed to be shared between the employer (in the form of higher profits) and the employee (in the form of higher lifetime earnings). According to the Lazear theory, workers who «cheat» by shirking on the job are immediately detected and fired. According to the theory of a perfectly competitive labour model, being fired is not a significant incentive against shirking on the job because the employee is assumed to be able to find a job elsewhere immediately at the same wage. Lazear argues, however, that the probability of shirking can be reduced if the firm adopts a deferred compensation scheme in which the employee is paid less than his

productivity at the beginning of his career and more at the end of his career. The reason the probability of shirking is reduced by such a scheme is that if a worker is fired for shirking on the job he is unable to collect the high wages at the end of his career. In a follow-up paper, Lazear (1981) argues that his work incentives model also explains the firm placing restrictions on the number of hours employees can work because the high wages paid to senior employees induce them to work «too many» hours and the low wage paid to junior employees induces them to work «too few» hours.

According to the Lazear model, the employee and the employer, at the time of hiring, select a mandatory retirement date which is exactly the date at which the employee would have chosen to retire if he were paid a wage equal to his productivity throughout his work life. This mandatory retirement date is assumed to be «efficient» in the sense that, beyond this age, the value which the employee places on his own leisure time begins to exceed the value of his productivity on the job.

In my view several factors make the Lazear work-incentives model an unsatisfactory explanation of mandatory retirement. First, although in theory, in a perfectly competitive market, being fired would be of no consequence to an employee, in practice the threat of certain, immediate dismissal would be an extremely powerful incentive not to shirk on the job, considering the psychological damage to the employee's ego, the tarnishing of his employment record and the probable loss of income during the period of unemployment while searching for a new job. An elaborate deferred compensation and mandatory retirement scheme would hardly be necessary to further reduce shirking. The Lazear explanation for deferred compensation and mandatory retirement thus seems to be based on a highly implausible portrayal of the operation of real labour markets in Canada.

Second, recent research suggests that significant deferred compensation is not a prevalent wage pattern in the economy. Although a positive correlation between earnings and job seniority has been observed in cross-section data (Abraham and Medoff, 1982), more recent research using panel data (Abraham and Farber, 1987) demonstrates that the correlation between earnings and seniority occurs because, contrary to the Lazear model, employees with a high wage and long seniority tend to have had earned more from the start of their job. Abraham and Farber report that:

The results of this empirical analysis reveal (1) that workers on longer jobs earn more in every year on the job, and (2) that much of the apparent cross-section return to seniority reflects omitted variable bias ... we conclude tentatively that the evidence from earnings functions is not consistent with simple earnings deferral models of incentive contracts. (Abraham and Farber, 1987, p. 279 and p. 296)

The same pattern was found in another study using panel data by Marshall and Zarkin (1987, p. 301) who conclude that «... in contrast to the usual OLS results, we find that job tenure has no statistically significant effect on wage offers».

Third, university teaching is an example of an occupation which exhibits a clear pattern of deferred compensation since senior professors typically earn two or three times as much as junior professors doing essentially the same job. Even in this example, however, the Lazear work incentives model seems implausible because tenure provides considerable job security and prevents dismissal except for clear incompetence.

Fourth, in many unionized blue collar jobs seniority is one of the factors taken into account for promotion to higher paying jobs. In such firms, however, the collective agreement typically specifies a wage for each job. Since the wage is tied to the *job* rather than the employee the firm would not save money by forcing a senior employee to retire and replacing him or her with a junior employee (directly or indirectly). Thus, the Lazear model does not provide an explanation of mandatory retirement in such work environments.

Fifth, pensions are an important form of deferred compensation in many establishments and provide an economic incentive for employees to stay at the firm until the normal retirement date. Pensions do not, however, provide an incentive for the employer to force employees to retire because a simple, actuarial adjustment of pension benefits for employees who work past the normal retirement date is all that is necessary to prevent an increase in pension costs to the employer.

The «Market Faith» Theory of Mandatory Retirement

Gunderson and Pesando (1980) have made an efficiency argument for mandatory retirement at a much more general level. They simply point out that mandatory retirement is not a policy which has been imposed by the government — it is one which has evolved in the private sector as a result of market forces. They adopt the position that since mandatory retirement has arisen through market forces it should be regarded as efficient unless a compelling explanation for failure of the market can be demonstrated: «The fact that the mandatory retirement age has emerged in response to the interplay of market forces suggests that it has a rationale in terms of the efficient utilization of human resources» (Gunderson and Pesando, 1980, p. 356).

It is difficult to marshal empirical evidence to either support or refute this theory because essentially it reflects the faith that one has in the virtues of the model of perfect competition and the extent to which one believes that Canadian labour markets are competitive or at least «contestable». Generally speaking, economists with a strong neoclassical orientation find this argument much more attractive than non-economists and economists who are skeptical of the neoclassical model. An alternative view is that mandatory retirement is an inefficient arrangement reflecting age discrimination, in the same way that Canadian labour markets have reflected discrimination on the basis of race and gender.

IMPACT OF ELIMINATING MANDATORY RETIREMENT ON JOB OPPORTUNITIES FOR YOUTH

The enhancement of job opportunities for new labour force entrants is often advanced as a rationale for maintaining mandatory retirement. Non-economists often consider this an important argument because it appears that for every older worker who remains employed, there will be one less job for younger workers just entering the labour force. The error in this argument is that it implicitly assumes that the total number of jobs in the economy is fixed, an idea which economists call the «lump of labour» fallacy. From a macroeconomic viewpoint, an increase in the overall supply of labour causes increased consumption due to the greater number of income earners, increased investment in new plant and equipment, increased aggregate demand for goods and services and an increase in the overall demand for labour. Therefore, in the long run, an increase in the number of persons in the labour force does not necessarily lead to an increase in the unemployment rate.

The argument that banning mandatory retirement will not reduce job opportunities for young workers has been advanced forcefully by Pesando (1979, pp. 22-23) in his study of mandatory retirement for the Ontario Economic Council:

«The important point is that the postponement of retirement by elderly workers does *not* imply a corresponding reduction in the job opportunities available to other (persons)... The argument that ending compulsory retirement would reduce the job opportunities available in the labour force is not substantiated by economic analysis and should not be accorded the central role in the debate that it now enjoys.» (Pesando, pp. 22-23)

If for some reason the increase in the supply of labour was not matched by an equivalent increase in demand for labour (resulting in an increase in deficient-demand unemployment) the overall demand for labour could be increased by appropriate expansionary monetary or fiscal policy.

David Foot (1986) has estimated the maximum possible short-run increase in unemployment among 15 to 54 years old as a result of eliminating mandatory retirement under the extreme assumption that there is *no* offsetting increase in the demand for labour. He estimates impacts for both the current time period and for the year 2000. For the current time period Foot notes that the impact is difficult to ascertain but if the increased employment of older workers «results in an equivalent increase in the number of unemployed, the unemployment rate of the 15 to 54 years old would have increased from 8.4 to 8.5 per cent». This very small increase of 0.1 percentage points reflects the small number of persons who are likely to work beyond the mandatory retirement age. Even under the extreme assumption that the unemployment impacts were concentrated entirely in one ten year age group (eg. 25 to 34 years) that group would experience a rise of 0.4 percentage points and all other age groups would not be affected at all.

For the year 2000, when a substantially higher fraction of the labour force would be at the normal retirement age, Foot estimates an impact on the overall unemployment rate of only 0.4 percentage points. In the extreme case that the effects were completely concentrated on one ten year demographic group the impact would be about 1.5 percentage points for that group and zero for all other groups.

In calculations of this sort it should be noted that the retention of mandatory retirement would not reduce the severity of the overall unemployment problem, it simply *redistributes* unemployment from young workers to old workers.

IMPACT OF ELIMINATING MANDATORY RETIREMENT ON THE EMPLOYMENT RELATIONSHIP

It has been noted by Gunderson and Pesando (1980, p. 355) that eliminating mandatory retirement is not the same as allowing older workers to choose the age at which they retire. Employers who are prohibited from using mandatory retirement as a convenient «rule of thumb» to terminate employees may respond by implementing more stringent evaluation of their workforce. Dismissal of employees for lack of competence could be more traumatic than a policy of mandatory retirement at a fixed age.

While this point is correct in theory, it may not be of much importance in practice because most employers would not find it worthwhile to make substantial changes to their personnel practices as a result of a small number of employees who would want to work past the normal retirement age as indicated by the small impact on participation rates of persons 65 and over discussed above. The need for increased performance reviews is also reduced by the fact that the few employees who elect to work beyond normal retirement age will do so for only a relatively short period of time. Evidence

from the Conference Board survey (Dunlop, 1980, p. 40) «... indicates that those few employees presently aged 65 who elect to continue working will, in general, leave their employment prior to age 70 and will, on average, probably work for a period of three years beyond age 65».

Evidence from Québec (where mandatory retirement was abolished in 1982) suggests that the period of work may be even shorter. After examining the evidence on those who continued to work past age 65 Labour Canada (1985, Appendix p. 2) concluded «... this prolongation of employment is not apparently very long. After 6 to 8 months many decide to retire». Furthermore, as noted in the Labour Canada report (1985, Annex p. 5) «... the issue of performance (reviews) of older workers may be given too much importance (because) ... poor performers are usually unhappy in their jobs and are anxious to leave as soon as feasible».

It does not appear likely that it would be worthwhile for employers to significantly increase the monitoring of their workforce as a result of a minor increase in the expected retirement age of a relatively small proportion of their employees. Even in those workplaces in which deferred compensation is significant, a more plausible adjustment mechanism, in my view, is for employers to adopt a slightly flatter time path of deferred compensation so that the «overpayment» and «underpayment» of workers over their lifetime will still balance, given the slight increase in job tenure that could be expected to result from an abolition of mandatory retirement. This could be accomplished via a smaller percentage wage increase for high wage senior employees than low wage junior employees — for example, by an equal absolute increase for all age groups.

THE IMPACT OF ELIMINATING MANDATORY RETIREMENT ON PENSIONS

To the extent that public and private pension plans assume mandatory retirement at age 65, elimination of mandatory retirement would require a modification in the provisions of these plans.

The Canada Pension Plan (CPP) has, since January 1, 1987, allowed for flexible retirement between age 60 and age 70. An individual who retires at age 70 receives CPP pension benefits 130 percent as large as someone retiring at age 65, reflecting the individual's shorter life expectancy and the increased value of contributions. Similarly, an individual who chooses retirement at age 60 receives CPP benefits equal to 70 percent of those of a person retiring at age 65, reflecting the longer expected time for which benefits will be received and the reduced value of contributions.

If mandatory retirement were eliminated then similar actuarial adjustments would be required in private pension plans. In Québec and Manitoba, where mandatory retirement has already been eliminated,

legislation is in place requiring adjustments to private pension plans. Generally, if an employee elects not to continue to contribute after the «normal» retirement age then benefits are actuarially increased to reflect the fact that at actual retirement expected duration of benefits is reduced and the value of contributions has accumulated further interest since the normal retirement date.

An argument is sometimes made that eliminating mandatory retirement would reduce the tax burden on future generations resulting from obligations under the CPP or Old Age Security (OAS). As Gunderson and Pesando (1980) have pointed out, the tax burden of CPP would not be reduced unless CPP benefits were postponed *without actuarial adjustment*. With actuarial adjustments, as have been implemented in 1987, there is no reason to expect a tax saving because workers who retire later receive a correspondingly higher pension. Similarly, no tax saving on OAS payments would occur unless a means test were introduced for benefits. If such a test were implemented, however, it would provide a significant disincentive to work for those eligible to receive OAS.

CONCLUSION

Economists with great faith in the efficiency of Canadian labour markets tend to regard mandatory retirement as an efficient arrangement since it is an outcome of private market transactions. Specific theories of mandatory retirement (such as Lazear's work incentives theory) are somewhat unsatisfactory, however, and the existence of mandatory retirement is still somewhat of a puzzle on a theoretical basis. Other observers simply regard mandatory retirement as an outdated, inefficient practice reflecting discriminatory attitudes toward the elderly.

Empirically, experience with bans on mandatory retirement in Québec and Manitoba have shown small and statistically insignificant impacts on the labour force participation rate of persons 65 and over. The effects of bans on mandatory retirement were so insubstantial that they failed to reverse the secular decline in the participation rate of seniors over the last twelve years. These results are consistent with survey evidence which shows that only a small fraction of those who are subject to mandatory retirement want to work past age 65. Moreover, those who do wish to work, only do so for a fairly short period of time (less than three years). As a result, eliminating mandatory retirement can be expected to have only very minor impacts on job opportunities for younger employees and practices for evaluation of employees. Public pension plans have already been modified to accommodate flexible retirement and in provinces where mandatory retirement has been banned, simple actuarial adjustments to private pensions permit retirement earlier or later than the normal retirement age.

In my view, the relatively minor economic impacts of banning mandatory retirement do not justify maintenance of an employment practice which is obviously discriminatory.

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Les aspects économiques de la retraite obligatoire: l'expérience canadienne

Les conséquences économiques de l'interdiction de la retraite obligatoire, sont à la fois capitales pour le débat politique concernant la désirabilité de cette prohibition et les prescriptions de la Charte des droits ainsi qu'au sujet de la «logique» de permettre la discrimination en matière d'âge sous la forme de retraite obligatoire. La justification empirique énoncée dans cet article montre que, au cours de la période de 1975 à 1986, le taux d'activité des personnes âgées de 65 ans et plus dans la population active a décliné au Canada ainsi que dans les provinces prises individuelle-

ment, y compris celles qui ont éliminé la retraite obligatoire. Au Québec, où la loi interdisant la retraite obligatoire a été mise en vigueur en 1982, le taux d'activité des personnes de 65 ans et plus a baissé de 2,1 pour cent, soit d'une moyenne de 9,2 pour cent à une moyenne de 7,1 pour cent entre 1983 et 1986. De même, au Manitoba, où la retraite obligatoire fut déclarée illégale en 1981, le taux d'activité de ces personnes a diminué d'un pourcentage de 0,7, soit de 10,1 pour cent à 9,4 pour cent au cours de la même période. Ces chiffres démontrent que, dans la mesure où le bannissement n'a aucunement augmenté, le taux d'activité des travailleurs les plus âgées, l'impact fut si faible qu'il n'a pas réussi à inverser le déclin normal du taux d'activité au cours de cette période d'une douzaine d'années. L'analyse régressive, où l'on a utilisé le taux d'activité des personnes de 65 ans et plus en Ontario comme mesure imaginaire pour tenir compte des facteurs naturels qui influencent l'activité, a confirmé le fait de l'influence très faible et statistiquement négligeable en tant que résultat de l'interdiction de la retraite obligatoire.

Lazear (1979) a proposé un modèle théorique de la retraite obligatoire qui assume que les travailleurs sont souspayés au début de leur carrière et qu'ils sont surpayés plus tard sous forme d'incitation au travail (traitement différé). Lazear suppose aussi que, si les travailleurs traînent à l'ouvrage, ils seront immédiatement congédiés et que, par conséquent, ils seront incapables de toucher un salaire plus élevé vers la fin de leur carrière. À mon avis, le modèle de Lazear n'est pas satisfaisant comme théorie de la retraite obligatoire parce que (I) le renvoi immédiat devrait être dans la pratique, une incitation suffisante contre la flânerie d'où l'inutilité d'un mécanisme de traitement différé. (II) Les recherches récentes (Abraham et Farber 1987) indiquent que le traitement différé n'est pas généralisé dans l'économie. (III) Dans les occupations comme l'enseignement universitaire, qui disposent de systèmes de traitement différé et d'une sécurité d'emploi élevée, la théorie n'explique pas la retraite obligatoire parce que le renvoi pour nonchalance est difficile. (IV) En ce qui a trait aux emplois de cols bleus syndiqués où la promotion repose en partie sur l'ancienneté, la théorie ne tient pas non plus parce que, dans de telles situations, le salaire est lié au poste plutôt qu'au travailleur et que l'entreprise ne réduirait pas les coûts en remplaçant un ancien employé par un plus jeune. Bien que les pensions puissent constituer un traitement différé, elles n'expliquent pas la retraite obligatoire parce qu'un employeur peut prévenir une hausse des coûts de la retraite tout simplement en effectuant les ajustements actuariels appropriés si l'employé choisit de demeurer au travail au-delà de l'âge normal de la retraite.

Étant donné que la démonstration empirique indique que l'interdiction de la retraite obligatoire n'a que très peu d'influence sur le taux d'activité des travailleurs âgés, celle-ci n'aura par conséquent qu'un impact minime sur les possibilités d'emploi pour les jeunes et les politiques de personnel relatives à l'évaluation des employés. Un ajustement actuariel des régimes de retraite privés en vue d'adapter un âge de retraite flexible n'est qu'une question administrative mineure qui a déjà été appliquée dans quelques provinces canadiennes. À mon avis, les conséquences économiques relativement infimes du bannissement de la retraite obligatoire ne justifient pas le maintien d'une pratique d'emploi qui est manifestement discriminatoire.