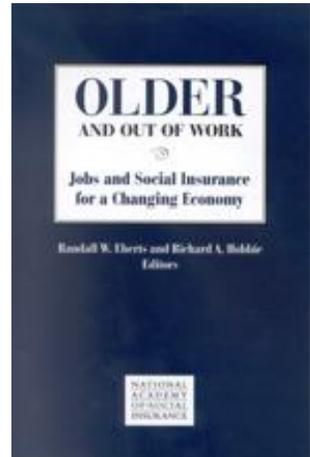

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Age Discrimination and Hiring: Evidence from a Labor Market Experiment

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3

Age Discrimination and Hiring

Evidence from a Labor Market Experiment

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In its current state, the Social Security trust fund will reach zero in 2041 (Diamond and Orszag 2002). Social Security's future includes some combination of reduced benefits and increased taxes. One commonly suggested solution to the Social Security problem is to encourage older workers to continue working past retirement (Diamond and Orszag 2002). Not only would these workers still be paying Social Security taxes, but the normal retirement age could then be raised (thus cutting benefits) without compromising the living standards of these older workers. Will Americans be able to find work at older ages? This chapter discusses an experiment demonstrating that older Americans wishing to find employment face labor market discrimination.

Even at today's level of Social Security benefits, many older Americans will need to work. According to the Social Security Administration (2004), one-third of those over 65 rely on Social Security for virtually all of their income. Additionally, Bernheim (1997) suggests that baby boomers on average are only saving a third of what would be needed to maintain a preretirement standard of living after retirement. This lack of adequate retirement savings is especially acute for older women who have been separated from their spouses unexpectedly. On average, women suffer a 30 percent drop in living standards upon the death of a husband (Holden and Zick 1998), and the poverty rate for older widows is 15 percent (Favreault and Sammartino 2002).

This need for employment for older workers is even larger under projected conditions. Social Security benefits are expected to replace a smaller share of individuals' preretirement income because of changes to the law and the need to solve the program's long-term financial short-

fall by increasing the full-benefits retirement age (Munnell 2003). Additionally, defined-contribution 401(k) plans have replaced traditional defined-benefit plans as the dominant pension vehicle, and 401(k) benefits are much less certain than those from traditional plans (Munnell and Sundén 2004).

Fortunately, older Americans are capable of working at later ages than in years past. Studies suggest that today's 70-year-olds are comparable in health and mental function to 65-year-olds from 30 years ago (Baltes, Reese, and Nejselroade 1988; Schaie 1996). In addition to the monetary benefits of working, there are also health and psychological benefits. Working in later ages may contribute to an older person's mental acuity and provide a sense of usefulness. When surveyed, many people say they wish to continue working at least part time into later ages as a bridge to retirement (Abraham and Houseman 2004).

Americans will need to work longer, they are capable of working longer, and many say they wish to work longer. But will they be able to find work at later ages? If employers are not willing to hire older workers, then cutting Social Security benefits may impose a greater burden on older Americans than thought.

EVIDENCE OF AGE DISCRIMINATION FROM EXISTING LITERATURE

In its most basic sense, discrimination is defined as treating people in one group differently from people in another group, based on group characteristics rather than on individual differences. Thus, preferring workers with college degrees is a form of discrimination against workers with only high school diplomas. The most worrisome type of discrimination, the type we think of when we ordinarily use the term "discrimination," is what economists term *animus* or taste-based discrimination. Taste-based discrimination occurs when people in one group irrationally dislike those in another group. This form of discrimination does not benefit employers economically.

Another type of discrimination, statistical discrimination, arises in situations where an employer faces significant costs in finding out specific characteristics for an individual applicant or worker. To avoid

these costs, the employer makes assumptions about the applicant based on group characteristics. For example, an employer may assume that a college graduate will be a more highly skilled worker than a high school graduate, regardless of actual ability. When this type of discrimination is based on a group status that a high-ability worker can change, such as education level, it is not considered a problem; high-ability people will usually sort into the highly skilled group. However, when the group in question is based on immutable characteristics such as race, gender, or age, then high-ability workers may be unjustly discriminated against, because it is costly for employers to test for true ability.

It may seem obvious that age discrimination exists: newspapers contain many stories of people over the age of 50 having difficulty finding jobs or being laid off. Class-action suits, such as one sparked by mass layoffs at Home Depot, make headlines. However, these could be isolated cases getting press attention specifically because they are so rare. Additionally, even if older workers have more trouble finding jobs than do younger workers, that does not mean firms are systematically choosing to hire younger workers over older ones. Older workers may be used to getting higher wages based on their expertise in a former firm, or what is termed “firm-specific human capital.” But once an older worker leaves the old firm, that worker cannot always use the skills that made him or her an asset to the old firm because the new firm may not need all of those skills. Thus, the worker may be less valuable to the new firm, and an older worker expecting to be paid the same wage will be unable to find work at that wage. Additionally, older workers may be clustered in industries and occupations where demand for workers is lower, or they may have less education on average than younger workers. Any of these possibilities would lead to older workers having more difficulty finding jobs.

There has been little evidence presented regarding the existence of age discrimination in hiring. One study, by Abraham and Houseman (2004), finds that although most older workers plan to work at least part time instead of fully retiring, those who must change jobs in order to reduce hours are more likely to stop working entirely than those who have the option of flexible hours on their preretirement jobs. This finding suggests either that workers who would have to switch jobs to cut hours are more likely to change their minds about working part time than are workers with more flexible preretirement jobs, or that

something prevents these workers from finding new jobs. Diamond and Hausman (1984) find, using the Displaced Workers Survey from the Current Population Survey, that older workers who have lost their jobs because of layoffs or plant closings take longer to find new jobs than do younger workers who have lost their jobs in similar fashion (see also Chan and Stevens 2004). These findings could be evidence of discrimination against older job seekers. However, it may also be that older job seekers choose to hold out for higher wages or different types of employment than do younger seekers.

Psychologists have tested for age discrimination more directly. In psychology studies, undergraduates or human resource managers who are given resumes identical except for age and asked to hypothetically choose between them will usually choose the younger of the two candidates (e.g., Nelson 2002). While these studies suggest that age discrimination does exist in labor markets, they are not conclusive because they do not measure what is actually going on in the hiring process. For example, because it is illegal to discriminate based on age, even if hiring managers actually do prefer younger workers, in practice they may hire the older worker at least some of the time because they fear incurring lawsuits.

EXPERIMENTAL EVIDENCE OF AGE DISCRIMINATION IN THE LABOR MARKET

Perhaps the best way to test to see whether there is age discrimination in the labor market is to enter the labor market itself and test the genuine reactions of employers faced with choices. In Lahey (2008), I did so by sending out resumes for fictitious job applicants of different ages and measuring the response rate of employers asking for interviews. This type of study is called an audit study and has been useful in the past for determining race and gender discrimination in labor and housing markets.

There are some limits to the audit technology. Because it is difficult to find an older person whose qualifications are identical to those of a younger person, I could not actually send people to interview for jobs. Thus I only have information about the first part of the hiring screening

process—from resume to interview. However, studies on gender and race find additional discrimination once the candidates have reached the interview stage, so it is likely that older applicants who are interviewed will not be preferred over younger applicants. Thus my findings probably represent a lower bound on discrimination.

In this experiment, I sent 4,000 resumes to 2,000 firms in Boston and another 4,000 resumes to 2,000 firms in St. Petersburg, Florida. These resumes were for job applicants between the ages of 35 and 62; each firm received a resume from an older applicant and a younger one. Since most people do not actually put their ages on resumes but do put the date of their educational degrees, age is indicated by date of high school graduation. Job listings were found in the Sunday want ads for that city and through cold-calling firms listed in city phone books.

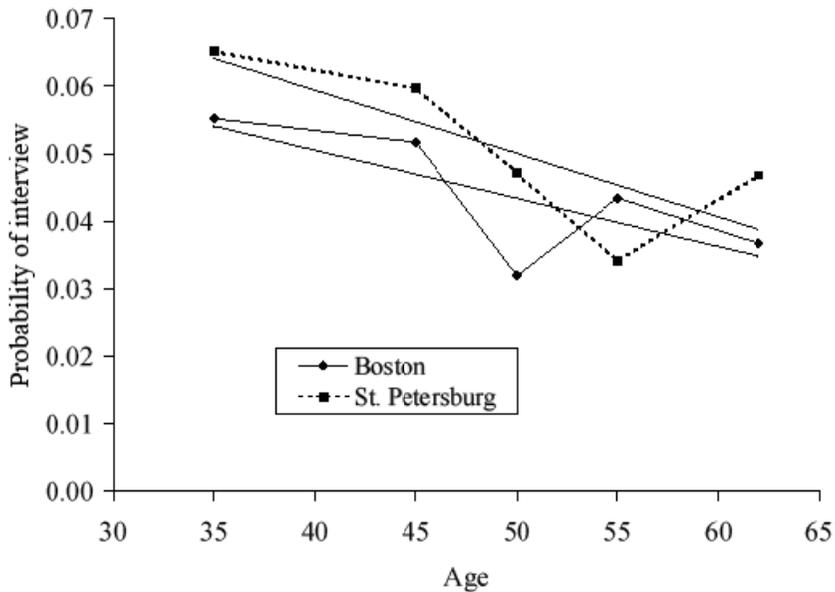
I was worried that employers might infer things about the resumes that I could not measure differentially by age for workers, so I had to limit the types of resumes I looked at. Because I do not know what employers value in a work history, I only applied for entry-level jobs or jobs that required up to a year of education and experience combined. These included positions such as clerical worker, licensed practical nurse, air conditioner repairperson, and nail technician, among others. The fictitious applicants also had short work histories in entry-level fields such as data entry or fast food. I also looked solely at women. When an adult man applies for an entry-level job, especially with only a short work history, the employer is likely to think that there is something wrong with that man. In the worst-case scenario, the employer might think that the man had been incarcerated, and that an older man had been incarcerated for a longer period than a younger man with the same resume. However, employers may generally assume that a female applicant has been at home taking care of her family, regardless of age (Sorensen 1993). Since the majority of the jobs my hypothetical applicants applied for were in female-dominated industries, my experiment gives an accurate picture of the job opportunities available for one of the most at-risk populations of older workers—recent widows and divorcees needing to find work. This population is very likely to be affected by policy changes.

AGE DISCRIMINATION DOES EXIST

Figure 3.1 shows the downward trend by age of the probability of being called in for an interview in the two cities. I found that a younger worker is more than 40 percent more likely to be called for an interview than an older worker, where “older” is defined as age 50 or older. In Massachusetts, this trend translates into a younger job seeker needing to send out 19 resumes for one interview request, while an older job seeker must send 27. In Florida these numbers are 16.4 and 23, so the gap is similar.

Of course, these numbers are only averages and include people applying for different types of jobs, as well as resumes that have different educational requirements, such as a nursing certificate for those applying for licensed practical nurse (LPN) positions or a cosmetology license for hair stylist applicants. Thus, applicants in different fields may

Figure 3.1 Probability of Obtaining an Interview, by Age



SOURCE: Author's calculations.

have to send out a different number of applications before finding employment. For example, a younger worker qualified as a licensed practical nurse in Florida would have to respond to 5.5 ads before receiving an interview offer, whereas an older worker would have to respond to 10. However, a younger worker looking for clerical work in Massachusetts would have to send out 32 job applications, and an older worker would have to send 72.

But, one may argue, it does not cost much for someone to apply for a few more jobs. Surely an older worker can simply send out more resumes than a younger one to get the same number of interview requests. Even sending out 72 applications (in the hope of getting one interview) is the work of a Sunday afternoon with the want ads. However, this reasoning assumes that there are an unlimited number of job openings available each week. Obviously there are not. Although a paper for a metropolitan area such as St. Petersburg–Tampa Bay may have two or three dozen ads for LPNs or dental assistants in its Sunday classifieds, there are many fewer jobs advertised for other positions. Generally, fewer than 10 ads for a preschool teacher or a hairdresser run each week. Some positions are rarely advertised at all, such as gem appraiser (an occupation that requires 6 months to a year of training). Additionally, many of the ads run for more than one week at a time, thus making a portion of the ads in a week repeats from the previous week. So it may take an older job seeker considerable time to find a position.

How long will it take an older worker to find a job compared to a younger worker, assuming she applies to all applicable ads in the paper every week? If we assume that it takes 7–10 interviews to obtain a position (which may be optimistic, since that is the estimate for college graduates), then a younger LPN will receive a job offer in a week, and an older LPN will only have to wait three weeks for a job offer. At the other extreme, it will take 6–10 weeks for a younger worker to receive a clerical job offer (assuming that half of the ads each week are repeats), and an older worker will not receive a job offer for 14–20 weeks. The wait could be even longer, since within a five-month period there are even more repeat ads, as places that advertised and rejected the older worker in month one may advertise again in month five if they failed to find a suitable hire.

Thus there are real welfare effects to this age discrimination for older workers, especially for the ones who most need work: those with

low savings. We cannot just cut benefits and assume that older workers will be able to find employment without a problem.

WHY DO EMPLOYERS DISCRIMINATE?

The question of why employers prefer younger workers to older workers is still an open one. The answer to this question can guide appropriate policy recommendations concerning the needs and wants of older job seekers. For example, if the problem is simply an irrational dislike of older people, educating employers or more strictly enforcing discrimination laws in hiring may be the appropriate action. However, if older workers in general lack certain skills, then additional training programs for these workers may be the best first step. Additionally, if the reason for differential hiring is that older workers cost the company more in health insurance, then the government may want to subsidize these costs or encourage methods of providing health insurance that shift costs from the firm to the worker, such as private health accounts.

Box 3.1 shows a list of the top 10 reasons given in a 1984 survey of 363 companies that asked employers why other employers might be reluctant to hire older workers (Rhine 1984). Some of these reasons do not apply to the entry-level setup for which I found discrimination. For example, since those were entry-level jobs, the length of the career path is short, thus the career potential (the most listed reason) should not matter. Salary expectations (reason 5) may also be less of an issue, because these jobs often have set salary schedules. Additionally, the resumes list current work experience, so there should not be worries about the reason the applicant left the previous job (reason 9), since the applicant is currently employed. Because I find discrimination even in the absence of these possible reasons, there must be other explanations for the differential treatment.

I explore some of the other reasons listed using my experimental framework described above. For example, if employers think that older workers are more likely to lack computer skills than are younger workers (a version of reason 7, knowledge and skills obsolescence), then if an older worker can indicate that she has these skills, an employer will be less likely to discriminate against her. Thus information about com-

Box 3.1 Age Discrimination May Occur for Many Reasons

The following are reasons for differential hiring suggested by survey respondents. They said discrimination may take place when companies fear that older workers have one or more of the following attributes:

1. Short career potential (relative to human capital investment)
2. Lack of energy
3. High costs of health insurance, life insurance, and pensions
4. Less flexibility or adaptability
5. Higher salary expectations
6. Health risks leading to absences
7. Obsolete knowledge and skills
8. A tendency to block career paths of younger workers
9. Incompetence (an employer may have suspicions about an older worker's competence because the employer may wonder why the older worker left a previous job)
10. A tendency to file a discrimination suit if later fired or not promoted

NOTE: This list was compiled from a 1984 survey of 363 companies, in which hiring managers were asked for reasons that other companies might discriminate against older workers.

SOURCE: Rhine (1984).

puter skills should help the older job seeker more than the younger if it is indicated for both, because the employer may already assume that the younger job seeker has these skills. Similarly, an attendance award on a previous job should alleviate worries that an older worker will have more absences than will a similarly qualified younger worker (reason 6). Using this technique, I find that only the Massachusetts sample shows evidence that employers may fear a lack of computer skills. I find no evidence in either sample that employers are worried about absences.

I also tested for other reasons on the list, with less success. To see whether reason 2, lack of energy, is a reason employers prefer not to hire older workers, I put on some resumes that the applicant plays a sport. I find that including this item harms both older and younger workers, so it is probably not signaling energy but rather the likelihood of get-

ting an injury while playing sports over the weekend. Similarly, putting down “I am flexible” or “I am willing to embrace change,” as the AARP suggests to signal flexibility and adaptability (reason 4), actually hurts older workers. Instead of showing flexibility and adaptability, such statements may just be showing that the applicant is a member of the AARP. The remaining reasons for differential treatment could not be tested in this experimental framework. However, something can be said about them based on other studies.

Fear of lawsuits under age-discrimination laws is one reason that employers may discriminate against older job applicants, at least among male candidates. Employers may be afraid to hire older workers because older workers can sue under the Age Discrimination in Employment Act of 1967 if they are later fired or if they fail to be promoted. It is much easier for an employer to avoid these kinds of lawsuits by simply choosing not to hire an older worker, since the older worker generally cannot prove that he or she has been discriminated against during the hiring stage. In Lahey (forthcoming), I compare labor market outcomes of older people in states where it is easier to sue under age discrimination laws (those with local laws) to outcomes of older people in states where it is not as easy (those without such laws).

I find that older white men in states where it is easier to sue are less likely to be hired than such men in states where it is more difficult. They are also less likely to be fired and more likely to say they are retired. Overall, in states where it is easier to sue, older white men work fewer weeks out of the year than those in states where it is harder to sue. These findings suggest a story in which firms that are in states where it is easier to sue do not wish to hire older men, are afraid to fire older men, and remove older men through strong incentives to retire.

However, fear of lawsuits under age discrimination laws cannot tell the entire story. Ease of lawsuit filing has no effect on the hiring possibilities for women (Lahey, forthcoming). This result could be because older women are the least litigious group in the United States—in general, older women just do not sue. Thus employers do not see potential lawsuits as a possible cost to hiring older women.

Health insurance and pension costs are another piece of the puzzle needing further study. Scott, Berger, and Garen (1995) found that firms that offer health insurance are less likely to hire older workers than are firms that do not. However, this test is imperfect because firms that of-

fer health insurance are different from those that do not: firms that offer benefits tend to be clustered in different industries, and they tend to be larger, have steeper salary schedules, and possibly higher levels of productivity than those that do not (Idson and Oi 1999). Any of these differences could be a reason for not hiring older workers, regardless of health insurance status. Thus, more work needs to be done in this area.

A final possible reason for differential treatment of older workers, one not mentioned in the Rhine (1984) survey, is an irrational dislike of older people in the workplace. This reason for differential treatment is the first that usually comes to mind when we think of the word “discrimination.” It could be that employers just do not want to hire older workers. Alternatively, employees may not like working with older workers, or customers could dislike buying products from older sellers. I tested the first possibility—that employers dislike hiring older workers for no good economic reason—by comparing the interview request behavior of firms in the sample that had separate human resources departments and those that did not. The idea behind this comparison is that firms with human resources departments know that discriminating solely on the basis of age is illegal, but that firms with these departments also have a better idea of the actual costs and productivities of workers of different ages. I found that, if anything, firms with human resources departments are more likely to hire younger workers than firms without human resources departments, although this result is not significant at the 5 percent level. This finding suggests that there is no employer animus against hiring older workers; because human resources departments are trained in discrimination law, we would expect firms with human resources departments to hire more older workers than firms without such departments if animus were the main reason for age differences in hiring.

I tested the possibilities that either employees or consumers dislike interacting with older workers by making an assumption that older people dislike associating with other older people less than younger people dislike associating with older people. Using this assumption, I matched the age distribution of an area with the interview rates in the sample by zip code. This test found that neither the age distribution of employees nor that of customers in a zip code had any effect on the interview rates in an area. Thus, the result provided no evidence of this kind of irrational discrimination. However, there are two problems with this method:

first, age distribution information was available only by zip code rather than by firm, thus preventing an exact match with the age composition of the firms doing the hiring. This limitation means that the results are biased toward finding no result, as it is not clear that the test is measuring what it is intended to measure. Second, the assumption about age preferences may not be true: older and younger people may have no difference in preference for whom they associate with, or older people may prefer being with younger people to a much greater extent than younger people do.

CONCLUSION

The evidence presented paints a picture of age discrimination against older workers in labor markets. The demand for labor from older workers is smaller than that from younger workers. Simply encouraging older workers to reenter the labor force will not guarantee that they will be able to find jobs in a timely manner, if at all. This finding has important implications for older job seekers who are most likely to need work—those who have lost jobs and those with little work experience who unexpectedly need to enter the labor market, such as widows, divorcees, or those whose spouses have lost jobs.

More research needs to be done to determine exactly why employers prefer younger workers. Any plan that requires older people to find employment in order to maintain a certain quality of life needs to consider the demand for older workers and the reasons employers may discriminate against this group.

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