BUSINESSEUROPE

POSITION PAPER

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# COMMISSION COMMUNICATION "THE DEMOGRAPHIC FUTURE OF EUROPE – FROM CHALLENGE TO OPPORTUNITY"


## Summary

European employers consider demographic ageing one of the biggest challenges facing European economies and societies. They therefore welcome the Commission communication on the demographic future of Europe which, together with a Commission communication on the long-term sustainability of public finances in the EU, provides a good analysis of the magnitude of this challenge and the urgent need to address it.

However, BUSINESSEUROPE regrets that the communication, when considering the role of business, gives a negative picture which is not justified. In doing so, the communication ignores the fact that enterprises across the EU are taking action - e.g. through internal mobility and age management policies - to improve the employment prospects of older workers. However, in many EU Member States, employers are still faced with important obstacles which prevent them from hiring and retaining older workers.

European employers broadly agree with the Commission's analysis of the impact of demographic ageing on the labour market, productivity, economic growth, social security and public finances. With more people drawing on the pension and health care systems and a lower share of active people to support higher age-related public expenditures, the financial sustainability of pension and health systems is at stake.

The Commission rightly indicates that an overall strategy is required to address the challenge of demographic ageing and sets out five core policy directions to this end. It should be borne in mind, however, that while there are common elements to be tackled in the 25 Member States, the ingredients of the policy mix to address this issue can only be decided in Member States.

Generally speaking, Member States need to step up their efforts to achieve sound public finances, raise employment rates and productivity growth, and reform pension, health and long-term care systems in order to meet the demographic challenge. While recent years have seen welcome progress in raising employment rates and reforming social systems, much still remains to be done.



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## I. Introduction

1. On 12 October 2006, the European Commission published a communication "The demographic future of Europe – from challenges to opportunity".

2. The Communication identifies major demographic challenges for European societies such as low fertility rates, the retirement of the baby-boom generation and rising life expectancy, and describes their impact on the labour market, productivity, economic growth, social security and public finances.

3. The Commission recognises that it is above all up to the Member States to formulate specific responses to the challenge of demographic ageing. Yet, because the impact of demographic change concerns Europe as a whole, the Commission wishes to set out a reference framework at Community level for Member States' policies which suggests five core policy directions, i.e. stimulating demographic renewal, promoting employment, stepping up productivity, making use of immigration and guaranteeing sustainable public finances in Europe.

4. Together with the communication on the demographic future of Europe, the Commission also adopted a communication on "The long-term sustainability of public finances in the EU" which identifies three groups of Member States in terms of the sustainability of public finances (classified according to whether they present a high, medium or low risk). In order to ensure financial sustainability over the long term, Member States are urged to achieve sound public finances, increase employment rates and reform social systems.

## II. General comments

5. Demographic ageing is one of the biggest challenges facing European economies and societies today. European employers therefore welcome the Commission communication which, together with the communication on the long-term sustainability of public finances in the EU, provides a good analysis of the magnitude of this challenge and the urgent need to address it.

6. BUSINESSEUROPE broadly agrees with the Commission's analysis of the impact of demographic ageing on the labour market, productivity, economic growth, social security and public finances.

7. The Commission rightly indicates that, given the complexity of the challenges of ageing, an overall strategy is essential. An adequate response to the challenge of demographic ageing requires action across a broad range of policy domains, at various levels of policy-making and by various actors. While there are common elements to be tackled in the 25 Member States, the ingredients of the policy mix to address this issue can only be decided in Member States.

8. In BUSINESSEUROPE's view, it is essential to distinguish between the responsibilities of various players concerned: public authorities, social partners, individuals, companies, etc., as well as between various levels: European, national, local or company level.

9. In this respect, European employers regret that the communication, when considering the role of business, gives a negative picture which is not justified. In doing so, the communication ignores the fact that enterprises across the EU are taking action - e.g. through internal mobility and age management policies - to maintain older workers in employment. However, in many EU Member States, employers are still faced with important obstacles which prevent them from hiring and retaining older workers. For example, granting older workers additional protection against dismissal through tenure-related provisions can reduce their employment prospects.

**III. On the impact of the ageing population**

**3.1 Impact on the labour market, productivity and economic growth**

10. European employers agree with the commission's analysis of the impact of the ageing population on the labour market, productivity and economic growth.

11. Until 2017, rising employment rates could offset the decline in the working-age population but after that both the size of the working-age population and the number of persons employed will be on a downward trend. Governments must seize this window of opportunity to reduce public deficits and debts and reform retirement and health policies.

12. Over the next few decades, older workers will increasingly account for a larger proportion of the total European labour force. Member States must therefore increase the employment rate of older people by discouraging for early retirement and providing incentives to keep working.

13. BUSINESSEUROPE is concerned that the ageing of the labour force might increase the discrepancy between the evolution of labour costs and the evolution of productivity. In many EU Member States, wages and non-wage labour costs rise more steeply with age than productivity. In order to enhance the cost-competitiveness and employability of older workers, wage bargaining and wage formation systems, in particular in the public sector, should therefore be more performance-based rather than seniority-related.

14. In addition, it is essential to avoid an aggravation of the skills gap. In the context of an ageing society, the process of skills renewal through the entry of young people into the labour market will decrease while the pace of technological development will increase. This has important implications for the ability of companies to compete in the global economy which increasingly depends on workers' skills. It is therefore crucial that individuals acquire the necessary basic skills before leaving education systems and are encouraged to take responsibility for upgrading their competences throughout their working lives. The development of lifelong learning is of vital importance in the context of an ageing society.

**3.2 Impact on social security and public finances**

15. BUSINESSEUROPE agrees with the Commission's analysis on the impact of population ageing on social security and public finances and welcomes in this respect the communication on "The long-term sustainability of public finances in

the EU". European employers would support a regular publication of such a Commission assessment of the budgetary implications of demographic change and the sustainability of public finances across Member States.

16. European employers are concerned about the impact of population ageing on the long-term sustainability of public finances. A rapidly ageing population is posing huge and pressing policy challenges for which most EU countries appear inadequately prepared. With more people drawing on pension and health care systems and a lower share of active people to support higher age-related public expenditures, the financial sustainability of pension and health systems is at stake.

17. According to the communication on "The long-term sustainability of public finances in the EU", age-related expenditure is set to increase by about 4% of GDP up to 2050. While the EU aggregates mask considerable variety, the Commission rightly states that the budgetary impact of ageing populations is a concern for all the EU Member States. With no policy changes, the government debt/GDP ratio could reach almost 200% in 2050.

18. BUSINESSEUROPE would like to stress that the pressure of population ageing cannot be solved by increasing levies and taxes on companies and workers without further undermining growth and employment, nor by increased debt, as these would result in higher interest rates undermining investment.

19. BUSINESSEUROPE therefore strongly supports the Commission's recommendation that Member States pursue the three-pronged strategy decided by the Stockholm European Council, i.e. reducing debt at a fast pace, raising employment rates and productivity, and reforming pension, health and long-term care systems.

20. While acknowledging that several countries have indeed started to implement pension system reforms, European employers would like to recall that there is still much scope for reform in many Member States. As part of pension reforms, it is essential to encourage older workers to stay longer in employment – e.g. by strengthening the link between contributions and benefits - and to remove incentives for early retirement. Likewise, further reforms in health care systems are needed to make them financially sustainable in the face of demographic ageing.

## IV. On the response to the demographic challenge

### 4.1. Promoting demographic renewal in Europe

21. BUSINESSEUROPE agrees with the Commission that policies should aim to reduce the inequality of opportunities offered to citizens with and without children as well as improve access to education and care for young children. In this regard, concrete actions have to be taken in Member States to meet the targets defined by the European Council in Barcelona in 2002.

22. BUSINESSEUROPE acknowledges the importance of reconciling work and private life in the context of demographic ageing. However, it is important not to overstate the positive impact such policies might have on birth rates.

23. Moreover, European employers would like to remind that policies aimed at reconciling work-life balance can only work effectively if they take account of consumer and business needs.

24. On 12 October 2006, the European Commission launched the first-stage consultation of the European social partners on reconciliation of professional, private and family life. BUSINESSEUROPE's views on this issue are set out in a specific reply to the Commission consultation.

### 4.2 Promoting employment in Europe

25. To raise potential GDP growth and ensure the long-term sustainability of public finances, it is essential to increase employment rates in Europe. Some success has indeed already been achieved but progress in raising employment rates has been too slow. Structural labour market reforms are needed to achieve higher employment growth.

26. Flexicurity can play an important role in this respect. The combination of more flexible labour markets, effective active labour market policies and employment-friendly social protection systems is key to improve the functioning of European labour markets and enhance the employment prospects of vulnerable groups such as young people, women and long-term unemployed.

27. Flexicurity approaches require comprehensive national strategies with the right mix of economic and social measures. However, there is no one-size-fits-all model of flexicurity which can be implemented across Europe. Depending on national contexts and traditions, the detailed ingredients of the policy mix will vary from country to country.

28. Measures must be taken to improve occupational and geographical mobility in order to better match labour demand and supply within the EU. In this context, the application of transitional measures restricting the free movement of workers in the enlarged EU should be kept as short and limited as possible.

29. The Commission rightly highlights that demographic ageing requires strategic importance to be given to increasing the employment rates of older workers. To this end, the framework conditions should be adapted so as to encourage companies to employ and keep older workers. For example, this may include rebates on social security contributions for employers employing older workers; dismantling special employment protection rules applying to older workers which act as a barrier to recruitment; and providing adequate training to upgrade the skills of older workers. In addition, Member States should discourage and progressively remove incentives for early exit from the labour market while providing incentives to stay longer on the labour market, notably by ensuring that social security systems encourage people to work longer.

30. BUSINESSEUROPE would nevertheless like to recall that policy initiatives aimed at active ageing should be part of an inter-generational approach. This is the only approach which can improve the overall functioning of labour markets for the entire workforce. Failing that, any measure targeted at a particular group will be detrimental to other categories of workers.

31. European employers agree that reforms in national health care systems aimed at improving public health can stimulate activity rates. However, it is essential that such reforms also increase the cost-effectiveness of health care services in order to control ensure their long-term affordability.

### 4.3. A more productive and dynamic Europe

32. BUSINESSEUROPE considers that there is an urgent need to stimulate productivity growth if Europe is to successfully meet the challenge of population ageing. As the size of the working-age population and the number of persons employed are set to decline with effect from 2018, the source of economic growth will come essentially from productivity gains. Member States must therefore put in place the framework conditions for high productivity growth by fostering innovation, stimulating entrepreneurship, investing in human capital and lowering barriers on both product and labour markets. BUSINESSEUROPE fully agrees that the EU can help by completing the internal market - in particular for services - and improving the quality of the regulatory environment taking into account the concerns of small and medium-sized enterprises.

### 4.4. Receiving and integrating immigrants in Europe

33. BUSINESSEUROPE agrees that immigration from third countries can be part of the response to the demographic challenge. Increased availability of labour can contribute to alleviate both longer term and shorter term shortages on labour markets and consequently contribute to economic growth. However, it is clear that immigration cannot be the solution to demographic ageing, which - as noted above - requires a much broader policy response.

34. Any decision at EU level to propose new measures relating to economic immigration should be based on a thorough examination of labour market needs and progress achieved on internal mobility while respecting the competence of Member States in this field.

35. The entry of third-country nationals for employment purposes needs to be managed properly, social integration aspects included. In this respect, European employers have welcomed the Commission's policy plan on legal migration. However, any EU initiative should respect the principle of subsidiarity. The decision on the number of economic migrants to be admitted in order to work, the types of their qualifications and skills as well as their country of origin lies within the competence of Member States.

36. The EU level should seek to facilitate cross-border mobility of third-country nationals already legally residing and working in a Member State by promoting a system whereby procedures for admission at Member State level of third-country nationals already legally residing and working in another Member State are carried out in that Member State without the need for the worker to return to his/her country of origin.

### 4.5 Sustainable public finances: guaranteeing adequate social security and equity between the generation

37. The development of second- and third-pillar pension schemes can help alleviate the ageing pressure on public expenditure. However, it is important to bear in mind that these schemes will only develop if conditions are attractive to invest in such schemes. Regarding the development of occupational schemes, it is essential:

    - to ensure attractive fiscal incentives;
    - to remove double taxation for migrant workers;
    - to remove unnecessary restrictions on investment decisions and apply the prudent person principle.
    - to remove excessive limitations which hinder the capacity to adapt these schemes to the different needs and situations of workers;
    - to avoid imposing provisions which could significantly increase the costs of operating occupational pension schemes in Europe.

38. The main tools for promoting the development of third-pillar pension schemes are: developing the market for such schemes; tax incentives for individuals to enter such schemes; and information and awareness-raising campaigns for individuals.

## V. Conclusion

39. To conclude, European employers consider demographic ageing one of the biggest challenges facing European economies and societies which needs to be urgently addressed. The communications provide a good analysis of the impact of ageing and suggest five core policy directions which, taken together, should enable EU Member States to meet the challenge of population ageing. The key to success, however, will be the implementation of the suggested policy strategies at the national level. In this respect, European employers would like to call on Member States to step up their efforts and achieve sound public finances and engage in structural reform of pension and health care systems in order to avoid shifting the burden of present policies on the next generations. At EU level stronger emphasis should be put on surveillance of national reforms through the multilateral surveillance arrangements for the Broad Economic Policy Guidelines.

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