



European Economic and Social Committee

SOC/400
Demographic trends and the
labour market

Brussels, 13 July 2011

OPINION

of the

European Economic and Social Committee

on

The future of the labour market in Europe - in search of an effective response to demographic trends

(exploratory opinion)

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Rapporteur: **Mr Greif**
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In a letter dated 30 November 2010, Mikołaj Dowgielewicz, Polish State Secretary in the Ministry of Foreign Affairs, asked the European Economic and Social Committee, on behalf of the Polish presidency of the Council of the European Union, to draw up an opinion on:

The future of the labour market in Europe – in search of an effective response to demographic trends.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 27 June 2011.

At its 473rd plenary session, held on 13 and 14 July 2011 (meeting of 13 July), the European Economic and Social Committee adopted the following opinion with 120 votes in favour and 11 abstentions.

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1. **Conclusions**

1.1 In this opinion, the EESC focuses on the following employment and labour market issues:

- a) systematic use of existing employment potential in all age categories as the basis for meeting demographic challenges;
- b) opportunities and needs in relation to making greater use of older people's employment potential, as well as the growing importance of the "silver generation" for the economy as a whole;
- c) key aspects of the changes needed to create work that accommodates older people.

1.2 By far the most effective strategy for managing population ageing in Europe is to make full use of available employment potential. This can only be achieved through a targeted growth policy and by increasing the number of quality jobs with compulsory social security contributions.

- Efforts to increase employment levels of older people based mainly on changes to pension systems, which result in less favourable terms for accessing schemes and for entitlements, in particular proposals to raise the statutory retirement age, are wide of the mark.

- Trends in the economic dependency ratio (the ratio of benefit recipients to working population) are far more important than demographic ratios (relationship between the number of older people and the number of people of working age) in determining future funding requirements for pension provision.
 - If it proves possible over the coming decades to significantly improve the labour market integration of people of working age across the EU, then the increase in economic dependency can be contained.
- 1.3 Making full use of existing employment potential requires broad implementation of policies that promote participation. These should include making working conditions favourable for older people, expanding education and training, creating high-quality and productive jobs, ensuring efficient social security systems and adopting extensive measures for reconciling work and family life.
- 1.4 Demographic change also provides opportunities for the economy and employment. On the one hand, older people are becoming increasingly important as consumers, which creates employment opportunities for other age groups too. On the other hand, an ageing society also provides considerable employment potential on the supply side.
- The number and quality of jobs arising from older people's economic potential will very much depend on how active service-provision policies shape the "silver economy".
 - Particularly in the health and care sector, but also in other sectors, it will be important to seize the opportunity of rising demand by offering employment with good conditions and fair pay, and by modernising and professionalising skills profiles, etc.
- 1.5 If the retirement age is to be raised, then it is necessary to ensure that people can work longer. This means creating jobs and designing them so that people can work until the statutory retirement age. This will require systematic reform to develop work that accommodates older people.
- It is not only a question of adapting jobs specifically to older workers, but also of organising work to accommodate ageing at every stage of a person's career.
 - This requires a package of measures to ensure that people in all age categories really have a chance of finding employment and remaining in work over the longer term.
 - Working conditions and the working environment must be adapted to accommodate workers of quite different ages. It is essential to combat discrimination and negative value judgments against older workers.
 - A key element of all measures should be responsibility on the part of public authorities and companies, and individual willingness to work for longer, which also requires a positive attitude to lifelong learning and preventive health care.

- 1.6 The world of work must be radically adapted, with the social partners playing a key role at every level. In point 6.5 of this opinion the EESC presents a package of specific measures to promote work that accommodates older people. Obviously this should not put more pressure on older people or result in distress for people who are no longer capable of working.

2. Introduction

- 2.1 The EESC has already commented on demographic trends in numerous opinions, stressing that the labour market challenges associated with an ageing society call for integrated strategies. In those opinions, the EESC looked at the labour market situation of older people in various contexts, and at opportunities and needs in relation to making greater use of the employment potential of older people and other priority categories on the job market¹.
- 2.2 As far as the implications of demographic trends for pensions are concerned, the EESC recently stated clearly that the frequently advocated move to funded pension schemes is not an appropriate response to an ageing society². This reduces neither costs nor risks. It does not achieve any cost savings, but generally increases costs or at best shifts the cost burden; and it does nothing to enhance security but creates dependency on capital markets and thus considerably increased risks for pensions. The EESC has also remained very sceptical about how raising the legal retirement age would help to address demographic challenges. It is far more important to bring actual retirement more into line with the current statutory retirement age.
- 2.3 In view of the demographic changes forecast (a standstill or decline in the number of people of working age), the EESC has also stated that a targeted growth policy and increase in high-quality jobs requiring social security contributions are the basis for addressing the challenges of an ageing society. This applies for both older and younger age categories. It will also determine whether pension provision can be safeguarded sustainably. Full employment and good incomes thus represent the best way of guaranteeing the pensions system.
- 2.4 The EESC has repeatedly emphasised the need here to draw on all unutilised employment potential (women with children, young people, school drop-outs, underskilled workers, people with disabilities, people with health problems, etc.), which includes mobilising the potential of older people. The EESC has also noted with regret that despite a significant rise in employment over the past ten years the number of older people in work has remained well below the targets set by the EU.

¹ See EESC opinions on: *The situation of ageing workers* (<http://www.eesc.europa.eu/?i=portal.en.soc-opinions.14120>), *Employment of priority categories (Lisbon strategy)* (<http://www.eesc.europa.eu/?i=portal.en.soc-opinions.14141>), and *Strategies for extending the age of exit from the labour market* (<http://www.eesc.europa.eu/?i=portal.en.soc-opinions.14156>).

² See EESC opinion on the *Green Paper – Towards adequate, sustainable and safe European pension systems* (<http://www.eesc.europa.eu/?i=portal.en.soc-opinions.14892>).

2.5 The EESC has also looked at spheres quite outside the labour market that are relevant to demographic trends in European societies (e.g. family policy and birth rates, migration and integration, intergenerational relations, etc.)³. This exploratory opinion does not consider these issues specifically. The aim is rather to address the following aspects of employment and labour market policy, in response to the request of the future Polish presidency of the Council:

- a) systematic use of existing employment potential in all age categories in an inclusive labour market;
- b) opportunities and needs in relation to making greater use of older people's employment potential, as well as the growing importance of the "silver generation" for the economy as a whole;
- c) key aspects of the changes needed to create work that accommodates older people.

2.6 The EESC believes that while the implementation of the policy package set out in this opinion is mainly the responsibility of EU Member States, they may also benefit from cooperation at European level. Therefore, the EESC calls on the Member States to strengthen cooperation between the European Commission Group of Experts on Demographic Issues, the Employment Committee, and the Social Protection Committee, to ensure that both committees continuously benefit in their work from expertise on demographic trends, from analyses, and from national best practices in effectively integrating persons of all ages - and older persons in particular - into the labour market.

3. **Better labour market integration: a key response to population ageing**

3.1 The number of older people in the population is set to increase substantially over the coming decades in all the EU Member States. At the same time, a reduction is anticipated in the average number of people of working age in the EU. These factors combined mean that a substantial increase can be expected in the **demographic dependency ratio**⁴, which according to Eurostat will approximately double - from 26% to 50% - EU-wide by 2050.

3.2 This large rise in the proportion of older people in the population is often unthinkingly equated with a corresponding increase in the burden on social security systems, to reach the conclusion that existing pension schemes will not be viable in the future. But demographic ratios alone say little about hard economic facts. The key factor in financing the social security systems is not the demographic dependency ratio, but rather the **economic dependency ratio**, i.e. the number of pensioners, people receiving incapacity benefit and unemployed as a proportion of the number of employed people financing transfers through

³ See EESC opinion on *The role of family policy in relation to demographic change with a view to sharing best practices among Member States* (<http://www.eesc.europa.eu/?i=portal.en.soc-opinions.14900>).

⁴ The ratio of the number of people over 65 to the number of people of working age (15 to 64).

their contributions and taxes. The growth in aggregate labour productivity is another key factor, making it possible to increase the size of the "cake" to be shared between those in work and those not in work.

- 3.3 The misleading use of the demographic dependency ratio and frequent conflation of the number of people of working age and the number of people in employment does not reflect the actual situation and directs attention away from approaches that address the real issue. In fact, the economic dependency ratio is currently twice as high as the demographic ratio of people aged 65 and over to people of working age. The main reason for this is that by no means all people of working age have a job:
- over 23 million people in the EU are currently unemployed;
 - many people of working age are already retired, mainly for health reasons;
 - others are not integrated in the labour market for other reasons (training, care commitments, stay-at-home parents, etc.);
 - there are also many cases of people with disabilities experiencing barriers to labour market participation, including discrimination and lack of accommodation to their needs.
- 3.4 The basic idea behind the economic dependency ratio is that it is not just age, but above all labour market trends that must be considered the key criteria in assessing the effects of demographic change in a country⁵. In this context, the EESC believes that it is essential to highlight more clearly the relationship between developments in the labour market and trends in the economic dependency ratio in order to find the right solutions to demographic challenges.
- 3.5 Even if population ageing happens to the extent currently forecast, economic dependency trends will vary widely depending on labour market trends. Thus if it proves possible to substantially increase the number of people of working age in the working population EU-wide over the coming decades (bringing the employment level up to that of the current best-performing Member States), the increase in the economic dependency ratio will remain manageable, despite the notable ageing of society⁶.

⁵ This association can be demonstrated using the economic dependency ratio calculator of the Vienna Chamber of Labour (AK-Wien): the ratio calculated in this model between the number of pensioners and unemployed on the one hand and the number of people in work on the other (economic dependency ratio) graphically illustrates the considerable implications of different labour market scenarios (e.g. employment rates) for demographic challenges. By considering real economic determinants, this gives a much truer view than does the ratio between the over-65 and 16-64 age brackets (demographic dependency ratio) alone.

⁶ In Austria's case the demographic dependency ratio in 2008 was 25%, compared with an economic dependency ratio of 61%. It was forecast that by 2050, extrapolating from labour market conditions (participation rate) in Denmark, there would be a moderate increase in the economic dependency ratio, from 61% in 2008 to 72% in 2050, and a virtual doubling of the demographic dependency ratio, to 48%.

- 3.6 Thus the European Commission also noted some years ago that ultimately age was a much less relevant criterion in meeting demographic challenges than the actual employment status of those of working age:

"The active population is in fact much smaller than the age group 15-64. [...] This leaves considerable scope for increased employment in most Member States and, consequently, an opportunity for achieving a much more favourable balance between the population in employment and retired older people. [...] This illustrates the importance of raising employment levels in the EU. It is arguably the most effective strategy with which countries can prepare for population ageing⁷".

- 3.7 In view of population ageing in Europe, the Commission also feels that systematically drawing on existing employment potential is by far the most effective strategy. Obviously it is also essential to further raise labour productivity in order to ensure improving living standards. Taking both requirements together, it becomes clear that the main response to the demographic challenge must be a targeted growth policy and increase in employment levels. The available pool of labour in the majority of the EU Member States is broadly sufficient. The main priority is to adequately encourage and support labour market integration.

- 3.8 However, the need to draw on existing employment potential pertains not just to older people, but to all age groups. Strenuous efforts should be made to improve the employment opportunities of all categories of disadvantaged people. The EESC has pointed out a number of times that managing demographic change requires a broad-based approach addressing a range of economic, social and political factors, which may include legal immigration as part of the response⁸.

- 3.9 It is clear to the EESC that making full use of existing employment potential means systematically pursuing policies and business practices that promote participation, so as to:

- prevent unemployment and exclusion from the labour market, particularly of older people, from arising during recessions (through appropriate anti-cyclical demand management);
- increase and improve opportunities to enter the labour market and job prospects for young people and those with poorer labour market prospects;
- guarantee comprehensive training, including continuing professional development (e.g. through a statutory right to training leave);
- reduce incapacity rates by offering high-quality company and inter-company health and employee protection, and comprehensive measures to promote health, sickness prevention and rehabilitation;

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Demography Report 2008 (SEC(2008) 2911, p.133).

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See for example the EESC opinion on *Legal immigration in the context of demographic challenges* (rapporteur: Pariza Castaños) (<http://www.eesc.europa.eu/?i=portal.en.soc-opinions.14361>).

- break down barriers to employment for people with disabilities through more inclusive work places, e.g. through physical accessibility, accessibility of information technology and flexible working schemes, with the involvement of public funding where this is necessary;
- substantially step up efforts to support reconciliation of work and family life and to achieve a fairer sharing between partners of family obligations.

3.10 The European social partners concluded an autonomous agreement in March 2010 containing both proposals for measures addressed to the national social partners and recommendations for national authorities⁹.

3.11 But this also means raising the participation rate of older people in the labour market by opening up and improving employment opportunities and systematically restructuring the market to create work that better accommodates older people. Obviously this should not put more pressure on older people or result in distress for people who are no longer capable of working. Retirement is a right enshrined in ILO conventions¹⁰, and pensions should enable the retired to enjoy a decent quality of life.

4. **Older people in the EU labour market: current state of play**

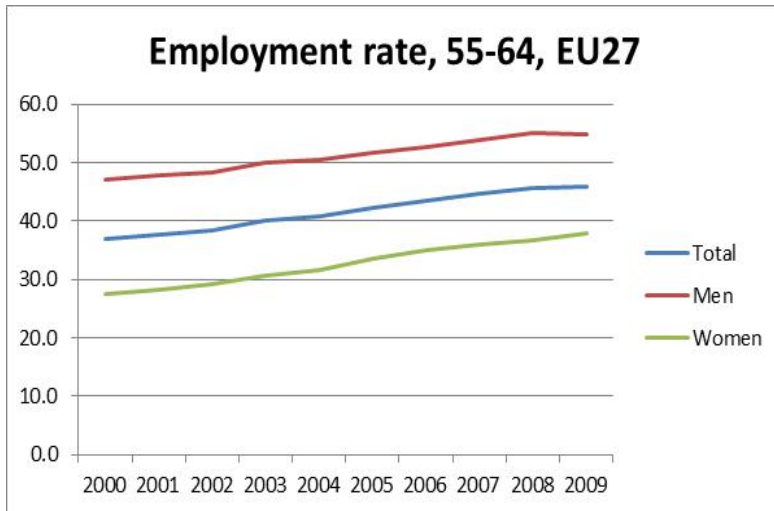
4.1 The employment potential of older workers (55-64 age bracket) continues to be underexploited throughout the EU. Figure 1 shows that considerable progress was made from a low starting point over the Lisbon strategy period. Employment rates of older workers rose by slightly less than 10 percentage points.

4.2 However, this fell well short of the target set (50% by 2010). There was a slightly bigger improvement for women than for men. However, there was still a considerable gap between the sexes: even at the end of the period, scarcely more than one third of women aged between 55 and 64 were in employment (see Figure 1).

⁹ European social partners: "Framework Agreement on Inclusive Labour Markets", March 2010 (see related documents at: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=744&furtherNews=yes>).

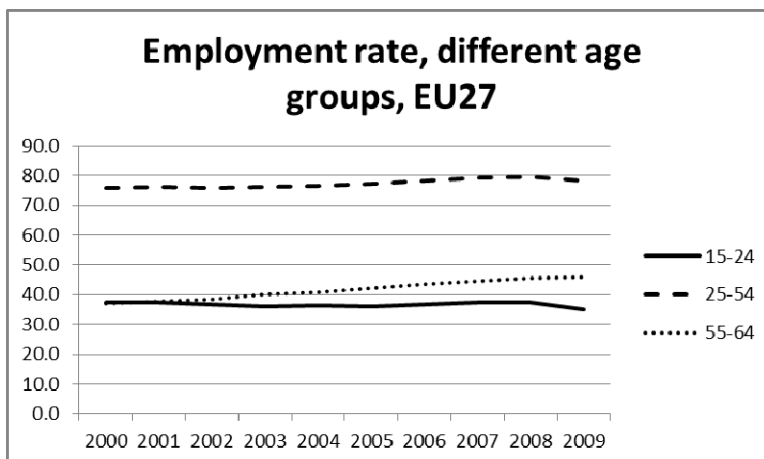
¹⁰ Convention C128 concerning invalidity, old-age and survivors' benefits mentions 65 as the age at which working life ends.

Figure 1:



4.3 A comparison of employment trends in other age groups is also revealing. The number of older people in employment rises from the same level, whereas the number of young people in employment falls (see Figure 2). This is due mainly to the increasing duration of education. However, during the economic crisis year 2009 it was youth employment that fell dramatically. This marks a change compared with previous crises, which were "overcome" primarily at the expense of older workers, underscoring the fact that problems in one sector of the labour market (in this case older workers) should not be resolved at the expense of other categories (young people).

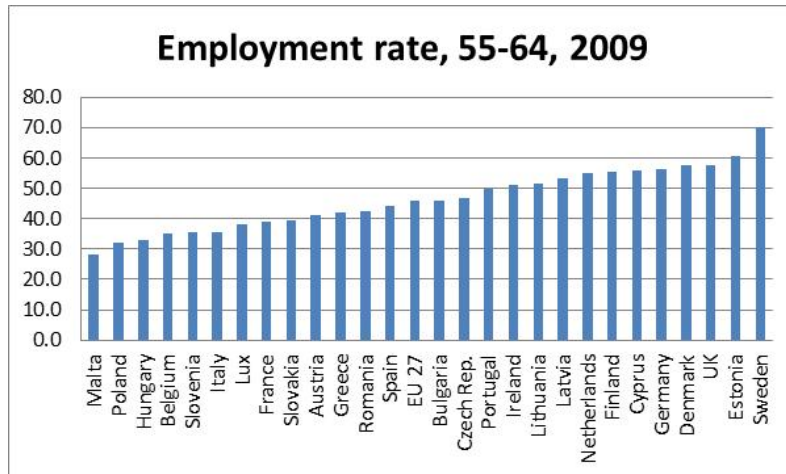
Figure 2:



4.4 Figure 3 shows wide differences between the EU Member States: in Sweden, 70% of older people are employed (equivalent to the Lisbon target for total employment). In other countries only around one third of people aged 55 to 64 are in employment. The strong performance of the three Nordic countries (Sweden, Denmark and Finland) should be highlighted. Otherwise,

no correlation can be discerned between good performance and the traditional welfare state model in Europe. It seems that high rates of employment of older people are compatible with different institutional structures. In any event, the differences outlined give an idea of the level of employment potential that may currently be lying untapped in Europe.

Figure 3:



4.5 At first glance, the unemployment picture for older people does not seem to be worse than the average for the population as whole. The unemployment rate among older workers is much lower than the EU average for all workers and in many individual countries somewhat lower. But this only stands in contrast to the shockingly high youth unemployment levels. It should be noted, however, that these figures also reflect the fact that many older people who are not in work, but are fit for work, are not registered as unemployed but rather under various "support systems".

4.6 Nevertheless, it older people face a serious risk of long-term unemployment. That risk rises sharply with age. When older people lose their jobs they often remain unemployed until the end of their working lives. While one quarter of younger unemployed people have been without work for more than a year, this proportion increases with age: the rate for older people (55-64 age bracket) stands at around 50%.

5. **Utilising the employment potential of an ageing society: work for older people and work done by older people**

5.1 Demographic change also provides opportunities for the economy and employment. On the one hand, older people are becoming more important as consumers, which creates employment opportunities for other age groups too. On the other hand, an ageing society also provides considerable employment potential on the supply side. In both cases the natural, market-led processes need to be politically and institutionally supported and steered.

- 5.2 Societies in which people live longer offer broad opportunities for developing new products and services. The "silver market" has potential benefits for numerous sectors, from construction and housing to quality-of-life services (culture, leisure, tourism, sport, media, telecommunications) and health and social services.
- 5.3 Young and old people have different consumption and savings patterns. The shift in demand within society that this represents will also have an impact on the future structure of production and employment. Demographic change can be expected to reinforce the already pronounced trend towards the development of a service economy. In addition to other sectors, health and care in particular will grow disproportionately. These sectoral changes will overlap with those happening for other reasons (e.g. the "green transition"). To some extent the market will adapt to the shift in demand, but there is still a role for policy action to shape and direct these changes, especially a pro-active labour market policy, e.g. in training, information and employment services provided by labour market institutions.
- 5.4 The number and quality of jobs arising from older people's economic potential will very much depend on how active service-provision policies shape the "silver economy". Particularly in health and care, but also in the tourism and leisure sectors, it will be important to seize the opportunity of rising demand by offering employment with decent conditions and fair pay, and modernising and professionalising skills profiles. To encourage more people to choose careers in the health, social services and care sectors, employment must be made more attractive over the whole career span.
- 5.5 Professionalised social services can also be a means of achieving ambitious equality goals. An extensive range of social services (childcare places and care provision) helps to reduce the burden on carers (usually women) and enables their skills to be put to full use on the labour market.
- 5.6 Investment in social services helps not just to create new jobs, but also to revitalise regional economies. Ensuring broad and affordable access to high-quality services opens up further potential for employment. Initiatives in the non-profit sector, especially the social economy, have a particular role to play here. Local authorities are of key importance in this context, since they not only bear the main responsibility for social services, but are also most familiar with local needs and conditions. The main issue is that most municipalities increasingly lack the financial resources to provide the necessary services.
- 5.7 On the supply side, it needs to be recognised that older and younger workers are not interchangeable: whereas younger workers tend to learn in a more flexible way, older workers offer more experience. Even if individual productivity decreases in certain respects (e.g. physical performance), this can be partially offset by changes in work organisation, appropriate further training, preventive healthcare measures and more effective deployment of workplace technologies.

5.8 The sectoral shift towards services may even improve the position of older people, since in many spheres physical effort is tending to become less important, while social skills are becoming more important. Companies should therefore not invest only in younger workers. The productivity of a business is not simply the sum of the productivity of each individual worker; maintaining the accumulated know-how based on in-house knowledge management and organisational structure is often more important than individual productivity. Efforts to make consulting, mentoring and coaching more professional are important here. The ultimate aim is that companies should at an early stage take account of demographic change in their human resources development, and optimally combine the strengths of workers of different age categories.

6. **Adapting the workplace to accommodate older workers**

6.1 If the retirement age is to be raised, then it is necessary to ensure that people can work longer. This means creating and designing jobs so as to ensure that people can more often work up to the statutory retirement age. It is not only a question of creating and adapting jobs specifically for older workers, but above all of organising work over the whole career span so as to avert risks and negative health effects early on. This benefits workers at every stage of their lives.

6.2 Although obviously it is important for workers themselves also to take responsibility for maintaining their own employability, it should be noted that key reasons for early retirement include health problems caused by physically and mentally demanding work, high work intensity, laying-off of older workers, as well as a lack of continuing training and dearth of (re-)employment opportunities. In addition, new forms of work organisation are increasingly limiting older people's options to continue working for the same firm in less demanding areas.

6.3 However, the employment rate of older people cannot be increased just by keeping them healthy and fit for work and making their labour attractive to employers. The actual jobs available for older people must become more attractive. Thus job quality plays a key role in whether older workers return to the labour market or stay there.

6.4 Only a considered "active ageing" policy, including broad opportunities to take part in further training, can bring about a sustained increase in the employment rates of older people. The main question here is what must be done to give older people a real chance of finding a job and remaining in it longer.

6.5 The EESC believes that systematic changes are needed to make working conditions favourable for older people, based on a package of measures including in particular:

- incentives for companies to create jobs that accommodate older workers and to stabilise employment among older workers (through measures to prevent older workers from being laid off early, as well as innovative schemes to keep them on in less demanding areas);

- a pro-active labour market policy to reintegrate older unemployed people into the labour market and reduce the risk of long-term unemployment; this also means allocating the necessary resources for a pro-active labour market policy;
- providing a full range of advisory and support services for job-seekers, as well as tailor-made placement support (e.g. state-subsidised employment, transitional support, non-profit-making social projects) and preventive and rehabilitation measures to support long-term reintegration;
- measures to ensure that people are physically and mentally able to remain in work longer, above all reducing performance pressure in companies and making working conditions favourable for older people (e.g. through incentives to extend employee and health protection, promoting in-house health programmes), while bearing in mind that the demanding nature of work may impose limitations here;
- measures to increase the inclusiveness of workplaces for older people with disabilities, e.g. through adaptations which can increase the physical accessibility and usability of information technology;
- measures to increase people's willingness to work for longer, which must include a positive attitude to lifelong learning and preventive healthcare;
- developing health-enhancing working time models that are negotiated between the social partners at sectoral and company level and apply over the entire career span (e.g. sabbaticals, training leave);
- measures introduced by companies, through collective agreements or by law to achieve more participation of older people in continuing training (e.g. incentives to remedy the low level of participation in in-service training, especially among underskilled workers, provision of the necessary funding for a campaign to improve skills among the over-40s, and improving the legal framework for training leave);
- awareness-raising measures in support of older workers (acknowledging their experience and the transfer to younger workers of the professional skills built up over their working lives);
- broad-based social awareness-raising campaigns to combat stereotyping and prejudice against older workers and make "ageing" a positive concept, bearing in mind the importance of combating age-based discrimination and negative value judgments about older workers;
- advice and support for companies, particularly SMEs, in forward-looking human resource management and developing work organisation so as to accommodate older workers;
- creating appropriate incentives for recruiting older people and keeping them in employment, without distorting competition;
- creating socially acceptable incentives to stay in work longer, within the framework of legal provisions on the statutory retirement age, for all those who can find work and are fit to work;
- where possible or desirable, developing innovative and attractive models to facilitate the transition from work to retirement within statutory pension systems (e.g. expansion of part-time options for older people).

- 6.6 Encouraging a longer working life calls for sharing of responsibility and efforts on the part of government, employers and workers themselves. This responsibility must be shouldered by all those involved. The social partners play an important role in all these efforts. Successful models in the Nordic countries and other Member States demonstrate that it is possible to create a functional labour market for older people with very stable employment and a high level of work capacity and activity on the basis of collective agreements or at company level with the involvement of the social partners and in a socially acceptable way.

Brussels, 13 July 2011

The President
of the
European Economic and Social Committee

Staffan Nilsson
