



Business and Industry Advisory Committee to the **OECD**

Comité Consultatif Economique et Industriel Auprès de l' **OCDE**

Strengthening Growth in an Era of Demographic Change

BIAC Statement to the Meeting of G8 Labour and Employment Ministers

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The international business community appreciates the opportunity to meet with G8 Labour and Employment Ministers and to present its views on meeting the challenges of demographic change.

I. INTRODUCTION

It has been a long standing BIAC policy message that sustainable economic growth through trade and investment continues to be the most important basis for reducing widespread unemployment and for increasing employment across all groups of society. Furthermore, the way to competitiveness and job creation should be through more efficiency and flexibility in the overall labour market in conjunction with lifelong learning that is fostered from an early age. Economic growth is essential to building capacity for job creation in a time when we are facing aging societies and need to activate all groups to work. It is also the necessary basis for economies to shift from social protection to more innovative adaptable frameworks for employment creation.

Over the next decades, most OECD countries will experience a significant ageing of their populations. While there exist across countries differences in the rate and scale of aging, falls in fertility rates and increasing life expectancy will raise significantly the number of elderly and their ratio to the total population as well as the cost of age-related expenditures. This acceleration of ageing populations will lead to a decrease in labour force participation rates, raising increasing concerns about the viability of our social security systems and about declines in productivity and economic growth.

Currently youth unemployment is also a serious issue in OECD countries due to factors such as tight labour markets and the mismatch of skills and job preferences among youth. As such, measures need to be taken to realize the full potential, on both the supply and demand side for the young workforce. At the same time developing countries are facing employment challenges resulting from population growth and subsequent youth unemployment.

Reforms are needed in a number of areas to adjust to these developments, to secure sustainable economic growth and to increase the employment rates of all workers, young and old, including women and disadvantaged groups.

International cooperation and dialogue on these issues is important in aiding governments and business alike in reaching viable solutions to addressing the changes brought about by demographic change. We note the importance of this G8 dialogue, and in particular the importance of OECD projects and analysis in this area, such as the current reassessment of the OECD Jobs Strategy, the Thematic Review of Older Workers, and OECD economic analysis on the impact of aging on demand, factor markets and growth. We also recognise the important dialogue of the International Organisation of Employers with the International Labour Organisation on a wide range of labour and employment issues, as well as the dialogue that is essential amongst international organisations themselves.

In this context, BIAC highlights key measures, from the business perspective, necessary to meet the challenges of demographic change.

II. CREATING A FRAMEWORK FOR GROWTH

In today's globalised economy, companies require increasing flexibility in labour markets in order to respond to market shifts, customer needs and competitive pressures. A more efficient and competitive environment must be created, in which labour markets are sufficiently flexible so that companies can match the right skills, employees and the organisation of work in response to changing economic and demographic circumstances.

To stimulate economic growth and in turn reduce unemployment in all economies, it is necessary to have good public governance and the implementation of appropriate macro-economic policy and regulatory frameworks that promote competition, innovation and entrepreneurial activity.

Trade and investment liberalisation are instrumental in fostering economic growth, creating wealth and improving labour conditions, and will result in a better division of labour between countries based on comparative advantage. Foreign direct investment (FDI) generates not just capital, but increased knowledge and skills in an economy. It promotes a focus on productivity improvement, management skills and facilitates integrated links to markets. Attracting FDI requires creating an attractive environment for investment, which includes government accountability and transparency, capital mobility, labour market flexibility, human resource development and infrastructure.

With increasing economic integration, rigidities in the labour markets of developing countries and developed countries also need to be addressed. The development and implementation of new technologies, and their applications across sectors are a key source and driver of economic growth and job creation. Policy frameworks that support technology and innovation are thus critical. Pro-competitive regulatory frameworks and partnership with industry are essential to allowing new technologies to flourish.

The life cycle of young firms depends upon innovative capacity and productivity. Thus facilitating new entry by removing disincentives and barriers to investment through optimal regulatory frameworks provides for more innovative capacity and productivity improvements to the economy as a whole. The quality of business regulation and institutions are major determinants for private sector investment and thus for employment creation. Improving conditions for the creation and growth of micro-businesses and SMEs, also play a crucial role in job creation.

Increasing employment rates for all groups, particularly for young and older workers, is a major challenge for many OECD countries and developing countries. Enabling the workforce to work longer, on a yearly and life-cycle basis should be an important goal of policymakers. A sound policy framework strengthening the competitiveness of companies is an essential prerequisite for the private sector to make its full contribution to creating new jobs, and thereby to funding social welfare networks in the future.

III. THE IMPLICATIONS OF AGEING SOCIETIES

In OECD countries, the general tendency is for people to lead longer and healthier lives. This positive development, however, has a number of economic consequences. Under existing structures most OECD countries will experience serious deficits in their social security budgets, including health care systems that are expected to increase under pressure from economic and demographic changes.

Ageing populations, declining birth rates, longer schooling and earlier retirement are reducing the proportion of the population that will work and pay taxes to support the number of people receiving pensions, payments (i.e. unemployment, student support, disability), health and nursing care. For social security institutions, in particular with regard to retirement benefits and health insurance, structural changes are needed in many countries in order to avoid a collapse of these systems as a whole, and ensure sustainable social policy frameworks.

While the aging of populations has tremendous social and economic impacts, we do note that older workers can bring valuable experience to the workplace. Thus, frameworks are needed to facilitate their employment in a way that benefits all. Continued education and lifelong learning, cultivated from an early age, is key to the continued employability of workers and in particular to older workers.

In view of these developments, a climate conducive to workforce participation and “active ageing” should be encouraged, which means providing support for people to lead active lives as they grow older. In this era of demographic change increased participation of all groups, including women is critical, and also requires additional attention to increased possibilities to reconcile work and family life.

IV. EXPANDING EMPLOYMENT FOR OLDER WORKERS

It is important to consider, in addressing engagement of older workers, both the demand side – the creation of more jobs, and the supply side – encouraging active labour market policies.

A first consideration in the effort to secure employment for older workers is that jobs must be available. The promotion of older workers should focus first on how the total volume of employment opportunities can be increased. In order to expand employment opportunities, it is necessary to create a business environment that helps the private sector to grow and create sustainable jobs. The overall labour market must be functioning smoothly and real incentives to work must be given.

Apart from underlining the importance of creating an enabling framework for general improvements in the labour market, the following supply side measures with respect to older workers should be considered:

1. Increasing the effective age of retirement;
2. Diversifying working times and work organisation;
3. Increasing emphasis on lifelong learning;
4. Analysing the effects of employment protection measures;
5. Encouraging more wage flexibility;
6. Promoting effective job placement.

1. Increasing the effective age of retirement

The early withdrawal of older people from the labour market can have a negative effect on the labour market, and in particular social security systems. Disincentives to work longer in

public and private pension schemes should be further reconsidered, as well as other publicly supported pathways for early exit, such as unemployment, disability, or long-term sickness benefits. Over the last decades people have entered the workforce at a higher age while retiring at a lower age. With increasing longevity and no change in retirement ages, the proportion of life spent working will continue to decline. Changing retirement behaviour plays a crucial role in adapting to aging.

Policies to increase the average retirement age need to go hand in hand with policies that make it easier for enterprises to employ older workers. Due consideration should also be paid to the characteristics of older workers recognizing that differences in ability, motivation and physical health among individuals is quite large.

This may rely on a combination of policies such as education, training and lifelong learning, labour mobility and active labour market policies, as well as changes to pension rules. This is a challenge for public authorities, as well as for management and labour, who all have a role to play on these issues.

2. Diversifying working times and work organisation

The diversification of types of employment and increased opportunities for flexible work-sharing/work-time arrangements can be an important step towards improving the employment prospects of older workers. Different types of working patterns should be considered, such as working from home using ICT. Age-related part-time work should be used as a flexible instrument to respond to the needs of certain older workers. Flexible work schedules and work locations also help older people to find a smoother transition to retirement.

3. Increasing emphasis on lifelong learning

Maintaining the employability of older workers is crucial for increasing their participation in the job market. Lifelong learning is key to maintaining the employability of all workers, in particular as they grow older, and should be the shared responsibility of government, employers and employees. Training measures for older people are of crucial importance, and should be increased, but they should be tailored on a case-by-case basis, and priority should be given to well-targeted short-term measures.

4. Analysing the effects of employment protection measures

In many countries, policies often considerably increase the effective costs of laying off older workers. Likewise, employment protection measures that are too strict may lead to lower hiring rates especially of older workers and can thus make it more difficult for older people to find a job. What were originally conceived as worker protection mechanisms have increasingly developed into a hurdle to employment of older people. In order to improve the employment opportunities of older workers on a long-term basis, it is crucial that structural reform of employment protection measures be implemented.

5. Encouraging more wage flexibility

It is necessary to reform the conventional seniority-based wage system towards a more skill- and performance-based system taking into account employees' competencies and companies' conditions. Pay rises are often too closely linked with the duration of the number of years worked. This places growing pressure on business not to hire older workers or to encourage older workers towards an early exit into pensions. Therefore, in order to remove employment barriers for older workers, remuneration systems need to be adjusted. Age-related pay increases should be gradually wound down.

6. Promoting effective job placement

A labour market policy which encourages people to take jobs must also build bridges into new work activity for older workers. For older workers, as for other groups, targeted placement is an effective instrument for reintegration in the labour market. It is crucial to focus on active and rapid job search assistance, in addition to improving the quality of the general job brokerage systems. Matching between companies' needs and job seekers' skills must be improved, which can be facilitated by closer liaison of Public Employment Services (PES) with companies and encouraging growth of private employment services.

V. TACKLING YOUTH UNEMPLOYMENT

A successful approach to employing youth must take into account the national context as well as a policy framework that takes into account the range of interdependent policies that must be considered together. This is critical for both developed and developing countries alike.

The core objectives of an integrated youth employment policy should include:

1. Enabling policy frameworks to generate productive, sustainable employment of youth;
2. An emphasis on initial education;
3. Efforts to match skills of young people to current and emerging job requirements and career paths;
4. Active labour policy frameworks to move young people into employment.

1. Enabling policy frameworks to generate productive, sustainable employment of youth

As Section II of this paper outlines the importance of enabling frameworks for sustainable employment, we will focus on points two, three and four above.

2. Emphasis on initial education

Initial education is essential to a healthy economy. It contributes to competitiveness, enhanced productivity, and the capacity for innovation. Companies depend upon a labour pool that is flexible, technologically literate and work-ready, and have a vital interest in schools turning out young people equipped to take on the ever more technologically sophisticated and knowledge intensive jobs.

Education is perhaps the most effective mechanism to improve employment prospects for young people. The greatest contribution to improving future employment prospects of youth is to keep them in school until they are functionally literate and numerate, a particular challenge for developing countries. Likewise an awareness of career possibilities and understanding of the labour market should start with initial education.¹

At the same time, education policies should not just be looked at as a means of providing a basic education for all. There needs to be an accurate identification of what and will be the essential employable "life skills" beyond basic literacy and numeracy. It is clear that individuals depend on initial education to maximise their capacity for professional development throughout their career.

Education contributes to social inclusion by equipping students with the basic skills and competencies needed to engage in society in both their personal and professional life.

¹ IOE Secretariat note on Youth Employment, January 2005.

In our view, Government has the primary responsibility for initial education. Employers and companies contribute by working with Government and educational institutions to provide clear goals for education according to the needs of the market. At the local level, companies provide opportunities for students to learn about developments in industry, services and technology.

In developing countries public expenditure on education can be quite restricted. Thus innovative ways need to be found to use often scant resources to good effect in the provision of education.²

3. Match the skills of young people to current and emerging job requirements

The school to work transition is critical. The lack of work experience is often the most common obstacle for first time job seekers who find it difficult to compete with skilled and more experienced workers.

The increasingly dynamic labour market brought on by globalisation has necessitated an important shift in thinking about goals of education. Rapidly evolving job profiles responding to market needs require employees to have an education that equips them with the ability to respond and adapt to market changes, and new technologies. This need is even more important as a result of changing demographics. Likewise, management of companies is increasingly horizontal, requiring teamwork to complete complex tasks, and emphasising entrepreneurship in exploring new business opportunities.

Schools need to be managed and equipped to respond to these new market realities. This entails school objectives shifting from only or mostly pure cognitive goals and “ready for use” vocational qualifications, towards emphasising basic knowledge and skills, including practical and ICT-skills, complemented by social and personal skills, interdisciplinary approaches, diversified working methods and the ability to learn throughout life.

Many companies are deeply involved in helping education institutions with the assessment of attributes that employers will be looking for in their recruits in the coming years. They consider the skills that will be in demand; the breadth of education required for different areas of work; and the timing of opportunities and the number that are likely to become available.

Business and educational institutions benefit from the sharing of this information, which ultimately serves to aid the decision making process of students that will eventually enter the job market. Business should also share experiences and tools with respect to quality systems and organisations of professionals with education. Of course, schools are not companies, but we are convinced that sharing experiences between business and education can support the development of education systems at large and individual institutions in particular.

Instilling the value of entrepreneurship in young people can contribute to their successful and early integration into the labour force. These entrepreneurial skills can be developed with business in coordination with educational institutions.

4. Frameworks to move unemployed young people into employment

The question of whether or not labour market regulations impede movement of youth into the labour market needs to be adequately addressed. For example, in developing countries, youth employment in the informal economy can be significant.

Policy solutions need to be reached that help young people working in the informal economy to access the requirements to function in the formal economy. (i.e. initial education, access to market information, access to credit and capital, insurance, technology, skills and training)

² IOE Secretariat note on Youth Employment, January 2005.

Instilling the values and skills of entrepreneurship, and creating the necessary frameworks to implement these skills, can contribute to enhanced opportunities for youth in the labour market.

VI. CONCLUSION

Economic growth continues to be the most important basis for employment creation, for all age groups. Trade and investment liberalisation are instrumental in fostering economic growth, creating wealth and improving labour conditions, and will result in a better division of labour between countries based on comparative advantage. Foreign direct investment (FDI) generates not just capital, but increased knowledge and skills in an economy. It promotes a focus on productivity improvement, management skills and facilitates integrated links to markets. In this context, governments should continue to focus on structural reforms that increase the efficiency and flexibility of the overall labour market.

A policy environment that supports the creation of new businesses and encourages entrepreneurship is also key to creating more jobs. Regulatory frameworks that are transparent, understandable, unbureaucratic and pro-competitive are essential to stimulate business creation and expansion that may otherwise be discouraged by excessive administrative burdens and costs. Creation of new businesses also relies on access to technology and e-business, financial capital, and a skilled labour pool that results from quality education and the accessibility of lifelong learning. Taxation and fiscal policies that support entrepreneurship are also essential.

The quality of human capital is a key contributor to innovation and economic growth and is all the more important in the context of a knowledge based society. An efficient education system at all levels, adapted to the needs of the labour market, and the improvement of skills and employability are crucial to continued economic growth and increased employment. Higher levels of education and training (development of relevant competencies), including life long learning, reduce the risk of unemployment and increase chances of finding work, while lower levels of education contribute to vulnerability in the labour market. Thus, encouraging the workforce to improve their skills and respond to changing labour market requirements is instrumental to tackling unemployment and to enhance the adaptability of companies and workers.

With regard to older workers, governments must continue to focus on policy measures that encourage older workers to remain longer in the workforce. In view of the current demographic shifts, the skills and knowledge of older workers are an essential element for a competitive labour market. Encouraging “active ageing” is a positive step in addressing the issues created by ageing societies including addressing current pressures on pension schemes.

Likewise, we must continue to focus on youth employment, which is especially challenging in developing countries. Necessary structural change, initial education, matching needs of the labour market with education and training, instilling entrepreneurial skills, can all contribute to enhancing prospects for youth.

In face of current demographic challenges for labour and employment policies, achieving a balance between generations in support of sustainable social welfare systems is critical. While there is no one size fits all solution for all systems, it is this balance that is important to address the issues caused by aging populations and the pressures this is exerting on systems as a whole.

In this context, in addressing challenges of demographic change, BIAC stresses the importance of continued dialogue and cooperation with the objective of sustainable economic growth, flexible labour markets, and sustainable employment opportunities for all.