



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

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

Discussion Paper

G 8 Employment High-Level Meeting

“Age Management: Which Responsibilities for the Partners Involved?”

Paris, May 12-13, 2003

The international business community appreciates the opportunity to contribute to the high level G8 meeting on “Age Management: Which Responsibilities for the Partners Involved?” organised by the Ministère des Affaires Sociales, du Travail, et de la Solidarité. We at BIAC have a special role in advising the OECD member governments and are pleased to support the important issues being addressed by the leadership of the G-8.

Creating a Framework for Growth

To increase employment rates is a major challenge for many OECD countries. 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 networks in the future. Economic growth and structural change, which are accompanied by improvements in public health and reforms in social welfare, are key factors for sustainable employment. Particular attention should also be paid to encouraging self-employment and improving the conditions for the creation and growth of micro-businesses and SMEs, which play a crucial role in job creation.

Job growth can only be achieved if Member states implement the necessary structural reforms of their economies and facilitate policies which are conducive to greater flexibility, competitiveness and job creation. Some steps have already been taken. However, these measures frequently do not go far enough in addressing the serious structural problems that exist in most of our countries.

Companies require increasing flexibility in the labour markets in order to respond to market shifts, customer needs and competitive pressures. The overall public burden of taxation on both citizens and companies will and should be under continuous pressure. A more efficient and competitive environment must be created, in which labour markets are sufficiently flexible that companies can match the right skills, employees and work organisations in response to changing circumstances. The expansion of the knowledge society, the diffusion of new technologies, ageing populations, increased cross-border movement of people and ideas will define the key challenges for education policies, work organisation and labour markets for the years to come.

The quality of human capital is a key contributor to innovation and economic growth and is becoming all the more important in the context of the knowledge society. As trade in services and the application of information technologies grow, the economy will increasingly call for employees with new skills and competencies. Therefore, an efficient education system, adapted to the needs of the labour market, and the improvement of skills and employability are crucial to continued economic growth and increased employment.

Education - including lifelong learning that is the comprehensive provision of purposeful learning opportunities throughout every individual's life - is essential to enable a society to cope with the inevitable shifts and opportunities in the labour market. The quality of pre-school, primary, secondary, tertiary and lifelong learning educational capacity will drive the success of investment in the future. Lifelong learning is becoming more and more important as the need for re-skilling will be increasingly distributed throughout life.

The Implications of Ageing Societies

Policy reforms to promote job creation must be accompanied by far-reaching reforms of the social security system. Under the existing structures, most OECD countries are experiencing deficits in their social security budgets, including health, that are expected to increase under pressure from economic, demographic and social changes. Most OECD Member countries are experiencing a tendency for people to lead longer and healthier lives. This positive development, however, has a number of economic consequences for social security institutions – in particular with regard to retirement benefits and health insurance – which compel governments of Member states to initiate the necessary structural changes in order to avoid a collapse of these systems as a whole.

In the not-too-distant future, population ageing, declining birth rates, longer schooling and earlier retirement will reduce the proportion of the population that will work and pay taxes to support the growing number of people receiving pensions and health care. In view of these developments, early retirement can only exacerbate the problems resulting from ageing societies. Instead, a climate conducive to “active ageing”, providing support for people to lead active lives as they grow older, should be encouraged. It is therefore important to have a frank and open dialogue on this issue at the national and international levels to develop appropriate strategies for dealing with the problem of ageing populations, including a reform of pension systems and active ageing.

Reforms are needed in a number of areas to adjust to these developments. In order to secure sustainable economic growth and at the same time tackle the other problems associated with current demographic challenges, it is crucial to increase the employment rates of older workers.

Expanding employment

A first consideration is the fact that to secure employment for older workers, there must be jobs. Otherwise, there are always people who will suffer, in particular groups at the margins of the labour market. The promotion of older workers should first of all focus on considerations of how we can increase the total volume of employment opportunities. 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. This requires government policies that encourage job creation through entrepreneurial activity and reform or eliminate regulations that needlessly impede starting or expanding an enterprise.

Apart from underlining the importance of creating an enabling framework for general improvements in the labour market, the following measures should be considered:

Increasing the effective age of retirement

The early withdrawal of older people from the labour market and the redistribution of labour from old to young will have, and often already has had, a negative effect on the labour market. In order to secure sustainable economic growth and to ensure the viability of our social security systems, the employment rate of older workers needs to be increased. Countries need to remove incentives to retire before the normal retirement age. Policies to increase the average retirement age need to go hand in hand with policies that ensure adequate employment opportunities for older workers.

Diversification of working times and work organisation

The diversification of employment types and introduction of flexible work-sharing arrangements can be an important step towards improving the employment prospects of older workers. Different types of working patterns should be considered, such as for example, working from home using ICT. In order to exploit unused reserves of flexibility, companies should be able to agree working time volumes with individuals on a voluntary basis. Age-related part-time work should be used as a flexible instrument to respond to the needs of certain older workers. The possibilities for making working time and work location more flexible also help older people to find a smoother transition to retirement.

Increasing emphasis on lifelong learning

Maintaining the employability of older workers is crucial for increasing the participation rate of older workers. Lifelong learning is generally recognised as an important issue, which is also relevant for older workers. A life-cycle perspective suggests that it may be necessary to promote greater training opportunities for workers at earlier stages and not just after the age of 50. Training measures for older people are of crucial importance, but they should be tailored on a case-by-case basis, and priority should be given to well-targeted short-term measures. Government, employers and employees have a shared responsibility in ensuring lifelong learning.

Analysing the effects of employment protection measures

In many countries, policies considerably increase the effective costs of laying off older workers. 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 was originally conceived as a protection mechanism has 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 increased flexibility be introduced.

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' intentions and companies' conditions. One area where further work should be carried out is on the effects of seniority wages on employment opportunities of older workers. 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.

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 the most 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's) with companies and encouraging private employment services.

In Summary

It has to be emphasised that the target of an active labour market should not be limited to older workers alone, but that the first focus should be on having more efficiency and flexibility in the overall labour market. Economic growth continues to be the most important basis for reducing widespread unemployment and for increasing the employment rate of older people. In this respect, the OECD has made a valuable contribution with its Jobs Study and follow-up work on its implementation.

With regard to older workers, policy measures are necessary, which act both on the demand and supply side to encourage older workers to remain longer in the workforce. It is also important to note that older workers do not form a homogeneous group, which underlines the importance of policies which are not only targeted simply on age. In view of the current demographic shifts, the skills and knowledge of older workers are an essential element for a competitive labour market.

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