

ACTEMP

International Symposium on Business Responses to the Demographic Challenge

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I would like to thank ACTEMP for inviting me and for allowing me to speak at the start of the Employers symposium on the demographic challenge.

I would therefore like to focus on a few elements related to this discussion, which can hopefully serve as inputs into your discussions today and tomorrow.

We are all aware of the fact that societies are ageing, and this is a challenge, but we should keep in mind that the cause of this challenge is a positive one as many people now enjoy longer and healthier lives. We therefore have to see how we can best deal with these changes and what are fair and feasible solutions in developed and developing countries.

The most important aspect of the discussion is how to prevent old age poverty, while at the same time ensuring a social protection and pension system that is affordable.

The argument we often hear is that the active population/dependency ratio will worsen and therefore the affordability of pension systems is at risk, since more benefits need to be paid for by less working people.

Although this ratio will certainly deteriorate, this would be less dramatic than one could fear since the youth dependency ratio will decrease and therefore the overall dependency ratio will be reduced. In fact the ILO report V on demographic change shows a small decrease in the total (global) demographic dependency ratio over the period 2000-2050.

Another consideration is that societies get richer every year (generally) and thus additional costs could be financed.

To keep old age benefits affordable there is a need to increase the number of contributions on the one hand and to increase productivity on the other.

What measures can be taken to keep the system affordable and to prevent old age poverty? How to ensure the adequacy of provision both in coverage and in quality of benefits?

First of all the labour market participation of the active population should be increased, in particular women. Getting unemployed into productive employment must be a policy imperative and the capacity of millions of people should not be wasted. This is particularly true for youth, women and people with disabilities. Important to note is that the labour force participation rate for young people is low and declining, especially for men. Work also has to be stimulating and healthy to avoid premature aging that leads to a decline in productivity and ultimately to disability or early retirement.

There might also be a need to increase the number of migrant workers. The main challenge in that respect is to extend full social protection coverage and other workers' rights to migrant workers. Migrant workers should have equal access to social security and social security portability should be ensured, when they return to their home countries. At the same time the issue of brain drain needs to be addressed.

To maintain high levels of productivity growth and labour market flexibility, there is a need for lifelong learning so as to ensure that workers remain productive and to increase productivity over time. In this respect ILO Recommendation 195 on Human Resource Development is important. The Recommendation stresses the importance of lifelong learning and states that governments have to organise and pay for such learning, that employers have the obligation to train their workers, and workers have to participate in training.

Such lifelong learning would create a different culture. However, very important is many workers today are not included in lifelong learning efforts. The current practice is bias in favour of the higher educated workers, but all levels of workers must have access to lifelong learning.

Furthermore, there is a need to address issues such as stress in the workplace, burn-outs and work related health problems, which frequently cause drop outs and early retirements.

And finally, solidarity and fair burden sharing is needed to ensure that adequate benefits levels can be maintained for all. To give full recognition to family and care work, there is a strong case for the introduction of tax-financed universal coverage that would extend basic coverage to all, regardless of employment status. The increase in unprotected jobs and casualization of work reinforces this case. The extreme flexibilization of labour markets not only represents a deficit of income for social protection schemes, it has also induced a reduction of social protection coverage globally. The promotion of decent and productive employment should therefore be an important objective.

Arguments that refer to the dangers of increased tax burdens should be analysed carefully, and it has to be noticed that over the last 20 years OECD governments have decreased their corporate tax rate from 45% to 30% on average today. In the long run societies and states cannot be sustainable if the financial tax burden is increasingly shifted to labour. The share of profit in national income is hitting record levels, but at the same time empirical studies fail to demonstrate any strong correlation between the fiscal burden and unemployment. Likewise, over the last 20 years, developing countries have made huge sacrifices on their revenue to attract foreign direct investment with tax holidays and rebates, without strong evidence that the capital flows had a substantial impact on employment in these countries. Rather, there is an urgent need to address issues of tax evasion, tax erosion and other harmful practices.

What we often hear is that the retirement age should be raised to keep the system affordable, in particular from the side of employers. Sometimes these same employers discriminate against older workers and prefer to hire young and healthy workers. Older workers, when they lose their job, often have serious difficulties to be hired again just because of their age.

We should also avoid starting with lifelong learning and retraining when people are already old or unemployed. Lifelong learning is so important to ensure that employees acquire and maintain a broad skills basis. Training and learning also needs to improve the overall employability of workers and increase their choices in the labour market. Therefore skills need to be transferable and recognised.

But more importantly, an increase in the retirement age requires a serious reflection.

First of all, many professions are physically and psychologically very demanding. Think of construction workers, or workers in jobs with repetitive tasks. It would be unjust for such workers to extend the retirement age. Moreover, these are often the workers that start working at very young ages (16-17).

Compare this construction worker to the a manager, lawyer or civil servants, who studied at university and entered the labour market when he/she was nearly 30 years old, and we are confronted with a huge difference.

In addition to this, it is often the higher skilled worker who takes early retirement because he or she has the means to do so, and can thus enjoy a nice and relatively long pension. Moreover, lower skilled workers also happen to be the ones that on average die younger and thus enjoy relatively short pensions.

For many workers early retirement is not an option and financial need is the most important reason for continuing to work.

All these aspects lead in practice to a redistribution of the pension system and should therefore be taken into account in the discussion about retirement age and fairness.

Therefore, premature ageing and lifelong learning need to be addressed if people are expected to work longer.

In addition there is a gender bias in access to social security including old age benefits. Either because of unequal social security regulations and practices (entitlements for head of household or benefits based on contributions) or because of inequalities outside the social security system like inequalities on the labour market (overrepresentation in precarious jobs, part-time work, gender pay gap). Equal outcomes are therefore needed for men and women in social provisions.

I have now spoken about issues in a world with pension systems, but of course there are countries without such pension systems. Developing countries also increasingly face ageing societies and at the same time

there is a lot of urbanization in developing countries, which reduces the rural support systems of extended families. Given this urbanization and ageing in developing countries there is a need for a universal basic pension to avoid old age poverty in developing countries. The poverty incidence is particularly high among young and old people in developing countries without social security benefits.

There is however generally a rather low dependency rate in developing countries at the moment, which provides for a window of opportunity to build a system for old age protection that is affordable and which provides social dignity. Such a system should formalize social security schemes.

In conclusion, I would just like to stress that there is a need for cooperation between workers and employers to find common productive solutions. Energies should be focused on improving working conditions, lifelong learning, and a higher level of labour market participation. Just increasing the retirement age would result in practice in old age poverty.