



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

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

Ageing and Employment Policies

BIAC Statement to the High-Level Policy Forum of the ELSA Committee

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Brussels

The International Business Community welcomes this opportunity to provide comments and present its views to the Ministers at the High-Level Policy Forum on Ageing and Employment Policies in Brussels, on 17 October, 2005.

I. INTRODUCTION

Almost every OECD country will undergo substantial population aging over the next decades. The rate and scale of aging will, of course, vary across countries, but all OECD countries will experience an increase in the dependency ratio, which will place a growing economic burden on workers. Increasing dependency ratios and continuing declines in fertility rates will necessitate substantial increases in labour participation rates to respond effectively to these changes in demographics. These developments have, and will continue to cause growing concerns over productivity, economic growth and the viability of our current social security systems, especially with respect to age related expenditure.

International cooperation is an important instrument for reaching feasible solutions to the challenges imposed by these changing demographics, and BIAC would like to commend the important contribution of OECD projects and analysis to encouraging and enabling international dialogue. In particular, we note the OECD Jobs Strategy and its upcoming Reassessment, the Thematic Review of Older Workers, the Economic Analysis on the Impact of Aging on Labour and Employment and, of course, this high-level Forum.

In this context, BIAC would like to highlight the implications of ageing societies and recommend measures to meet the challenges faced by OECD countries.

II. THE IMPLICATIONS OF AGEING SOCIETIES

Ageing populations, declining birth rates, longer schooling and earlier retirements are reducing the tax- and premium- paying portion of the population, which is currently financing social security measures such as pensions, unemployment protection and health care systems.

While longer and healthier life-spans provide additional opportunities to increase the labour force, the employment of older workers must be better facilitated by government policy in order to allow society to benefit from these gains and continue to fund valuable social protection. Moreover, older workers often bring valuable knowledge to the workplace and have considerable experience to offer employers, especially when life experience can be complemented by up-to-date training and life-long learning. A climate conducive to workforce participation and “active aging” should be encouraged to maximise the benefit of older workers in a manner that benefits everyone.

III. CREATING ENABLING FRAMEWORKS

Expanding employment opportunities for older workers must first focus on how to increase the total volume of employment opportunities. It is economic growth that is fundamental for job creation and reduced unemployment. Hence, one of BIAC’s primary concerns is that OECD work remains focused upon the necessary structural policies needed to build capacity for sustainable economic growth.

An essential enabling prerequisite for the private sector to make its full contribution to creating sustainable jobs for older workers – and thereby also securing funding for social welfare networks in the future – is a sound policy framework strengthening the competitiveness of companies. Companies require heightened flexibility in the labour market to respond to increasingly rapid market shifts, specific customer needs and mounting competitive pressure. Obstacles to the creation of new jobs are often the result of rigidities in labour legislation, high non-wage labour costs, high minimum wages and overly strict job protection. The OECD itself has concluded that stricter employment protection is not effective for the retention and hiring of older workers. In addition, it is important that all workers are able to adapt and cope with change. Through measures such as life long learning, all workers will be better positioned if they face the task of searching for new employment, at any age. This is, of course, especially relevant for older workers, who often face the greatest challenges when seeking new employment.

IV. EXPANDING EMPLOYMENT FOR OLDER WORKERS

In addition to underlining the importance of creating an enabling framework for general improvements in the labour market, supply side measures should also be considered. BIAC will structure its remaining comments to align with the major themes of the Forum. However, it is important to note that the following recommendations should not be considered in isolation, or as a solution in and of themselves. Rather, they must be viewed as necessarily complementary to each other.

Theme I: Labour Supply of Workers Close to Retirement

1. Increasing the effective age of retirement

As people increasingly enter the workforce at a higher age, while retiring at a lower age, the proportion of life spent working will continue to decline. This is unsustainable in the long term and leads BIAC to highlight the need for frameworks that facilitate stronger work attachment at all ages, and enable the opportunity for longer working hours, both on an annual and lifetime basis.

Non-neutral financial disincentives to working longer that exist in public and private pension schemes, as well as other publicly supported pathways for early exit, such as excessively high or poorly monitored unemployment programs, should be eliminated or phased out.

BIAC commends those countries that have taken positive steps to encourage the ongoing employment and hiring of older workers. For example, recent German legislation proposes exempting employers from unemployment contributions if an employee is over the age of 55. New Zealand legislation bans the imposition of a strict company-wide retirement age, instead requiring that it be dealt with in contract agreements. Exactly what policy frameworks are the most effective requires further discussion, and BIAC encourages the OECD to facilitate this dialogue, while acknowledging that there is no 'one size fits all' solution.

Theme II: Labour Demand for Older Workers

2. Encouraging more wage flexibility

Automatic pay raises, often closely linked to the number of years worked, place growing pressure on business not to hire older workers, or to encourage older workers to exit into pensions early. The latter case given, that of employees encouraging workers to retire, is an example of a financial disincentive to working longer, as discussed above. Countries must examine the underlying causes that lead to this result. For example, remuneration systems need to be adjusted by gradually winding down age-related pay increases. The conventional seniority-based wage system should be reformed to allow for the implementation of a skill and performance-based system that considers employees' competencies on the one hand, and companies' circumstances on the other. This is an issue that both employers and employees must work to address. In addition, governments must work to ensure that the necessary regulatory environment exists to allow these changes.

3. Diversifying working organisation and work times

The diversification of employment types and the introduction of flexible work arrangements could substantially improve the employment prospects of older workers. Alternative working patterns, such as the opportunity to work from home using ICT, or part-time work, are flexible instruments that could be used to respond to the needs of older workers. Companies should be able to agree to working arrangements and time volumes with individuals on a voluntary basis, so that the

needs of both employers and employees can be met. Older workers represent a very diverse group, and BIAC would favour a system in which different solutions can be reached within a flexible framework. A growing number of companies have already introduced “diversity management” as an essential element in their Human Resource Management.

Governments must focus upon removing the barriers that prevent business from implementing such part-time arrangements with older workers, and avoid the temptation to try and regulate or mandate such schemes. Business has an incentive to offer attractive working arrangements in order to attract and maintain experienced employees, and will therefore adopt such Human Resource policies whenever this is feasible. However, to force business into such arrangements when it is not economically viable, would be a disservice to all parties involved. Legislative barriers that impede flexible working should therefore be eliminated. Trials, like the “right to request model” in the UK which gives employees the right to request flexible working time thereby increasing flexible employment options, should be analysed and, if successful, implemented elsewhere. The key issue is that these novel flexible frameworks could allow for a smoother transition to retirement and increased working life in the process.

Theme III: Employability of Older Workers

4. Increasing emphasis on lifelong learning

Maintaining the employability of older workers is crucial to increasing their participation in the job market. Lifelong learning as a shared responsibility between government, employers and employees, greatly enhances the employability of older workers and is probably the most effective mechanism to improve the employment prospects of this group. Training measures need to be tailored on a case-by-case basis, and priority should be given to well-targeted measures. In addition, lifelong learning can be made most effective by strengthening the personal responsibility of employees.

5. Promoting effective job placement

The most effective instrument to bridge the transition into new work activity for older workers and to reintegrate them into the labour market is, as for other groups, targeted job placement. This requires active and rapid job search assistance and the activation of social protection systems, in addition to an improvement in the quality of the general job brokerage systems. Matching companies’ requirements with job seekers’ skills requires improvements in the service, which can be facilitated through closer liaison of Public Employment Services with companies.

Public employment Service should focus upon the activating functions of placement and counselling services, and the management of labour market programmes. Priorities should be given to the processing and dissemination of information on job vacancies. To properly enable the Public Employment Service to do this, governments must eliminate the monopoly position of the Public Employment

Services, and seek to foster the complementary role that private placement agencies can play.

V. CONCLUSION

Ageing societies require important reforms in order to support sustainable economic growth and to fund valuable social protection. Economic growth continues to be the most important basis for reducing widespread unemployment and increasing the employment rate of older people. It should be emphasised again that the target should not be limited to older workers alone, but that the first focus should be on enabling more efficiency and flexibility in the overall labour market. It should also be noted that older workers are not a homogenous group and hence policies should not simply be targeted based upon the broad category of age. Lastly, policy measures that act upon both the demand and supply side are necessary. Governments must create an environment in which older workers are encouraged to remain in the workforce longer, and have the necessary skills to do so. Moreover, business must be enabled to hire and retain older workers in a manner that is feasible for business within a competitive marketplace.