



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

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

OECD Social Policy Ministerial “Extending Opportunities: How Active Social Policy Can Benefit Us All”

March 30-April 1, 2005

BIAC Discussion Note

Introduction

BIAC appreciates the opportunity to provide its views to the OECD Social Policy Ministerial addressing “Extending Opportunities: How Active Social Policy Can Benefit us All”.

Although social policy systems in OECD Member countries are shaped in different ways, a great number of today's challenges related to social policy are encountered by all OECD Members. In particular, most OECD countries are facing pressures on social security systems brought about by demographic change, and specifically aging populations. Similar to human resource management at the company level, social policy should be a tool to help improve the efficiency of other government policies, thereby fostering economic growth and improving opportunities for individuals and enterprises alike.

For companies, the well being of its employees is critical to productivity and enabling growth. While there is no one size fits all approach to issues like family friendly policy, companies spend a great deal of time and resources to create a positive environment for its employees, including active relationships with educational institutions and the community at large. It is through necessary structural reforms of social policy frameworks, that these relationships and their benefits can be strengthened and their benefits enhanced.

BIAC appreciates the work of OECD on social policy issues, and stresses the value of continued economic analysis and comparative research that provides necessary evidence to make more informed decisions on social policy issues. Likewise we stress the value and importance of the OECD Jobs Strategy in providing a comprehensive integrated approach to developing necessary policy frameworks that support sustainable and inclusive social policy systems.

In this Discussion Note, BIAC highlights key issues that from a business perspective should be considered in developing sustainable social policies that can benefit all.

These include:

- I. Sustainable Growth and Job Creation as the Foundation for Effective Social Policy**
- II. Flexibility Towards a More Inclusive Labour Market**
- III. Developing Approaches that Support Working Families and their Children**

IV. Active Aging as a Key Ingredient for More Successful Social Policy

V. The Need to Develop More Effective Benefit Systems

VI. Continued Emphasis on Education and Lifelong Learning

I. SUSTAINABLE GROWTH AND JOB CREATION AS THE FOUNDATION FOR EFFECTIVE SOCIAL POLICY

High unemployment rates combined with aging populations are placing continued pressure on social policy systems in most OECD countries. In this context, BIAC stresses 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 – and, as such, is also an essential element in eliminating poverty. 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.

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 older persons 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.

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. Increasing employment rates for all groups is a major challenge for many OECD countries, and 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 present and future.

II. FLEXIBILITY TOWARDS A MORE INCLUSIVE LABOUR MARKET

It is increasingly important to engage all that are able to work in the workforce, especially in light of demographic pressures caused by aging populations. Frameworks that provide for more flexible approaches to employment should be seen as a positive direction toward achieving greater opportunities and diversity in the workplace. New forms of employment should be encouraged with the support of dialogue between all stakeholders to ensure better understanding of their needs.

The growing variety of forms of employment can not only contribute to overall job creation, but also to address the needs of specific categories of employees as well as those of employers. In order to alleviate difficulties for those at the margin of the labour market, the overall labour market must first function effectively and real incentives to work must be available.

More flexible employment arrangements in order to meet the needs of a more diverse workforce as well as of employers, such as part-time or flexible working hours, variations in working time, innovative leave arrangements, telecommuting, part-time retirement, etc, require that governments provide policy frameworks that facilitate such flexibility.

Labour legislation should facilitate such flexible arrangements, and social partners should work to develop working conditions that meet related challenges. Such measures as described above should also facilitate better reconciliation of work and family life, and career opportunities across various ages and groups.

“Making work pay” – that is, implementing strategies that provide the necessary incentives to work – is essential. For example, frameworks that allow married couples and both parents of children to fully benefit from work, are important tools to achieving this objective. Governments, in particular, have a role to play in stimulating labour demand and in activating the supply side by reforming and modernizing tax and benefit systems (including monitoring strict application of benefits and penalizing fraud). Reforms should also aim to reduce regulatory and administrative burdens related to employment and social benefits.

Education and training including “life long learning “ are especially important to equip the labour force to adapt to new and more flexible employment opportunities, and their necessary importance and value should be instilled from initial education.

III. DEVELOPING APPROACHES THAT SUPPORT WORKING FAMILIES AND THEIR CHILDREN

Most OECD countries are faced with low birth rates. This is, in addition to low participation rates of older workers in the workforce, an important element that generates costs on our social systems.

Against this background, policies that work to generate employment, including that of female workers, is crucial, especially in light of OECD analysis indicating that countries with high female employment rates also have high fertility rates.

Although the decision on the part of the parents to work or not to work should be respected, policy frameworks should encourage beneficial employment opportunities that also allow companies, including small and medium sized enterprises, to provide for flexible work environments that better fit the needs of working families and their children. An important goal of such an approach should be to activate the labour force, and not to stifle career opportunities, that may be frustrated by family support obligations. An increase in the availability and affordable access to both private and public childcare facilities, balancing good quality and reasonable costs is an important instrument to support parental employment.

Companies recognize the importance of providing for flexible working arrangements to meet the needs of their employees. Such flexibility can help to maximize the potential of employees who may have specific needs and obligations, but at the same time can productively contribute to an enterprise.

However, it is critical that governments realize that a one size fits all approach to developing or mandating such family friendly policies would be counterproductive, and could negatively impact the competitiveness of firms. Rather policy frameworks that provide for and encourage flexibility to develop such arrangements are encouraged.

Benefit payments for families or child support should be targeted in such a way that they stimulate participation in the labour market instead of serving as obstacles or disincentives to work. As stressed earlier, “making work pay” needs to also apply to the situation of working parents, and in particular to working mothers.

IV. ACTIVE AGING: A KEY INGREDIENT FOR MORE SUCCESSFUL SOCIAL POLICY

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.

Increased longevity, 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.

The demographic challenge requires recognition of all generations of the need to contribute to the workforce. It is not possible that given declining birth-rates, that the younger population bear all of the costs related to social security benefits. With increased longevity has also come the need for people to stay in the workforce longer.

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.

OECD and its Member governments need to clearly communicate the challenges posed by demographic change to the broader public. Developing a better understanding of the issues currently faced will help to pave more smoothly the path the necessary reforms.

Expanding Employment Opportunity 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:

- Increasing the effective age of retirement;
- Diversifying working times and work organisation;
- Increasing emphasis on lifelong learning;
- Analysing the effects of employment protection measures;
- Proactive employment policies that support both employers and older workers alike;
- Encouraging more wage flexibility;
- Promoting effective job placement.

As noted earlier, 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 the impacts of aging populations.

V. TOWARDS MORE EFFECTIVE BENEFIT SYSTEMS

In many countries, a dependency culture has been created with unemployment benefits being so high that active job-seeking is discouraged. The benefit structure and the relationship of benefits to one another therefore needs continued analysis to target the benefits to those in greatest need. Appropriate schemes need to be designed to ensure that people have the incentives to enter the labour market where their skills are most applicable. The difference between remuneration for work and benefits should always be high enough to stimulate increased individual motivation for active job-seeking. Likewise, compensation for sick-leave should not discourage employees from resuming work when sick-leave is no longer justified.

Long-term benefits recipients should be helped to equip themselves for employment and be encouraged to improve their skills to respond to market demands. It is the responsibility of individual benefits recipients to take up this opportunity. Particular attention should be paid to low-paid workers, who need to be offered better incentives to accept employment. An employment-oriented social policy which supports work rather than inactivity, a reform of the benefit system and increased individual responsibility are indispensable if social protection systems are to remain viable and continue to provide assistance to those in real need.

The burden imposed both on companies and employees by taxes and social security contributions must be reduced. The distribution of cost-sharing varies from country to country, but is extremely striking in some Member states. In some countries, the limited effectiveness of social security services causes contributions to be viewed as an additional tax by employers and employees. The situation is particularly difficult for small and medium-sized enterprises, which play an essential role in any well-balanced economy.

By increasing the overall cost of hiring workers, the growth in social transfer expenditures worsens the labour market situation, in particular for low-skilled workers. A broad reduction in non-wage labour costs is therefore essential and should be accompanied by a reduction in administrative burdens, which impose additional "indirect" costs on companies. The savings from such reforms would give companies better opportunities to invest in continuing education and re-training programmes for employees.

Pension Systems Reform

In view of the above-mentioned changes in the structure of our societies, it is obvious for most OECD Member countries that pension systems which are based on contributions without, or with only limited, financial reserves need to be reformed and should operate as far as possible on a pre-funded basis. Unless obligatory (public) pension systems are restricted to a basic support system, contributions are likely to grow without limit. This would result in continuing increase in additional wage costs, further reducing the possibility for job creation. Systems that endeavour to maintain more or less the same standard of living as for the active workforce can no longer be financed without a proper mix of public, private and individual contributions.

Member states should support private initiatives by companies and employees to build up individual savings and additional pension benefits during active working life.

We note that such an approach can only be successful through addressing cross border tax treatment of pension systems such that Governments provide appropriate legal frameworks for building up additional pension rights involving tax benefits or tax exemptions for the money invested in these systems. BIAC urges the OECD and its Member countries to pursue analysis in this area, including close engagement with the private sector.

VI. CONTINUED EMPHASIS ON EDUCATION AND LIFE LONG LEARNING

Initial education is essential to a healthy economy. The quality of human capital is a key contributor 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 all groups. Likewise an awareness of career possibilities and understanding of the labour market should start with initial education.

At the same time, education policies should not just be looked at as a means of providing a basic education for all. 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.

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.

Both employers and employees have a major responsibility with regard to further training and life long learning. Employees need to take initiative to develop transferable skills and be receptive to learning that is not exclusively job- or firm-specific. Employers can provide development opportunities at the workplace as well as firm- and job-specific training.

Conclusion

Economic growth continues to be the most important basis for employment creation, for all age groups, and thus is critical to creating sustainable social welfare systems. 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. In this context, governments should continue to focus on structural reforms that increase the efficiency and flexibility of the overall labour market.

Companies recognize the importance of providing for flexible working arrangements to meet the needs of their employees. Such flexibility can help to maximize the potential of employees who may have specific needs and obligations, but at the same time can productively contribute to an enterprise.

However, it is critical that governments realize that a one size fits all approach to developing or mandating such family friendly policies would be counter productive, and could negatively impact the competitiveness of firms. Rather policy frameworks that provide for and encourage flexibility to develop such arrangements are encouraged.

With regard to older workers, governments must continue to focus on policy measures that encourage older workers to remain longer in the workforce, including a focus on reform of pensions systems. 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 employment of youth, women and those disadvantaged groups, which is similarly challenging in developing countries. Necessary structural change, initial education that also instils the value of lifelong learning, matching needs of the labour market with education and training, instilling entrepreneurial skills, can all contribute to enhancing prospects for all groups.

In face of current challenges social 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 changing demographics and the pressures this is exerting on systems as a whole.

In this context, BIAC stresses the importance of continued dialogue and cooperation among all stakeholders, with the objective of sustainable economic growth, flexible labour markets, and sustainable employment opportunities for all that will lead in turn to more sustainable social policy systems.