



Business and Industry Advisory Committee to the OECD

Comité Consultatif Economique et Industriel Auprès de l'OCDE

## Meeting of the Employment, Labour and Social Affairs Committee at Ministerial Level on Social Policy

23-24 June 1998

### BIAC STATEMENT

#### INTRODUCTION

1. The international business community represented by BIAC welcomes the opportunity to present this statement to the 1998 Ministerial Meeting on Social Policy Issues. BIAC agrees that the topics selected for this Ministerial Agenda are appropriate and that this meeting is taking place at an important time for our economies. While we recognise the need to take immediate action to develop a longer term solution to current financial challenges, especially with respect to health and retirement budgets, the business community believes that it is important to ensure that any solutions reflect both the realities of a changing labour market in terms of working patterns and educational needs (above all, due to advanced technology and globalisation) and respond to high unemployment and (inappropriately) early retirement.

2. Similar to human resource management at the company level, social policy should be a tool to improve the efficiency of other government policies, thereby fostering economic growth and improving individual and collective performance. Although social security systems in OECD Member countries are shaped in different ways, a great number of today's problems are encountered by all OECD Members. This statement provides the business community's recommendations on measures to take so that social, pension and health care systems remain viable protection systems into the 21<sup>st</sup> century.

#### THE FIGHT FOR SUSTAINABLE EMPLOYMENT

3. The issue having the greatest impact on social policy in most Member states is the unacceptably high rate of unemployment. This single factor places enormous strain not only on the fiscal solvency of state welfare systems, but also in the long term, on retirement systems because fewer workers are contributing to the system. BIAC's plea to governments is therefore to do everything to tackle the structural problems of unemployment and to address the impediments to job creation that exist in most of the OECD Member countries.

4. The fight against unemployment cannot be won by simply creating "artificial jobs" in the administration or in publicly (or partly publicly) funded activities, but by creating sustainable jobs in the private sector operating under competitive conditions. A sound and feasible policy framework strengthening the competitiveness of companies is therefore 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. For example, working hour arrangements should not be imposed by governments but be set on a case-by-case basis at the company level. Particular attention should be

paid to encouraging self-employment and improving the conditions for the creation and growth of microbusinesses and SMEs, which play a crucial role in job creation. Economic growth and structural change, which are accompanied by improvements in public health and reforms in social welfare, are key factors for sustainable employment.

5. The OECD made an excellent contribution on how to address these problems in its 1994 Jobs Study and subsequent follow-up reports. Job growth can only be achieved if the 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. BIAC, therefore, strongly supports further work at the OECD to promote the implementation of the recommendations emerging from the Jobs Strategy and to publicise national progress, above all in the OECD country reports.

6. As outlined in its statement to the 1997 Meeting of OECD Ministers of Labour,<sup>1</sup> BIAC also supports the OECD's and Member governments' efforts to encourage life-long learning and to help students of all ages equip themselves with the best possible knowledge to succeed in changing labour markets.

## **A MORE EFFECTIVE BENEFIT SYSTEM**

7. 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 will therefore need to be analysed 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.

8. Long-term recipients should be helped to equip themselves for employment and be encouraged to improve their skills to respond to market demands. 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.

## **REDUCED BURDENS IMPOSED ON COMPANIES AND EMPLOYEES**

9. 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

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<sup>1</sup> *BIAC Statement to the Meeting of OECD Ministers of Labour, Paris 14 October 1997 (DEELSA/ELSA/MIN(97)6)*

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.

## **THE IMPLICATIONS OF AGEING SOCIETIES – TOWARDS STRUCTURAL REFORM**

10. Employment growth alone is a necessary, but not sufficient, factor in resolving the budgetary problems. 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 chronic deficits in their social security budgets, including health, that are expected to increase under pressure from economic, demographic and social changes. These shifts, which will take place in the next decades, mean that current fiscal imbalances will become untenable without fundamental reforms. Recent efforts by a number of OECD Member countries to reduce public spending should be welcomed. However, it is essential that these efforts be maintained on a long-term basis.

11. 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, a reduction in retirement age 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. BIAC urges governments to conduct 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.

## **TOWARDS A THREE-PILLAR PENSION SYSTEM**

12. 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.

13. Member states should support private initiatives by companies and employees to build up individual savings and additional pension benefits during active working life. Old age income should be based on the following three pillars:

- 1) obligatory (public) pension system
- 2) voluntary (company or occupational) pension plans and

3) individual savings.

14. The second and third pillars, however, can only be successful if they have transfrontier validity and if 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 develop appropriate strategies based on the stimulation of private initiative in order to keep the national pension systems viable and to attract new capital. The private sector should be actively involved in these discussions.

## **THE CHALLENGES FOR THE HEALTH CARE SECTOR**

15. The health sector accounts on average for one-tenth of the combined GDP of the OECD countries. It is, on the one hand, an important source of jobs, education, technological developments and innovations that are in demand by modern societies. On the other hand, it is a heavy cost burden for tax and contribution payers, mainly employers and employees. At the same time, a well-functioning and affordable health care sector is fundamental for a stable and a coherent social climate and is an underlying basis for sustained economic growth and innovation in other sectors.

16. The OECD DEELSA's Health Studies have demonstrated high income elasticity of demand for health care. In addition, the very success of health care in improving both the length of life and the quality of life causes upward shifts in the demand curve over time, a trend which is expected to continue. The challenge is thus both to contain the costs of health care and to take a positive approach to meeting future demand. The policy reforms that would reduce the costs of existing health care systems therefore need to be carefully examined. Indirect labour costs should be a key topic in these discussions. BIAC believes that the OECD can play an important role in analysing the problems public and private health services are facing and recently submitted a proposal for a coordinated approach to health-related work to the OECD.

17. BIAC would be pleased to contribute private sector input and has already organised several Business-Government fora to secure input from the international health care experts on these issues.<sup>2</sup> To meet specific new challenges, business proposes below four areas of focus for the OECD.

### **Incentives for innovation**

18. BIAC recommends carrying out a study on the incentives for innovation that would reduce the cost of existing care and provide better quality and more effective treatment. Incentives for innovation have been addressed in OECD Labour-Management Programme (LMP) meetings in May 1995 and June 1996. At the 1996 meeting, business and government experts stressed the need for adequate rewards for innovation to encourage investment in products which provide new treatments and offer future productivity increases. They recommended that regulatory barriers to

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<sup>2</sup> A copy of the proposal for a coordinated approach to health-related work at the OECD (May 1998) as well as reports of the following Business-Government Fora organised by the BIAC Working Group on Health Care Policy will be available at the consultation:

*Financing Innovation in Health Care (including Biotechnology), June 1996*  
*Medical Information Networks and Technologies, September 1997*  
*Health Insurance for the Modern Welfare State, May 1998*

development and commercialisation of innovative products should be removed since such barriers delay product market entry and contribute to the high costs of new products.

### **Encouragement of public-private competition**

19. BIAC encourages the OECD to evaluate the impact of productivity increases, job and wealth creation and consumer benefits, in countries where the regulatory environment promotes greater market efficiency and enables technological advances and experimentation. There are a number of studies which underscore the value of competition in improving the quality and reducing the costs of health care by introducing greater efficiency into health care systems. Restrictive methods designed to limit physician freedom and patient choice can have perverse effects in terms of public health while at the same time failing to contain costs.

20. A specific area for competition is the hospital sector, which accounts for around 50 percent of the total costs of health care. One proposal, from the European Association of Private Hospitals, envisages creating an internal market that would unify the public and the private hospital sectors squeezing out pockets of inefficiency and improving allocation of resources. Competition is necessary for good management and optimum quality of services thus protecting the values of the welfare state. Productivity increases within the hospital sector would be achieved by instituting equal treatment of both private and public hospitals with respect to reimbursement. Faced with competitive pressure to provide quality care efficiently, public hospitals would be forced to restructure and co-operate with the private sector to achieve optimal utilisation of the medical infrastructure. In addition, the competition between hospitals and the outpatient sector will need to be given increasing attention.

### **New ways of financing health care**

21. New ways of financing health care will be found in complementing social insurance with private funds, not unlike the solutions considered for pensions. However, this should under no circumstances lead to higher obligatory contributions or taxes to be paid by employers or employees. Insured individuals must have the freedom to choose which additional contributions they wish to make for health care services. Abolishing regulatory "firewalls" between different lines of insurance would allow both efficiency increases through risk pooling and access to economies of scale from activities across a range of financial markets. Other international approaches could involve insurance in specific disease areas. BIAC recommends that the OECD and its Member countries increase their efforts to find new solutions in this area.

### **Co-ordination to promote medical information technologies**

22. Medical information networks and technologies (MINTs) can potentially reduce the costs of treatment and improve quality of care. Medical information networks are necessary in health care markets to improve competition and increase productivity. The development of the Internet will create sources of information for both medical professionals and patients about comparative performance, new treatments and best practices. This will speed the diffusion of new technologies while empowering and educating the patient. These developments are predicated on the creation of a coherent system that would assure confidential and secure transfer of medical records and access to medical data. BIAC encourages the OECD and its Member states to promote MINTs.

## **CONCLUSION**

23. The speed at which a company adapts to a changing market is a decisive factor for economic growth and employment creation in the private sector, which are prerequisites for maintaining a viable welfare state. The international business community therefore urges OECD Governments to enact bold and substantive reforms in the areas of social policy and health care, in particular to:

- **Implement the OECD Jobs Strategy recommendations at the national level to strengthen the structural basis for sustainable employment**
- **Reform benefit systems to encourage individual responsibility and employment**
- **Reduce non-wage labour costs**
- **Implement a three-pillar pension system involving several sources of financing**
- **Study the incentives for innovation and promote medical information technologies**
- **Encourage public-private competition in the health care sector**

24. International co-ordination involving the active participation of business and industry is necessary to facilitate the development and implementation of strategies in these areas at the national level. BIAC would be pleased to co-ordinate private sector input to the OECD in view of these major challenges of the coming decades.